



البنك الأهلي اليمني

National Bank Of Yemen

Trust & Experience الخبرة والثقة



ci CAPITAL intelligence the highest rated bank among the yemeni banks



www.nbyemen.com



يمنًا

تزهو به العُرب إنتسابا



الهيئة الوطنية للتوعية

البنك الوطني اليمني
National Bank Of Yemen



الخبرة والثقة



HIS EXCELLENCY THE PRESIDENT OF THE REPUBLIC
OF YEMEN
ALI ABDULLAH SALEH

Contents Menu

Our Vision, Our Message, Strategic Objectives	1
Growth Rates	2-3
Financial Statement Summary	4
Chairman and Members of Board of Directors	5
Executive Management	6
Chairman's Message	7-11
Board of Directors' Report	12-28
Independent Auditor's Report	29
Financial Position Statement	30
Income Statement	31
Comprehensive Income Statement	32
Statement of Changes in Equity	33
Cash Flows Statement	34
Notes To The Financial Statements	35-61
List of Branches	62-64



Our vision, **our message**, strategic objectives

Our Vision:

We in the national bank of Yemen , have determined to fulfill all our customers' needs and to be pioneer in providing innovated banking services and products depending on best and modernized banking services techniques in order to be the first choice to customers and become the distinct bank in Yemen.

Our **Mission**:

The bank is obliged to achieve quality in services and products according to international quality standards, to meet customers needs and achieve objectives and expectations of all those concerned with the interests of the bank, in the framework of comprehensive benefits of society and Yemen economy.

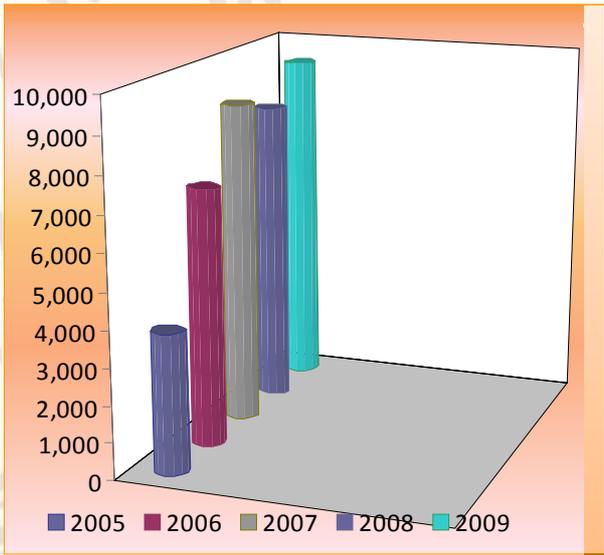
Our **strategic objectives**:

- Attract deposits and funds from resident and non resident corporations and individuals and working to achieve continued growth rates to ensure the necessary financial resources for the bank's operations in financing and investment.
- Investing financial resources available in the bank in a way that realizes reasonable returns compared to risks resulting from operations in financing and investment.
- Realizing remunerative returns to shareholders exceeding opportunity cost of funds invested in the bank.
- Offering necessary financial, banking and investment services to meet corporate and individual customer needs with the highest quality possible in a wide geographic area.
- Attract and develop the necessary human resources to execute main and assisting bank operations in order to find the suitable organizational environment and climate to stimulate and increase productivity and qualification of employees in offering the banking, financial and investment services.

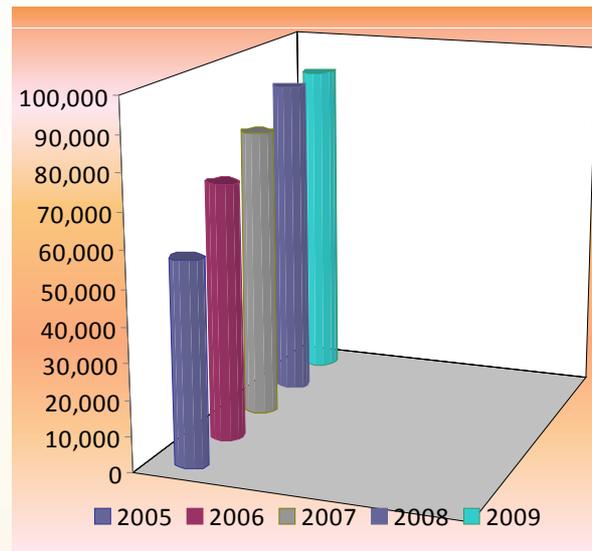
Achieving increasable growth rates in the human resources of the bank.

Growth Rates

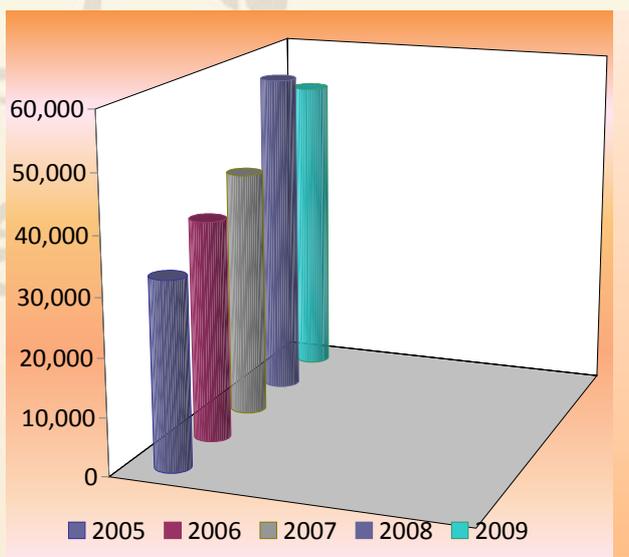
**LOANS AND
ADVANCES
(YR Billions)**



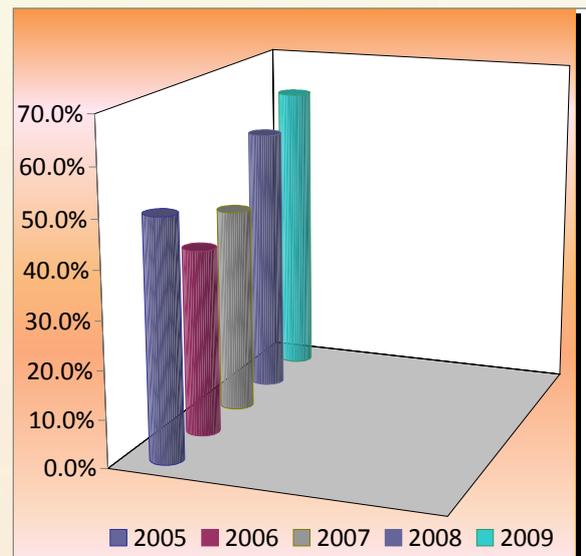
**DEPOSITS
(YR Billions)**



**LOCAL
INVESTMENTS
(YR Billions)**

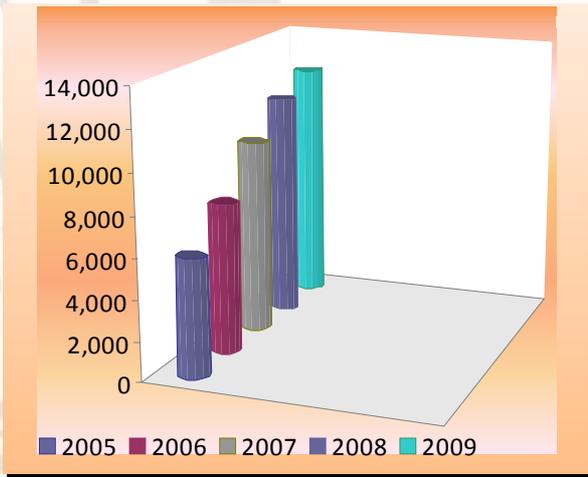


**CAPITAL
ADEQUACY
(%)**

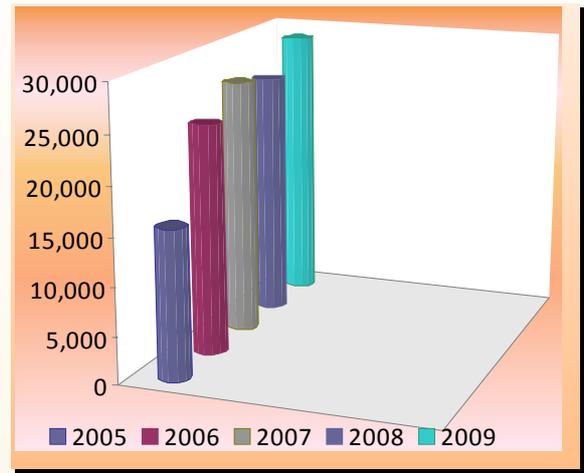


Financial Statement Summary (Cont'd)

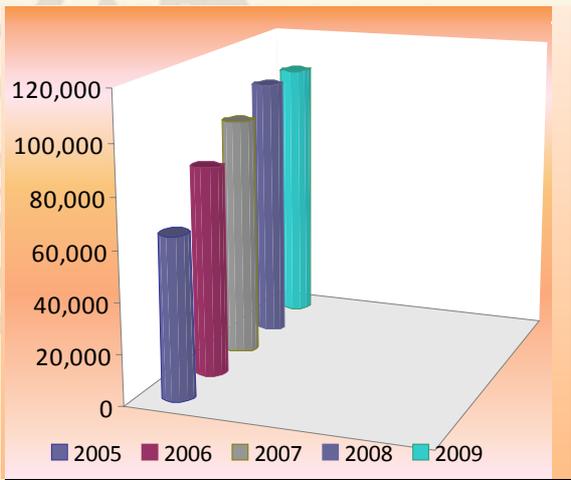
SHARE HOLDERS' EQUITY
(YR Billions)



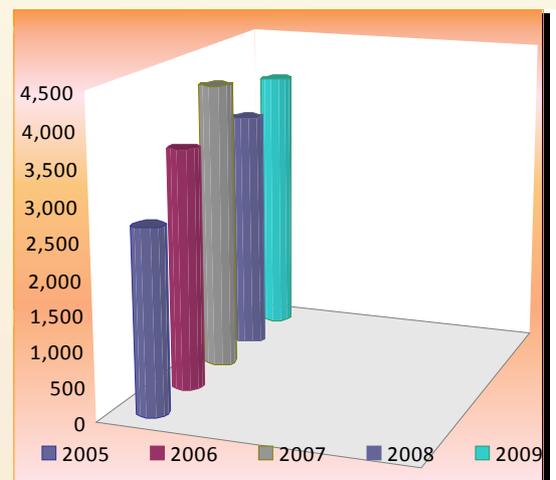
BALANCES WITH BANKS
(YR Billions)



TOTAL ASSETS
(YR Billions)



NET INTEREST INCOME
(YR Billions)



Financial Statement Summary

Statement	Years				
	2009	2008	2007	2006	2005
Financial Position:					
Total Assets	105,441	104,708	95,103	83,268	64,579
Loans and Advances	9,369	8,409	8,915	7,092	3,841
Customers & Bank Deposits	90,387	89,948	80,961	71,666	56,709
Financial Papers	52,587	56,630	42,773	38,155	32,345
Capital	9,000	8,500	7,500	5,500	4,000
Equity	12,075	11,199	9,721	7,496	5,876
Balances with Banks	28,792	25,613	26,741	24,013	15,545
Contra Items	19,914	19,666	36,125	23,683	14,860
Income Statement:					
Net Interest Income	3,869	3,467	4,150	3,470	2,657
Operation Income	1,273	1,527	1,898	1,243	626
Profit Before Tax	2,213	2,354	3,600	2,621	2,014
Net Profit	1,439	1,530	2,340	1,704	1,309
Financial Ratios:					
Return on Assets	1.4%	1.5%	2.5%	2.0%	2.0%
Return on Average Equity	12.8%	15.5%	30.5%	28.3%	27.6%
Capital Adequacy	62.0%	56%	43%	39%	50%
Liquidity Rate	64%	80%	74%	81%	80%
U.S.Dollar Price	207.31 Ry	200.08 Ry	199.51 Ry	198.51 Ry	195.08 Ry
Share Profit	164 Ry	191Ry	360Ry	359Ry	485Ry
Number of Branches	28	28	28	27	27
Number of Employees	626	637	613	629	585

Chairman and Members of Board of Directors



MR.ABDULRAHMAN M. AL-KUHALI
CHAIRMAN AND GENERAL MANAGER
CHAIRMAN YEMEN FINANCIAL SERVICES COMPANY
MEMBER OF THE BOARD DIRECTORS CENTRAL BANK
OF YEMEN



MR.SAMI A.HAMID MACKAWEE
MEMBER OF THE BOARD FIRST DEPUTY GENERAL
MANAGER



MR.ABDULLA A.SALEH
REPRESENTATIVE/OF MINISTRY OF FINANCE
OCCUPATION: GENERAL MANAGER OF FINANCIAL
OFFICE ADEN



MR.MUQBIL S.AL-QAWSEIE
REPRESENTATIVE/ CENTRAL BANK OF YEMEN
GENERAL MANAGER OF CENTRAL BANK OF YEMEN ,
ADEN



MR.DR.SAMIR A.RAZACK TALEB
REPRESENTATIVE/MINISTRY OF
PLANING&INTERNATIONAL COOPERATION
GENERAL MANAGER OF PLANING&INTERNATIONAL
COOPERATION.ADEN



MR.HUSSEIN MACKAWEE
REPRESENTATIVE/ MINISTRY OF INDUSTRY & TRADE
GENERAL MANAGER OF INDUSTRY&TRADE
OFFICE.ADEN



DR .AHMED BIN SUNKER
Manager, Human Resources &
Administration



ESSAM AHMED AL-SAQAF
Manager, Central Accounts



ARWA ALI SULEMAN AL-KOORI
Manager, Statistic & Research



**OMAR ABDULRAHMAN
ABDULGABAR**
Manager, Studies Dept. &
Training Center



**MUHSSEN SAEED
AL-SHABAHI**
Manager Branches Dept.



SAKINA ABDULHUSSEIN MOHAMED
Manager, Foreign Relations Dept..



SHOUKET ABDELMAEED GAN
Manager, Audit Dept



ASHRAF SAMI HASSEN
Manager, Credit Dept



ARWA SALEH SAIF
Manager, Legal Dept.



ZIAD A .BASUNAID
Technology Project Manger

Chairman's Message



**MR.ABDULRAHMAN M.
AL-KUHALI**

**CHAIRMAN AND GENERAL
MANAGER**

It is my pleasure, on behalf of the board members, to present to you the annual report of the National Bank of Yemen (NBY) which focus on the most economical and financial events on both international and local levels, and what the bank achieved during the year 2009.

During the year 2009 the international economy was negatively affected with the big world financial crisis, such prominent effects were, probably; the continuation of instability in foreign exchange rates of the main currencies against USD with most Central Banks keeping the interest rates at their lowest level in order to raise credit in the financial market, encouraging the financial institutions to borrow again. Also, companies in different countries and regions in the world adopt to reducing their products and deferring their investment expenses plans. In facing the first-happened loss in wealth and the quick weakness in the labor markets, the consumers reduced their expenses, especially, of long-life commodities.

The year 2009 has left back many grieves , that some called the "Crisis Year" due to the big negative impacts that it reflex on different countries. We evidenced the international community's quick confront to the crisis impacts in that the (London Group-of-Twenty) summit in April 2009 launching the Economic simulative plans which put into reserve Five Trillion Dollars, the result of which was quickly reflexes on commodity markets, It positively impacted on the oil prices to reach 80 US Dollars, while money markets internationally continued raising to compensate what were lost. Then the reflex on the bilateral trade internationally decreased by 41% have improved a lot especially in the second half of the year2009;

But the negative impacts concentrated in the raise of unemployment rates in the most big industrial countries , which called for the "Group-of-Twenty" countries to repeat their affirmation on the continuation of stimulation plans, and the work on Financial Control Reform Plans and raising the International Monetary Fund support in order to be the stimulation for all countries in the world to help move the economic wheel, and expanding the world's borrowing base so as to include the poor countries heavily effected by the crisis in stimulating plans.

Most rescue plans have contributed in most big countries'; economies to achieve growth,

especially in the third quarter of the year, when China appeared with the world's

prominent growth rate of 9.6%, leading the world's export and consumer countries for most commodities making all continents heading towards China. America's portion of the world economy have retreated to 19%, while it was presenting 26% before the crisis.

On the other side, the World Bank expects –in 2010- that the clear cycle of investment internationally should result in a sufficient dynamic move which could bring back the world growth rate to positive rates, with moderating the speed of descending investment and the start of increasing demand on long-life consumer commodities, as a result of the financial and monetary stimulations which should lead to slight world refreshment in the main international economic rates.

But the continued bank problems, or the happening of new waves of stresses in the financial markets might lead to a recession in the world and domestic total product or to another year of slump in the year 2010. This means that unemployment and financial deficits would increase in the year 2010 in the high-income countries and developing countries equally. Whereas the money depression situations would continue even to a late period of that year.

On domestic level, despite of the effects of international economic crisis, and political and security disturbances which encompasses Yemen, the decline of income from oil sales which represents about 75% of the Government income to only two billion U.S. Dollars in the year 2009, while it was only 4.4 billion U.S. Dollars in 2008, the suffering of the tourism income and transfers of Yemenis working abroad, but exports of the Natural Gas Project which started in October of the same year, have kept the real growth in the total domestic product between 4.1 % and 4.2% in the year 2009 compared with the projected level of 5%.

On another side well-informed government sources expected the Yemen economy to achieve a growth rate between 7.5% and 8% in the year 2010, due to the increase in government income with a raise in oil prices and a gradual increase in the export of natural liquid gas, besides foreign aids which would help to achieve growth.

On monetary policy, the Central Bank of Yemen is continuing its policy which head towards avoiding the Yemen banking sector the effects of international financial crisis disaster, in addition to strengthening the monetary stability, keeping a secured level of foreign currency reserves that exceeds the international standards. In the same time, supporting the market with what it needs of foreign currency to finance the economic and trade activities.

By virtue of that, these reserves have reached about seven billion U.S.Dollars, enough to cover exports for ten months. Total general

debt amounted between 30% to 32% of National Product, 22% of which is foreign debt. Inflation is now on control as its rate is now below 10% which allowed the Central Bank of Yemen in 2009- to keep on the competitive savings financial tools in Yemen Riyal, avoiding keeping pace with the development of interest rates on the main currencies during the passed period of the year 2009, when interest rate on savings deposits in Yemen Riyals decrease one time only at the beginning of the year from 13% to 12%.

On the other side, and due to Yemen importing all its needs from abroad, its needs of foreign currency increases and as a result, the Yemen Riyal have registered a decline against the U.S. Dollars since the beginning of the year 2009 from 206 Riyal for one U.S. Dollar to 212 Riyal, reaching 218 Riyals in same days. Due to such developments, the Central Bank of Yemen took some procedures aiming to secure stability in rates of exchange and increasing public trust in the local currency through continuing to support the market with its needs of foreign currency, raising the interest rate on Riyal deposits to 15% on 20/03/2010 so that savings in local currency could be more profitable and more attractive to depositors, compared with returns on foreign currency savings, in addition to supporting stability of Yemen Riyal exchange rate against the U.S. Dollar.

On the National Bank of Yemen level, despite of the banking sector facing a lot of challenges on both international and domestic levels, and many financial institutions and banks internationally being affected as a result of the economic recession crisis, the National Bank of Yemen was able to avoid such crisis safely in 2009. The National Bank of Yemen have always followed a conservative investment policy far from unsafe risks and speculations continuing with this manner in the future.

The National Bank of Yemen have been able to follow an elastic strategy in 2009 which took into consideration the securing of a strong capital, high liquid and strengthening the bank capital base which enabled it to reinforced its financial strength, raising to financial abilities, highly improving its assets quality, and promoting its growth and profitability rates.

Such strategies have resulted in raising the NBY's classification to become the top among banks in Yemen as to the sovereign classification, foreign currency classification and financial position strength, according to Capital Intelligence report in November 2009.

In order to continue with the development and growth, safe guarding its pioneer position in the such as: trust, experience, honesty,

transparency and reliability, the NBY will continue to develop its banking.

Also, the year 2009 evidenced a distinctive and efficient presence of the National Bank of Yemen on the occasion of 40 years since its establishment (1969-2009) through launching sports activities and advertisements on levels of viewed and published media. These activities reached its summit by organizing a banking seminar in which board members, executive management, branch managers and specialists in economic, financial and banking sciences have participated.

This seminar was dedicated to the and analysis of the NBY's practice, its phases of development and its distinctive role in the economic development process during the past forty years, in order to evaluate the NBY's practice since its establishment, demonstrating what was achieved at all levels and define its future working paths through reinforcing the NBY's pioneer role in serving the national economy in the economic development process' offering banking services and products to its customers developing its distinctive banking practice in developing its human resources and improve their incomes.

The year 2009 also witnessed NBY adopting an ambitious project to establish Islamic transactions branches to offer Islamic banking services and products according to shari'a so as to respond to its customers' needs of such kind of banking operations which reflexes on heading with the performing standards and presenting distinct banking products and services, practicing modern developed technological systems to achieve distinct results during the next year and after, so that it positively reflexes on the bank's customers and the owner (government of Yemen).

The NBY would work according to its future plans, to proceed building on its distinct success through achieving excellent profits, proceeding to increase the bank's operations and activities, and adopting the new institutional framework of the bank, improving the information technology system to keep pace with improvements taking place in the international banking industry, with expanding the bank's services and products, presenting them in a better level by virtue of the distinct company solutions which joins the bank with its customers and the owner(government of Yemen) and those who transact with it, and their role in the continuous success and development of the bank.

Lastly, and on this occasion, I express on behalf of myself and members of board of directors profound gratitude and appreciation to his Excellency Ali Abdulla Saleh, president of the Republic of Yemen for his wise guidance and correct vision of enforcing competitive

ability of the national economy, improving economic sectors performance, stabilizing the investment climate and achieving the economic development in our country.

I also express my thanks and respect to the prime minister the minister of finance the governor of the Central Bank of Yemen the ministers and authorities in the ministers for their continuous support. Also special thanks to both ministry of finance and Central Bank of Yemen for their wise directives and support to our efforts.

Finally, I would express my thanks and respect to our esteemed customers for their trust which we and the owner (Yemeni government) appreciate for their continuous support and all employees of the National Bank of the National Bank of Yemen whose loyalty and adequacy represents support for development and distinction which the bank would always keep on to face all challenges, reaching to achieve our objectives.



Abdul Rahman Mohamed AlKuhali
Chairman and General Manager

The Board of Directors Annual report 2009

On the occasion of completing the operations of the year 2009 the board of directors is pleased to present the annual report which contains the operations and results of (National Bank of Yemen)NBY and the audited financial statements for the year 2009.

We expected that the year 2009 would be full of challenges, so, NBY continue to adopt a cautious method of work through careful evaluation of different risks before adopting and executing strategic work plans .In variance to work plans, we witnessed lowering of the expected growth rates in 2009 due to negative effects of the international economic crisis and its reflex on a Yemen's banking sector and local economy.

We in NBY faced, as all banks worldwide, the side-effects of the economic crisis, but our option of a conservative financial and banking policy depending on an equilibrium method, and committing ourselves with a conservative banking policy have proved to be the best manner in banking, which helped us reduce the negative effects of this crisis.

But, the year 2009 was distinguished by several achievements which NBY was proud to attain .Most of these achievements were :the preservation of quality and solidity of assets, and the increase of equity, This helped in raising capital efficiency rate to be the best of all banks worldwide, reinforcing the bank's financial strength and realizing high level credit rating granted by one of the largest credit rating institutions internationally, agreeing not to change its valuation due to its aspiration of the future stability of NBY .The international rating institution Capital intelligence (have, in its report issued in November 2009, raised National Bank of Yemen's sovereign rating from (B-)to (B), and the foreign currency -long term from (B -)to(B). The international rating institution has kept -in the same report -its rating of (BB)to the Financial strength of National Bank of Yemen .It also remarked in its report that this rating is the highest in the country .The report also included that the rating of future



prospectus outlook of National Bank of Yemen stable.

Capital Intelligence also stated in the same report that the main factors contributed in raising the grades were:

- -Good register of continued profitability for many years.
- -High liquidity assets.
- -High capital efficiency of the bank exceeding local and foreign requirements.
- -Continuous stability in customer deposits for many years
- -100 %fully government-owned bank

Governance

NBY believe in a comprehensive governance system according to the best practices in banks, with an aim to raise the transparency level, enforce management standard, supervise risk management and practice high-level auditing and follow-up standards.

In the board of directors, and in the framework of organizing and management of the bank, we continue to complete a number of rules, systems and procedures that enforce trust in the bank and different activities, creating harmony in the bank as in the Board's tasks and responsibilities, its committees, task and responsibilities of management, develop an internal controlling and checking environment and risk management, in addition to transparency and disclosure.

Owners (Yemen Government):

The Owners' role was not only restricted to increasing capital, but it exceeded that to include taking decisions, endorsing them and adopting strategic plans and important projects relating to the bank.

NBY Board of Directors:

Bank management is conducted by a the board of directors consisted of six members of which is the chairman who is nominated by a Republican Resolution, with independent and executive members, nominated according to the Cabinet Resolution No. 60 of the year 1990 relating to the formation of NBY board of Directors .The Board held sixteen meetings during the year 2009.

The Board bears all responsibilities relating to the safety of the bank's financial operations, ensuring fulfillment of the Central Bank of Yemen requirements, other relative control authorities, and the benefits of both :the owners, and depositors and the employees; especially ensuring the bank's performance, and that the work goes according to the valid laws and internal policies and systems of the bank.

The board depicts the strategic objectives of the bank in addition to control on executive management on which rests the responsibility of daily operations .The board also verifies the internal auditing systems and be sure of their efficiency and the level of the bank's complying with the strategic plans, policies and procedures verified or required by law and instructions, ensuring that all risks on the bank have been properly managed.

The following two tables show the position of every member of the board of directors according to resolution of forming the board:

Name of Board Member	Position in the board	Body Represented	Classification of Member
Abdul Rahman Mohamed AlKohali	Chairman	Owners	Non-executive
Sami Abdul Hamid Mackawi	Board Member	Owners	Executive
Abdullah Abdo Saleh	Board Member	Ministry of Finance	Non-executive
Dr.Samir A.Razaq Talib	Board Member	Ministry of Planning & Int'l Co-operation	Non-executive
Moqbil Saleh AlQuisi	Board Member	Central Bank of Yemen	Non-executive
Hassein Abdulla Mackawi	Board Member	Ministry of Industry and trade	Non-executive

Name of Board Member	Membership in other board Committees	Membership in boards of other companies or Inst.	No Meetings .of
Abdul Rahman Mohamed AlKohali	NIL	2	16
Sami A.Hamid Mackawi	NIL	NIL	13
Abdulla Abdo Saleh	Provisions; Control	3	15
Dr.Samir A.Razaq Taleb	Provisions; Control	2	16
Moqbil Saleh AlQausi	Provisions; Control	NIL	16
Hussain Abdullah Mackawi	NIL	1	15

Main Board Committees:

To meet the requirements of the Central Bank of Yemen, and to achieve best performance, benefiting from the different experiences of the board members, the board have formed two main committees to support its performance, these are:

Provisions Committee:

It contains of three non-executive board members chosen by the board .Its duties are indicated according to related Central Bank of Yemen directives .Upon this committee rests the responsibility of revising the provisions formed by the executive management, assuring its efficiency and calculations according to the policies and standards issued by the specialized controlling body .The committee meetings are

continually attended by the Credit Manager .The committee held four (4) meetings during the year 2009 attended by its Chairman and members as shown in the schedule below:

Name	Position	No .of Meetings Attended
Abdulla Abdo Saleh	Committee Chairman	4
Moqbil Saleh AlQusi	Member	4
Dr.Samir A.Razaq Taleb	Member	4

Higher surveillance Committee:

This committee practices the duties and responsibilities entrusted to it according to the Central Bank of Yemen directives and any other relative statutes .This include :range, results, and extent of internal and external auditing efficiency of accounting matters with prominent effect on the financial statements, so that work relating of the Auditor and the relative controlling bodies -including their remarks, opinions, cautions and following the extent of the board's respond, giving their relative recommendations to the board .Also reviews correspondence with the external auditor and the relative control bodies, evaluating its contents, expressing remarks and recommendations to the board .Also, studies the periodical reports relating to auditing systems before presenting them to the board with relative recommendations; and authorizes the internal audit plan, evaluating the internal auditing procedures, reviewing the internal audit reports, especially those relating to any contraventions shown due to internal audit work .In addition presents recommendations to the board relating to nominating, termination service or fees of the external auditor and any other relating contracting conditions.

Higher surveillance Committee is formed of a non-executive Chairman chosen from board members and two non-executive members from outside the bank .Surveillance Committee is continually attended by the internal audit manager, The committee held two meetings during the year 2009 attended by its Chairman and members, as shown in the schedule below:

Name	Position	No .of meeting attended
Abdalla Abdo Saleh	Chairman	2
Moqbil Saleh Alqusi	Member	2
Dr.Samir A.Rzzaq Taleb	Member	2

Internal Control:

The board of directors undertakes its responsibilities based on a general framework of Internal Control with an aim of ensuring efficiency and adequacy of operations, substantiation of financial reports, and complying with effective laws and directions. The board assures existence of a general framework of internal control having characteristics enabling it to follow up its duties and take whatever procedures necessary within the following framework:

1. Internal Auditing

The internal auditing of the bank which works under the supervision of the high surveillance committee, adopts a method depending on auditing based on classification of risks in undertaking independent audit operations of the bank's activities. Most bank activities and its organizational units undergo a periodical auditing process. This method allows undertaking efficient evaluating procedures of its operations and identifying probable risks.

The bank maintains efficient technical standards, suitable practices, moral behavior and an efficient internal auditing system in order to minimize risks, presents suitable recommendations to positions of weakness, in addition to following up breaches and comments in control authority reports and the external auditor, ensuring proper action undertaken and existence of proper deterrents by executive management so breaches do not recur, in order to ensure bank activities are within requirements of the supervisory and controlling authority.

Reports are regularly submitted to the board concerning the bank's financial position, operations results, and activities, besides, controlling and following up of actual performance achieved compared with the past related period against specific objectives.

The bank follows the International Financial Reporting Standards (IFRS) (in preparing the financial accounting statements, in light of the rules of the relative laws and rules effective in Yemen). The bank's quarterly, half-yearly and yearly results are published in the main Arabic and English papers in Yemen Republic.

Starting from this year, in the commitment statement, as shown in the base of preparing the financial statements for the year 2009, we have shown the bank's suitable alterations and comments effective in the year 2009 of the (IFRS).

The board is presently assisted by one of the international consulting firm, as a part of its responsibilities, to modernize the internal auditing procedure, conforming to the bank's new organization.

2. External Auditing:

The external auditor represents another level of auditing the extent of the reality of the financial statements issued through the bank's accounting and information systems, especially relating to giving a clear and declared opinion on the extent of fairness of the financial statements, and whether it represents the actual position during a certain period .In its dealing with the external auditors, the board considers their positions and reputation as to the professional skills possessed for the benefit of the bank .The bank follows the necessary procedures in nominating external auditors according to the directives of the Central Bank of Yemen.

The nomination of the bank's external auditor is on yearly basis .The bank has nominated M/S .Dahman RSM as an external auditor for the year 2009, after approval of the Central Bank of Yemen.

3. Risk Management:

The bank continues developing and promoting the risk management framework in order to enforce and strengthen the bank's capability to be more alert with controlling environment and confront different kinds of risks .The Bank management have taken practical steps to achieve this, through establishing management department in the new organization structure of the bank, and prepared a procedure guide, with risk management policies, including credit risks, market risks, liquidity risks and operations risks according to Basel II requirements and the best practices in banks .In order to achieve practical steps are meant to develop means and methods of measures and systematic work for ever kind of risk, securing the quality of credit and investment portfolio.

Financial Position:

Efforts are continue to keep on the equilibrium between profitability and safe investment, avoiding investments and credit operations which bear high risks, securing necessary cash liquidity to face different terms financial liabilities and the best employment of available funds with adequacy and efficiency which is represented in supporting the bank's financial position and achieving stability in income strength of the bank.

At the end of 2009, total assets amounted to YER 105,4 billion, presenting an increase of YER 0,7 billion with a growth rate of 1% Cash on hand and reserve balances with the Central Bank of Yemen increase by 11.3%, while local investments decreased by 7.1% On the other hand, balances with banks increased by 12.5% and net loans and advances increased from YER 8,4 billion at the end of 2008 to YER 9,4 billion at the end of 2009, with an increase amounted to YER 1 billion, equivalent to 11.9%. Irregular loans and advances as at end of 2009 amounted to 27.0% of total loans and advances, compared to 25.9% at the end of last year. Provisions rate without taking into consideration the general provisions amounted to 96.7% at the end of 2009, compared with 96.0% at the end of 2008.

Custom deposits, which amount YER 89,8 billion as at end of 2009, registered a slight increase amounting to YER 2 billion compared to last year, an increase rate of 2,3%, with a modest growth of total deposits during 2009, but the real growth lies in decrease of dependence on costly deposits and increasing the dependence on deposits on demand and cash margins which had a positive effect in improving profitability by lowering the cost of finance .The rates of Demand Deposits and cash margins have increased, between the years 2008 and 2009, from 26,2 % to 27,5 % respectively.

Equity:

Efforts continued to develop owners' equity (government of Yemen) to increase to YER 12 billion at the end of 2009, at a growth rate of 8, 1 % for the year 2008 .The bank observed a high rate of capital adequacy of 62 %compared to Central Bank of Yemen requirements and the requirements of Basle committee of 8%.

Financial and Operational Performance:

Profit for the year 2009 amounted to YER 1439 million with a decrease amounting to YER 91 million compared to achieved profit for 2008, i.e. equivalent to 5,9%, despite the good growth of returns of the main banking activities. The decrease in the year profit was mainly due to the increase in provisions on loans and advances and other irregular assets beard on the income statement for the year 2009 which was formed under compliance of the Central Bank of Yemen instructions concerning the formation of provisions.

The net interest income for 2009 amounted to YER 3,869 million with an increase of YER 402 million for 2008, i.e .an equivalent of 11.6%, income from commissions and fees and other operation income registered an amount of YER 1,274 million with a

decrease of YER 253 million in 2008, i.e .equivalent 16.6%. The decrease was mainly due to the decrease in total of other operations income, namely in provisions on loan losses and terms outside the financial statement position which were out of need and which decreased in 2009 by YER 302 million compared to previous year.

Administration and general expenses rose at the end of 2009 by YER 69 million with a rate of 4.3 %from YER 1.527 million in 2008 to YER 1.596 million in 2009 . Provisions on irregular loans and advances and other irregular assets also raised at the end of 2009 to YER 1.189 million to compared to YER 969 million with an increase rate of 22.7.%

Basic share profit amounting to YER 164 in 2009 compared with YER 191 in 2008, with a decrease of 27 riyal.

Main Bank Activities:

The bank mainly performs all banking work and investment through three main activities: retail, corporate and investments through branches network of 28 branches distributed between the main cities and governments of the Republic.

Retail services to individuals :

Group of banking services to individuals continue concentration on developing banking services and products .The bank has offered prepaid ATM cards which help customers minimize cash use .The bank also continues expanding its ATM network to spread geographically and support developing this service.

In 2009 the bank was the first among the Yemeni banking sector to link its ATM network with Yemen Financial Services which helps its customers to use the National Switch for automatic changing and withdrawing from ATMs by other banks linked with the network.

On loans products, the bank confirmed to offer its competitive options for personal loans and car loans .The bank also put the real estate product to match with the strong growth of real estate sector in our country, aiming to help a wider section of people to own homes and housing units. The bank also reinforced a program to finance electronic apparatuses, computer units and others through attractive terms, such products have contributed in notable increase in the personal loans portfolio during the year.

During the year 2010 and in the framework of the strategy which aims at expanding customer base and attracting new category of customers, NBY would continue

developing a group of banking products and services for individuals, and introducing new products and services with added features and characteristics, depending on study of actual customers' needs fulfilling them through introducing a specialized department in the new organizational structure of the bank, working on developing new modern services and products that meet the actual needs of different segments of customers .In addition to developing and improving services delivery channels with modern and developed manners , through completing and operating the new information technology system able to raise with services level , and gaining customer satisfaction .The bank also gives concern to motivate its employees to give more effort to keep up with advanced technical standard in performing operations and continue raising the level of banking retail products.

Corporate Banking Services :

The corporate banking services consist of offering services trading, industrial and financial companies .Such activities require offering special needs and significant services represented in building relations with customers, through providing experience and important services offering significant banking services and products compared to competitors besides concentrating on big customers through private-bank service (offered currently by branch managers, together with branches department head or credit department head) in order to satisfy respect and appreciation and self achievement to this segment of customers.

With the aim of acquiring bigger portion of this activity and expand our market portion the bank would continue offering an integral group of banking services, finance all activities and commercial and industrial projects to fulfill the needs of such segment of customers and enforce the bank's pioneer role in a number of banking activities .The new organizational structure of the bank includes establishment of specialized departments organizing treasury and the centralization of risks, credit, investment and bank-marketing management with an aim of achieving specific innovation in customer-relation management.

Treasury and investment management:

During the year 2009, treasury and investment department continued concentration on the bank's customers, taking care of them and their interests through offering high level services, in addition to developing its services and diversity its investments to achieve excellent returns from internal and external investment .The Treasury and

Investment department works actively in the field of liquidity management according to approved policies and directives of the Assets and Liabilities Committee. The bank management took practical steps to develop the treasury investment operations, offering significant services to customers in future, through establishment of a treasury and investment department in the new organizational structure of the bank, obtaining assistance from an international consulting firm as part of its responsibilities to modernize policies, procedures and manuals relating to treasury and investment to conform with the new organization of the bank.

International Banking relations:

Foreign relation department had in 2009 a significant role in supporting and facilitating trade operations, contributing in increase of the bank profit, expanding and developing significant banking relations with a network of larger banks with credit worthiness, high solvency rates and excellent performance. The department's efforts have combined to intensify effective and efficient communication with an aim of facilitating international banking transactions with its correspondents in the field of individual or corporate banking with its customers of international institutions with a competitive service price, concentrating on service quality, enabling the bank getting new credit lines helping to increase international trade transactions with bank correspondents, qualifying it to benefit from new business chances and increasing its portion in the local banking market of foreign trade transactions, enabling the customers expand their trade activities. During 2009, delegations from 12 banks and financial institutions visited the bank. The bank expanded its correspondent's network by making correspondent relations with 13 new banks and banking institutions worldwide.

Credit and risks development:

The risk department is concerned with following-up and controlling credit risks, market risks and operations risks according to the approved policies and procedures which aim at minimizing total and special risks which face the banking operations in credit, investment and operations, limiting credit risks in general, thus, following a conservative credit policy, retaining a reasonable rate of total loans and advances to total deposits. In addition to sectorial and geographical diversity to minimize risks that might result from environmental factors out of the intentions of customers and diversity in advances activities to avoid concentrations and limiting relative risks,

following clear credit policies and procedures which the head office departments control and follow-up their adoptions in all branches, the credit department, and the administrating unit of the credit risk management concerning operation risk management, the general frame work of operation risk management is based on defining events related to operation risks, defining and updating operation risk rates and combining and evaluating figures resulted from operation risks and implement a strategy to develop and modernize information technology systems, in order to limit operation risks which might result from retractions in such systems, in addition to apply a business continuing plan to minimize operation risks resulting from work break down due to, either technical system breakdown or causes relating to the external environment of the bank, establishing an information technology systems, in order to limit operation risks which might result from restrictions in such systems, in addition to adapt a business continuity plan to minimize operation risks resulting from work stoppage due to, either technical system breakdown or causes relating to the external environment of the bank, establishing an information technology safety unit to limit risks resulting from misuse of information technology systems or entering to these systems with suspicious purposes .Also, modernizing the policies and procedures of the investigation unit to avoid operation risks resulting from money laundering transactions, Also implementing policies and procedures for all activities of the bank for the purpose of defining responsibilities and reinforce internal control, through giving a controlling role on operations to the financial control department, branches department and the central operations department, because such control is one of the approved main methods to minimize operation risks .In addition to enforcing the role of internal auditing through expanding the structure and duties of the internal audit department so as to keep pace with the best practices in banks.

Concerning market risks, and for the purpose of not encountering unreasonable risks, the general frame work of operation risks in the bank rests on establishing a market risks management unit, the duties of which is putting head-lines of market risks, putting and modernizing market risk limits, controlling exposure to market risks and complying with the specified limits.

As for liquidity risks, the bank adopts procedures and policies to control and manage liquidity which ensures the bank's ability to finance its operations efficiently and fulfilling its current and future probable obligations, such as :loans, emergency

obligations and unexpected withdrawing from deposits .The treasury department, assisted by other sections in the bank, daily undertakes the responsibility of managing liquidity. In this concern, the bank aims at assuring a high rate of liquidity by maintaining a volume of loans and advances not exceeding 30 %of total deposits.

The bank deals with interest rates risks through conforming re-pricing assets and liabilities with the different means and operations within the given gap limits, keeping a high net interest margin equivalent to about 6 %in the fifth year.

The bank also aims at achieving equilibrium between the possible re-priced assets volume and the possible re-priced liability volume, therefore, ensuring that any variation in income of such assets would be met with a similar variation and in the same rate, in the cost of deposit, to a big extent.

In foreign currency risks, the bank aims at maintaining the present strategy which impose of not maintaining foreign currency positions exceeding the rates limited by the Central Bank of Yemen, and thus , avoiding fluctuations of price rates.

The bank also aims at continually trying to create the entire equilibrium between its total assets of a certain currency with its total liabilities of the same currency, or, in case of being unable to create such equilibrium, work on reducing the margin, positively or negatively, to its minimum limit.

The bank have worked, through 2009, for the purpose of developing and providing procedures to protect the interests of the bank, on re-structuring the risk management department and develop its methods and procedures within the new organization structure, to conform with the directives of the Central Bank of Yemen, the requirements of Basle II and the best practices in banks, in order to classify transactions more efficiently according to probable risks, taking the assistance of one of the international consulting firm to modernize policies, procedures and work guides relating to risk management department in order to match with the new organization of the bank and the local and international requirements.

Commitment:

Commitment aims at ensuring that the bank and its internal policies abide by all laws, systems, directive rules of behavior and the standards and sound banking practices issued by local and international bodies which limits, evaluates and provides advice and guidance, watches and submits reports to the board regarding the level of abeyance in the bank.

The commitment risks are represented in the legal punishments or material losses or reputation risks which the bank could be exposed to, due to non-commitment with laws, systems behavior rules, standards and the sound banking practices.

In the field of the efficient combating of money laundering activities, the investigation unit in the bank performs periodical watches of all financial transactions according to law and instructions of the Central Bank of Yemen .In 2009, the bank has re-structured the investigation unit and develop its work methods and procedures, within the new organization structure, complying with the law of money laundering, the combating of terrorism and the best practices in banks with an aim of classifying the transactions more efficiently according to probable risks and for the purpose of developing and providing procedures protecting the interests of the bank.

Information Technology:

The year 2009 witnessed the continuation of information and systems department working on development working on developing and raising the level of quality of services of the bank offered through the new additions to SWIFT system and the current banking system in branches to execute more operations using the automated systems.

The department also continues its concentration on equipping the infra-structure of the systems, networks and contacting lines to match with new techniques development in the bank's operation, implementing the new banking system.

On the other side, during the year 2009 the bank completed procedures of choosing the new banking system which is designed by one of the big international specialized companies in the field of banking systems, with specifications that agree with the banking development, technology and the new structure of the bank, with an aim of developing the ability of the bank to meet the rapid developments in the bank operations and advance the work techniques to the international banking industry standards, reducing the time taken to serve customers.

In addition, the bank continued, in 2009, to expand the ATM network by erecting and operating new ATMs, all connected with customer accounts and with the Yemen



Financial Services Company specialized in the field of electronic payment transactions and issuing electronic payment cards.

Developing Human Resources:

Due to the bank believe in the importance of the human factor in the service level offered to customer, and the importance of this factor in moving the bank to more advanced positions in the banking market, the bank management, during 2009, adhered to continue to take initiatives which contribute in making a significant move in the performance of human resources and achieving high level of employees satisfaction.

In the course of the bank strategy represented in presenting banking education to a wider level, widening the professional skill observations of the human resources in the bank, acquainting them with the latest developments locally and internationally, with an aim of enhancing performance of human resources and raising their production, the bank provided 414 training opportunities, included of different management levels in the bank, inside and outside the Yemen Republic, in a number of essential fields, such as :Credit, risk management, internal auditing, Islamic banking, banking management through branches, information technology, marketing and negotiation skills and modern methods in human resources management.

Within this strategy, the bank is continuing attracting and employing the best qualified and experienced employees in different posts in the new administrative system of the bank, concentrating on this respect because of the long level benefit and interest of the bank.

During the year 2009, the bank have worked on improving the human resources management through restructuring, developing manuals and procedures within the new organizational structure and getting assistance from an international consulting firm to modernize policies, procedures and work guides relating to human resources management with the new organization of the bank and developing qualifications of human resources, which is in competent with the best practices in banks.

Customer Serving:

In a fixed plan, the bank continued in implementing the development and modernization project aiming to offer significant banking services and increasing and improving customers level of satisfaction, where the bank management devoted to include in the new organization structure, restructuring of branches as points of sale to customers according to variations in modern banking and increasing distribution channels efficiency in the framework of the information systems project through developing the bank's electronic services which would facilitate for customers having access to their accounts and implementing their banking transactions easily through a number of electronic channels , in addition to developing ATM systems to work in harmony with the modern international systems, continuing to expand the ATMs network .In addition to, and extension of the bank's services with traders, the bank would distribute points of sale apparatuses in different top department stores at Republic level.

The bank would also continue to expand its traditional branches network and opening new specialized branches in offering Islamic products and services to customers, continuing to implement loans and finance programs either to individuals or to development projects which serve the economic development, and expanding in the scope of services offered to its customers and improving its quality.

Social Responsibility

NBY takes responsibility to support number of activities on social level, and as part of its responsibility, the bank offers financial support which affect positively on the society from various sides, such as :arts, culture, social and human affairs, sponsoring youth, education, sports and economic activities . In addition to sponsoring a number of activities in honoring distinctive students in different education institutions in the Republic .

In addition to financial support, during the year 2009, the bank participated in a number of economic conferences and different social seminars, programs and activities .The employees also participated in different events and occasions sponsored by the bank .

The bank plan for 2010;

- ✚ Continuation in diversifying and developing banking services, concentrating on offering an integrated group of traditional and Islamic banking services and

products compared to best international, regional and local banks, establishing branches offering banking transactions complied with Islamic shari'ah to offer Islamic services and products to customers and public.

- ✚ Implementation of the new organizational structure of the bank.
- ✚ Implementing the best practices in banks regarding risk management, which allows the bank to monitor and control credit risks, market risks and operation risks.
- ✚ Installation and operation of new ATMs connected with customers' accounts and with Yemen Services Company specialized in electronic payments and issuance of cards, means of electronic payment.
- ✚ Completing the infra-structure of communication lines, networks and systems in order to match with the new techniques and development in loan operations.
- ✚ Implementing the new banking system which will replace the current system, and which would be more compatible to face the rapid developments in bank operations and more complying with the banking and technologic developments and the new structuring of the bank.
- ✚ Developing the principles of institutional governance of the bank.
- ✚ Expansion in the present branches network of the bank in Yemen to cover the Yemen local market of all customers, individuals, private and public establishments, and remerge a number of weak branches indifferent parts of Yemen.
- ✚ Continuation in raising human resources performance, providing good education and training opportunities to different management levels in the bank and continuing to attract and employ the best qualified and experienced employees in different positions in the new organizational structure of the bank so as to double the professional capabilities in all fields.

With our expectations that the year 2010 would be full of changes and challenges both locally and internationally, but, we have trust in the ability of the bank to achieve more successes on all sides by banking work, whether through offering services and products which match with the needs of our customers, or through continuing distinct financial performance and growth.

Finally, the board of directors is pleased to express its thanks and appreciations to his Excellency Ali Abdullah Saleh, the president of the Republic, for his wise guidance

and clear vision in enforcing the competitive ability of the national economy and improve performance of its economic sectors, stability in the investment climate and achieving economic development that our country is evidencing.

The board also expresses thanks and respects to the Prime Minister of Finance, the Governor of the Central Bank of Yemen, the ministers and authorities in the ministries for their role and efforts in supporting procession of the national economy under sponsorship of his Excellency Ali Abdullah Saleh President of the Republic, God bless him.

Lastly, we express our thanks to our customers for their valued confidence which we always respect and proud of, we should also not forget to express our obligations to the executive management of the bank and all employees for their loyal efforts with an aim to develop the bank's abilities and achieve more successes.

Board of Directors National Bank of Yemen

Aden 05 April 2010



**INDEPENDENT AUDITORS' REPORT
TO H.E. THE MINISTER OF FINANCE
ON THE NATIONAL BANK OF YEMEN**

P.O. Box 16146
Villa 11, opposite to Supreme Comm. of
Elections, Nouakchott St., Aser Zone,
Sana'a, Republic of Yemen
Tel: (967) 1- 214 355
Fax: (967) 1- 214 360
E-mail: bassam@dahman-rsm.net
<http://www.dahman-rsm.com>

Report On The Financial Statements

We have audited the accompanying financial statements of the National Bank of Yemen (The Bank) which comprise the statement of financial position as of 31 December 2009, the related income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and related Yemeni laws and regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and related Yemeni laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

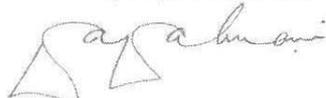
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Yemen as at 31 December 2009, and of its financial performance, the changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and related Yemeni laws and regulations.

Report On Other Legal And Regulatory Requirements

We have obtained all the information and explanations which we required for the purpose of our audit. We also confirm that, in our opinion, proper accounting records have been kept by the Bank and the accompanying financial statements are in agreement therewith. According to our knowledge and belief no violations to the provisions of the Banks Law No. 38 of 1998, Commercial Companies Law No. 22 of 1997 as amended, the Public Companies, Establishments and Corporations Law No. 35 of 1991 or guidelines of Central Bank of Yemen have occurred during the year ended on 31 December 2009.



Dahman Awadh Dahman, FCCA
Registered Licensed Accountant No. 384
For **Dahman & Co.**
A member of **RSM International**



Aden, Republic of Yemen,
5 April 2010

Dahman & Co.
is a member firm of RSM International,
an affiliate of independent
accounting and consulting firms

	Note	31 December 2009 YR' 000	31 December 2008 YR' 000
ASSETS			
Cash on hand and reserve balances with the Central Bank of Yemen	4	11,052,309	9,933,260
Due from banks	5	28,792,299	25,612,567
Treasury bills, net	6	52,587,188	46,280,049
Certificates of deposit with the Central Bank of Yemen	7	-	10,350,000
Loans and advances to customers, net of provision	8	9,369,273	8,409,302
Available for sale investments, net	9	216,324	205,826
Debit balances and other assets	10	1,120,567	1,739,911
Property, plant and equipment, net of accumulated depreciation	11	2,303,275	2,176,637
TOTAL ASSETS		105,441,235	104,707,552
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	573,410	2,076,627
Customers' deposits	13	89,814,420	87,871,641
Credit balances and other liabilities	14	2,203,936	2,735,996
Income tax payable	15	774,586	824,041
TOTAL LIABILITIES		93,366,352	93,508,305
EQUITY			
Capital	16-a	9,000,000	8,500,000
Surplus on revaluation of property reserve	16-b	639,762	639,762
Reserves	16-c	2,380,268	2,013,676
Cumulative changes in the fair value reserve	16-d	54,853	45,809
TOTAL EQUITY		12,074,883	11,199,247
TOTAL LIABILITIES AND EQUITY		105,441,235	104,707,552
CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET	17	19,913,976	19,666,131

Independent Auditor's Report attached (page 29).

The attached notes 1 to 39 form an integral part of these financial statements.

Arwa Ali Suleiman Al-Koori
Manager Statistic & Research

Sami Abdul Hamid Mackawee
First Deputy General Manager

Abdul Rahman Mohammed AlKuhali
Chairman and General Manager



	Note	2009 YR' 000	2008 YR' 000
OPERATING INCOME			
Interest on loans and advances and due from banks	18	1,405,116	1,889,180
Interest on treasury bills		7,316,146	5,749,696
Interest on certificates of deposit with the Central Bank of Yemen		175,765	1,440,114
Total interest income		8,897,027	9,078,990
Cost of deposits	19	(5,027,968)	(5,611,628)
Net interest income		3,869,059	3,467,362
Commissions and fee income on banking services	20	809,595	805,114
Income on available for sale investments		17,592	13,452
Gain / (Loss) on foreign currency transactions	21	13,001	(121,927)
Other operating income	22	433,263	830,363
NET OPERATING INCOME		5,142,510	4,994,364
OPERATING EXPENSES			
Commissions and fee expenses on banking services		59,446	68,635
General and administration expenses	23	1,595,768	1,526,855
Provisions	24	1,189,193	969,471
TOTAL OPERATING EXPENSES		2,844,407	2,564,961
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		2,298,103	2,429,403
Zakat	25	(85,000)	(75,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		2,213,103	2,354,403
Provision for income tax	15	(774,586)	(824,041)
PROFIT FOR THE YEAR		1,438,517	1,530,362
Profit attributable to controlling interest		1,438,517	1,530,362
Profit attributable to non-controlling interest		-	-
Basic earnings per share	26	YR 164	YR 191

The attached notes 1 to 39 form an integral part of these financial statements.



	2009 YR' 000	2008 YR' 000
Profit for the year	1,438,517	1,530,362
Other comprehensive income		
Net movement in fair value for the year	<u>9,044</u>	<u>24,494</u>
Other comprehensive income for the year	<u>9,044</u>	<u>24,494</u>
Total comprehensive income for the year	<u>1,447,561</u>	<u>1,554,856</u>
Total comprehensive income attributable to controlling interest	<u>1,447,561</u>	<u>1,554,856</u>
Total comprehensive income attributable to non-controlling interest	<u>-</u>	<u>-</u>

The attached notes 1 to 39 form an integral part of these financial statements.

	-----Controlling Interest-----							Total YR'000
	Surplus On Revaluation Of Property			Cumulative Changes in Fair Value		Retained Earnings	Non Controlling Interest	
	Capital YR'000	Reserve YR'000	Statutory Reserve YR'000	General Reserve YR'000	Reserve YR'000			
Balance at 31 December 2007	7,500,000	639,762	1,411,772	148,060	21,315	-	-	9,720,909
Comprehensive income								
Profit for the year	-	-	-	-	-	1,530,362	-	1,530,362
Other comprehensive income								
Net movement in fair value for the year	-	-	-	-	24,494	-	-	24,494
Total comprehensive income	-	-	-	-	24,494	1,530,362	-	1,554,856
Transaction with owners								
Transfer to statutory reserve	-	-	229,554	-	-	(229,554)	-	-
Transfer to general reserve	-	-	-	229,554	-	(229,554)	-	-
Government's share in profit transferred to capital	994,736	-	-	-	-	(994,736)	-	-
Transfer from general reserve to capital	5,264	-	-	(5,264)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(76,518)	-	(76,518)
Total transaction with owners	1,000,000	-	229,554	224,290	-	(1,530,362)	-	(76,518)
Balance at 31 December 2008	8,500,000	639,762	1,641,326	372,350	45,809	-	-	11,199,247
Comprehensive income								
Profit for the year	-	-	-	-	-	1,438,517	-	1,438,517
Other comprehensive income								
Net movement in fair value for the year	-	-	-	-	9,044	-	-	9,044
Total comprehensive income	-	-	-	-	9,044	1,438,517	-	1,447,561
Transaction with owners								
Transfer to statutory reserve	-	-	215,778	-	-	(215,778)	-	-
Transfer to general reserve	-	-	-	215,778	-	(215,778)	-	-
Government's share in profit transferred to capital	435,036	-	-	-	-	(435,036)	-	-
Transfer from general reserve to capital	64,964	-	-	(64,964)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(71,925)	-	(71,925)
Total transaction with owners	500,000	-	215,778	150,814	-	(1,438,517)	-	(571,925)
Balance at 31 December 2009	9,000,000	639,762	1,857,104	523,164	54,853	-	-	12,074,883

The Bank's Board of Directors, in its meeting held on 15 April 2007, resolved to increase the capital of the Bank to YR 10,000,000 thousands. H.E. the Minister of Finance has approved this increase in the capital. The capital will be raised from the Government's share of profit at the end of each year as the Board of Directors will decide until the amount of the capital reaches YR 10,000,000 thousands.

The attached notes 1 to 39 form an integral part of these financial statements.

	2009 YR 000	2008 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before the Zakat and Income tax	2,298,103	2,429,403
Adjustments for:		
Provision for losses on loans and advances and on contra accounts made during the year	1,148,394	938,852
Provision for losses on loans and advances and contra accounts written back during the year	(419,618)	(722,040)
Amount utilized during the year from provision for losses on loans and advances	(5,896)	(2,152)
Revaluation of balances of provision for losses on loans and advances and on contra accounts	40,910	2,541
Loss from sale of property, plant and equipment	85	262
Income tax paid	(824,041)	(1,260,109)
Zakat paid	(85,000)	(75,000)
Depreciation of property, plant and equipment	91,105	81,456
NET OPERATING PROFIT BEFORE CHANGES IN ASSETS AND LIABILITIES RELATED TO OPERATING ACTIVITIES (1)	<u>2,244,042</u>	<u>1,393,213</u>
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	(808,782)	2,347,894
Treasury bills maturing after three months, net of unamortized discount	(10,891,945)	3,614,668
Due from banks maturing after three months	(1,505,672)	931,122
Loans and advances to customers before provision but after suspended interest	(1,722,390)	121,163
Debit balances and other assets	619,344	(78,509)
NET (INCREASE) / DECREASE IN ASSETS (2)	<u>(14,309,445)</u>	<u>6,936,338</u>
Due to banks	(1,503,217)	1,503,769
Customers' deposits	1,942,779	6,910,437
Credit balances and other liabilities	(533,430)	315,016
NET (DECREASE) / INCREASE IN LIABILITIES (3)	<u>(93,869)</u>	<u>8,729,222</u>
CASH FLOWS FROM/ (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(217,828)	(348,687)
Sale proceeds from sale of property, plant and equipment	-	8,206
Purchase of available for sale investments	(1,454)	(36,728)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES (4)	<u>(219,282)</u>	<u>(377,209)</u>
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		
Government's share paid in the profit for the year	(500,000)	-
Employees' share in the profit for the year	(71,925)	(76,518)
NET CASH FLOW (USED IN) FINANCING ACTIVITIES (5)	<u>(571,925)</u>	<u>(76,518)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4+5)	<u>(12,950,479)</u>	<u>16,605,046</u>
Cash and cash equivalents at 1 January	80,545,484	63,940,438
Cash and cash equivalents at 31 December	<u>67,595,005</u>	<u>80,545,484</u>

28

The attached notes 1 to 39 form an integral part of these financial statements.

1 INCORPORATION AND ACTIVITY

The National Bank of Yemen (the Bank) was incorporated in Aden in 1969. It is wholly owned by the Government of Yemen and is registered under commercial registration number 1748.

The Bank undertakes all banking activities through its head office and 28 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, and one branch in each of Hodeidah and Taiz. The Bank practices retail banking activities inside the Republic of Yemen.

The Head Office of the Bank is located at Queen Arwa Street. Its postal address is P. O. Box 5, Crater, Aden, Republic of Yemen.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 Basis of Preparation of Financial Statements

The financial statements have been prepared on a historical cost basis, except for the available for sale investments, financial assets and financial liabilities held at fair value through profit or loss and that have been measured at fair value. The financial statements are presented in Yemeni Riyals and all values are rounded to the nearest one thousand Yemeni Riyal except when otherwise is indicated.

The disclosure on risks from financial instruments are presented in Risk Management report in note 3-2

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 28 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Profit for the year is therefore adjusted by non-cash items, such as measurement gains and losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid are classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach)

Statement of Compliance

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force as at 31 December 2009 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB in force as at 31 December 2009, the requirements of the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen including those covered by the Central Bank of Yemen circular no. 2 of 2002 regarding the format of the financial statements.

a) *Standards, amendments and interpretations effective on or after 1 January 2009:*

- The following standards, amendments and interpretations, which became effective in 2009, are relevant to the Bank:

Standard	Content	Applicable date for financial years beginning on / after
IFRS 7	Improving disclosures about financial Instruments	1 January 2009
IAS 1	Presentation of financial statements (amended on 2007)	1 January 2009

- Amendment to IFRS 7: Financial Instrument - Disclosures

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosure about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or on the comprehensive income of the Bank.

- IAS 1: Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity but requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard.

According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 Basis of Preparation of Financial Statements

a) *Standards, amendments and interpretations effective on or after 1 January 2009:*

- The following standards, amendments and interpretations became effective in 2009, but were not relevant for the Bank's operations:

Standard / Interpretation	Content	Applicable date for financial years beginning on / after
IFRS 2	Share – based payment – Vesting conditions and cancellations	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowing Costs (amended in 2007)	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 13	Customer loyalty programme	1 July 2008
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

- IFRS 2: Share based payments – Vesting conditions and cancellations

The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the entity. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. IFRS 2 is not relevant to the Bank's operations because the Bank does not make any share based payments.

- IFRS 8: Operating segments

IFRS 8 was issued in November 2006 and became mandatorily applicable for accounting periods beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments.

- IAS 23: Borrowing costs

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. This amendment is not relevant since the Bank has not incurred any borrowing costs for the construction of an asset.

- IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation

The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. This amendment to IAS 32 is not relevant to the Bank because the Bank does not have any puttable financial instruments.

- IFRIC 13: Customer loyalty programmes

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations as the Bank does not operate any loyalty programmes.

- IFRIC 16: Hedges of a net investment in a foreign operation

This interpretation clarifies the accounting treatment in respect of net investment hedging. This interpretation is not relevant to the Bank's operations because the Bank does not have any foreign operations.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-1 Basis of Preparation of Financial Statements (Continued)

b) Standards and interpretations issued but not yet effective:

- For the avoidance of doubt, the following standards and interpretations, which were issued by IASB before 31 December 2009 and are not yet in effect, have not been adopted early:

Standard / Interpretation	Content	Applicable date for financial years beginning on / after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly – controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial Instruments: Recognition and measurement – eligible hedged items	1 July 2009
IFRIC 17	Distribution of non – cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- **IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly-controlled entity or associate**

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. This amendment is not likely to be relevant to the Bank since the bank does not have any investments in subsidiaries, associates or jointly-controlled entities.

- **IFRS 3: Business combinations**

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Bank will apply IFRS 3 (revised) prospectively to all business combination transactions from 1 January 2010.

- **IAS 27: Consolidated and separate financial statements**

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Bank will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- **IAS 39: Financial instruments: Recognition and measurement – eligible hedged items**

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This amendment is not expected to be relevant to the Bank's operations since the Bank has not entered into any hedge transactions.

- **IFRIC 17: Distributions of non-cash assets to owners**

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit or loss. Additional disclosure is to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-1 Basis of Preparation of Financial Statements (Continued)

b) Standards and interpretations issued but not yet effective (continued):

- For the avoidance of doubt, the following standards and interpretations, which were issued by IASB before 31 December 2009 and are not yet in effect, have not been adopted early (continued):

- **IFRIC 18: Transfers of assets from customers**

IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Bank will not be impacted by applying IFRIC 18.

- **Improvements to IFRS**

'Improvements to IFRS' were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual International Financial Reporting Standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

- **IFRS 9: Financial instruments Part 1: Classification and measurement**

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

The exceptions to International Financial Reporting Standards in compliance with local laws and regulations issued by the Central Bank of Yemen are:

- i) The adoption of minimum fixed percentages for losses on non performing loans and advances in accordance with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998; and
- ii) The inclusion of the general provision for risk calculated on the performing loans and advances in the general provision for loans and advances rather than equity.

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2009.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-2 Significant Accounting Estimates

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of policies and reported amounts of the financial assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates considered by the management of the Bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The Bank takes into consideration the following factors when determining the provisions for loans and advances and contingent liabilities:

- The overall customer's financial position;
- Risk percentage i.e. the ability of the customer to conduct profitable business activities and collect enough money to pay the debt;
- Value of the collateral and possibility of transferring ownership to the Bank; and
- Cost of settling the debt.

Management Estimates

The estimates and associated assumptions are based on historical experience of the Bank and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2-3 Summary of Principal Accounting Policies

The management has applied, consistently and continuously, the following accounting policies which comply with International Financial Reporting Standards, in dealing with items which are considered material in relation to the Bank's financial statements:

Trade And Settlement Date Accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Foreign Currencies

- (i) The Bank maintains its records in Yemeni Riyals which are the Bank's functional and presentation currency.
- (ii) Transactions denominated in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the value date of the transactions. Balances of monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Yemeni Riyals at the rate of exchange rate ruling on that date. All realized and unrealized gains or losses resulting from revaluation are taken to "other operating income" or "other operating expense" in the income statement.
- (iii) The Bank does not deal in forward foreign exchange contracts.

Revenue Recognition

- (i) Interest income is recognized in the income statement on the accrual basis using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. However, in order to comply with the requirements of the Central Bank of Yemen circular no. 6 of 1996, the Bank does not accrue interest income on non-performing loans and credit facilities. When an account is classified as non-performing, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest income. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established
- (ii) In accordance with the Central Bank of Yemen circular no. 2 of 2000, any provisions written back are included under "other operating income".
- (iii) Commission and fee income on banking services are recognized when earned.

Cash and Cash Equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand, balances with the Central Bank of Yemen other than statutory reserve balances, demand deposits with other banks, treasury bills and certificates of deposit with the Central Bank of Yemen maturing within three months from the date of acquisition.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-3 Summary of Principal Accounting Policies (Continued)

Due from Banks and other Money Market Placements

Deposits and balances due from banks are presented at cost after deducting any amount that has been written off and any impairment in their value. All money market and customer deposits are carried at amortised cost.

Treasury Bills

Treasury bills issued by the Central Bank of Yemen on behalf of the Ministry of Finance are stated at their nominal value, adjusted for any unamortised discount outstanding at the statement of financial position date.

Certificates of Deposits

Certificates of deposit issued by the Central Bank of Yemen are stated at cost. The accrued interest on certificates of deposit is included under "debit balances and other assets".

Provision for Losses on Loans and Contingent Liabilities

In order to comply with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998, provision is made for specific loans, overdrafts, advances and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities after deducting balances secured by deposits and banks' guarantees.

The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, provision is made in accordance with the following rates:

- | | |
|---|------|
| • Performing loans including watch loans | 2% |
| • Performing contingencies including watch accounts | 1% |
| • Non-performing loans and contingencies: | |
| - Substandard debts | 15% |
| - Doubtful debts | 45% |
| - Bad debts | 100% |

When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, or if directed by the Central Bank of Yemen upon review of the portfolio, it will be written off by debiting the provision. Loans to customers are presented in the statement of financial position net of provision and uncollected interest. Proceeds from loans and advances previously written off in prior years are credited to "other operating income".

Investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

As of the financial statements date, non trading investments are classified either as available for sale investments or held for maturity investments.

i) Available for sale investments:

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'dividend income' when the Bank's right to receive payment is established.

ii) Held to maturity investments:

Where the Bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses. Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and taken to interest income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-3 Summary of Principal Accounting Policies (Continued)

Property, Plant and Equipment, Net of Accumulated Depreciation

Land and buildings comprise mainly branches and offices. All property, plant and equipment used by the Bank is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Freehold land is not depreciated. Other property and equipment items are stated at cost or revalued amounts less accumulated depreciation.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost or revalued amount, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life using the straight-line method at the rates shown below:

Buildings on freehold land	2%
Vehicles	20%
Furniture and equipment	10%
Computers and software programs	20%
Security vaults	2%
Improvements to leasehold property	Years of lease or estimated useful life whichever is lower.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2009 (2008: nil).

Gains and losses on property, plant and equipment disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

Real Estate Properties Acquired from Customers in Settlement of Loans Pending Sale /Collateral Pending Sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. In accordance with the Banks Law No. 38 of 1998 and the Central Bank of Yemen instructions, assets acquired from customers in settlement of loans are included in the statement of financial position under "debit balances and other assets" using the value at which these assets were acquired less any decline in their value. Any decline is charged to the statement of income.

Social Security

The employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. 25 of 1991. The Bank's annual contribution is charged to the income statement.

Contingent Liabilities and Commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off balance sheet, net of margins, under "contra accounts and other commitments" as they do not represent actual assets or liabilities at the reporting date.

Acceptances

Under IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" with corresponding liability disclosed under "credit balances and other liabilities". As a result, there is no off balance sheet commitment for acceptances.

Financial guarantees contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-3 Summary of Principal Accounting Policies (Continued)

Financial Assets at Fair Value through Income Statement

This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.

Income Tax

Taxation for the year is provided for in accordance with the Income Tax Law No. 31 of 1991 as amended by the Republican Decree Law No. 12 of 1999 and the provision of article no. 85 of the Banks Law No. 38 of 1998.

Zakat

The Bank pays zakat, in accordance with the Zakat Law No. 2 of 1999 to the Zakat General Directorate that decides on its allocation.

Related Party Transactions

Disclosures are made in the financial statements of loans and advances and contingent liabilities to related parties and in particular, to members of the board of directors, senior management and their families and companies in which they own 25% or more of its capital.

Fiduciary Assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these interim financial statements

Impairment of Assets

The Bank, at each reporting date, assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash generation unit's fair value less costs to sell and its value in use and determined for an individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systemic basis over its remaining useful life.

Offsetting the Financial Assets and Liabilities

Financial assets and financial liabilities are only offset and the resultant net balance is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

3 FINANCIAL INSTRUMENTS

The Bank's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, current accounts and deposits with banks, treasury bills, certificates of deposit with the Central Bank of Yemen, investments, and loans and advances to customers and banks. Financial liabilities include customers' deposits and balances due to banks. Also, financial instruments include rights and obligations stated in "contingent liabilities and commitments".

3-1 Fair Value of Financial Instruments

Based on the valuation of the Bank's assets and liabilities as stated in the notes to the financial statements, the fair value of the financial instruments do not differ fundamentally from their fair values at the reporting date.

3 FINANCIAL INSTRUMENTS (CONTINUED)

3-2 Risk Management of Financial Instruments

The Bank's business involves taking on risks in a targeted manner and managing the risks professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to credit risk, liquidity risk, interest rate risk and exchange rate risk.

Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

In order to comply with the Central Bank of Yemen circular no. 10 of 1997 pertaining to the management of credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk.

In addition to the standards stated in the above-mentioned circular, additional procedures applied by the Bank to minimize the credit risk exposure are:

- preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates;
- obtaining sufficient collateral to minimize the credit risk exposure which may result from financial problems facing customers or banks;
- follow-up and period reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans;
- distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.



3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3-2 Risk Management of Financial Instruments (Continued)

Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements

	31 December 2009 YR'000	31 December 2008 YR'000
Assets:		
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	9,719,946	8,899,867
Due from Bank	28,792,299	25,612,567
Treasury bills	52,587,188	46,280,049
Certificates of deposit with Central Bank of Yemen	-	10,350,000
Loans and advances to customers, net of provision	9,369,273	8,409,302
Available for sale investments, net	216,324	205,826
Debit balances and other assets	1,120,567	1,739,911
Total assets	101,805,597	101,497,522
Contra accounts and other commitments	26,539,358	25,749,246
Total credit risk exposure	128,344,955	127,246,768

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 31 shows the distribution of financial instruments over different economic sectors and note no. 32 shows the distribution of financial instruments based on geographical locations.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal circumstances. To limit this risk, the Bank's management in addition to its core deposit base, manages assets with liquidity in mind, monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The table below shows the maturity analysis for financial liabilities that shows the remaining contractual maturities:

As at 31 December 2009	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000	Total YR'000
LIABILITIES					
Due to banks	573,410	-	-	-	573,410
Customers' deposits	57,091,212	9,358,532	22,843,233	521,443	89,814,420
Credit balances and other liabilities	1,888,159	116,319	199,459	-	2,203,937
Total liabilities	59,552,781	9,474,851	23,042,692	521,443	92,591,767

As at 31 December 2008	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000	Total YR'000
LIABILITIES					
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Credit balances and other liabilities	2,358,803	154,659	222,534	-	2,735,996
Total liabilities	62,387,181	12,329,053	17,840,806	127,224	92,684,264

In addition to the above, note no. 29 shows the maturity analysis of assets and liabilities and the net gap between the two.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the value of the financial instruments. The Bank performs a number of procedures to limit the effect of such risk to the minimum level by:

- correlating interest rates on borrowing with interest rates on lending;
- considering the discount rates for different currencies when determining interest rates;
- controlling the matching of maturity dates of financial assets and liabilities.



3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3-2 Risk Management of Financial Instruments (Continued)

Interest Rate Risk (Continued)

The table below shows the Bank's exposure to interest rate risks:

As at 31 December 2009	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,052,309	11,052,309
Due from banks	20,494,597	1,959,060	1,350,590	-	4,988,052	28,792,299
Treasury bills, net	41,164,063	-	11,423,125	-	-	52,587,188
Certificates of deposit with Central Bank of Yemen	-	-	-	-	-	-
Loans and advances to customers, net of provision	2,129,260	437,015	4,750,659	2,052,339	-	9,369,273
Available for sale Investments, net	-	-	-	-	216,324	216,324
Debit balances and other assets	20,581	2,516	1,734	-	1,095,736	1,120,567
Total assets	63,808,501	2,398,591	17,526,108	2,052,339	17,352,421	103,137,960
LIABILITIES AND EQUITY						
Due to banks	-	-	-	-	573,410	573,410
Customers' deposits	27,420,033	11,983,739	20,549,266	-	29,861,382	89,814,420
Credit balances and other liabilities	266,148	116,319	199,459	-	1,622,010	2,203,936
Total liabilities and equity	27,686,181	12,100,058	20,748,725	-	32,056,802	92,591,766
Interest rate sensitivity gap	36,122,320	(9,701,467)	(3,222,617)	2,052,339	(14,704,381)	10,546,194
As at 31 December 2008						
	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	9,933,260
Due from banks	18,567,022	769,090	289,120	1,162,462	4,824,873	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	-	46,280,049
Certificates of deposit with Central Bank of Yemen	10,350,000	-	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	-	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	205,826
Debit balances and other assets	243,665	1,925	723	2,909	1,490,689	1,739,911
Total assets	77,213,656	1,292,765	3,318,755	4,251,091	16,454,648	102,530,915
LIABILITIES AND EQUITY						
Due to banks	1,500,000	-	-	-	576,627	2,076,627
Customers' deposits	35,255,688	10,929,628	15,726,324	-	25,960,001	87,871,641
Credit balances and other liabilities	498,883	154,659	222,534	-	1,859,920	2,735,996
Total liabilities and equity	37,254,571	11,084,287	15,948,858	-	28,396,548	92,684,264
Interest rate sensitivity gap	39,959,085	(9,791,522)	(12,630,103)	4,251,091	(11,941,900)	9,846,651

In addition to the above, note no. 30 shows the average interest rates on assets and liabilities applied during the year ended 31 December 2009 and the year ended 31 December 2008.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3-2 Risk Management of Financial Instruments (Continued)

Exchange Rate Risk

Due to the nature of the Bank's activities, the Bank deals in different foreign currencies; hence it is exposed to exchange rate risk. The Bank strives to maintain a balanced foreign currencies positions in compliance with the Central Bank of Yemen instructions and the requirements of the Central Bank of Yemen Circular No. 6 of 1998 which specifies that individual foreign currency positions shall not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all currencies shall not exceed 25% of the Bank's capital and reserves. In order to comply with the Central Bank of Yemen Circular No. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies to the Central Bank of Yemen at the prevailing rates on the date of sale. The significant foreign currency positions of the Bank are shown in note no. 35.

The Bank had the following significant net exposures to foreign currencies:

<u>As at 31 December 2009</u>	<i>United States Dollar</i>	<i>Pound Sterling</i>	<i>Euro</i>	<i>Saudi Riyal</i>	<i>Other currencies</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
Assets	53,700,546	1,854,093	3,045,304	2,055,365	2,510,896	63,166,204
Liabilities	(55,603,237)	(1,855,428)	(2,980,224)	(1,854,477)	(1,454,736)	(63,748,102)
Net currency position	<u>(1,902,691)</u>	<u>(1,335)</u>	<u>65,080</u>	<u>200,888</u>	<u>1,056,160</u>	<u>(581,898)</u>
<u>As at 31 December 2008</u>	<i>United States Dollar</i>	<i>Pound Sterling</i>	<i>Euro</i>	<i>Saudi Riyal</i>	<i>Other currencies</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
Assets	45,681,065	1,893,736	6,042,796	1,833,005	499,277	55,949,879
Liabilities	(45,249,292)	(1,614,157)	(6,057,748)	(1,592,273)	(474,631)	(54,988,101)
Net currency position	<u>431,773</u>	<u>279,579</u>	<u>(14,952)</u>	<u>240,732</u>	<u>24,646</u>	<u>961,778</u>

3-3 Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with external imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios. The capital adequacy is monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the Central Bank of Yemen for supervisory purposes. The required information is filed with the Central Bank of Yemen on a quarterly basis.

The Central Bank of Yemen requires each bank in Yemen to maintain a ratio of total capital to the risk - weighted assets at or above the internationally agreed minimum of 8%. In addition, the Bank is required to maintain a ratio of total capital to the customer deposits at or above 5%.

The total capital of the Bank is divided in two tiers:

Tier 1 capital: which comprises the share capital, statutory reserve and general reserve.

Tier 2 capital: which comprises the revaluation reserves and unrealized gains arising from any changes in fair value of available for sale investments.

Investment in any local bank or finance company is deducted from the Tier 1 and Tier 2 capital. The balance of general provision for loans and advances is added to the Tier 1 and Tier 2 capital.

The risk - weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of potential losses.

The Bank complied with all the externally imposed capital requirements to which they are subject.



3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3-3 Capital Management (Continued)

The capital adequacy is calculated as follows:

	31 December 2009 YR' million	31 December 2008 YR' million
Tier 1 capital		
Capital	9,000	8,500
Statutory reserve	1,857	1,641
General reserve	523	372
Total Tier 1 capital	<u>11,380</u>	<u>10,513</u>
Tier 2 capital		
Property revaluation reserve	640	640
Fair value reserve	55	46
Total Tier 2 capital	<u>695</u>	<u>686</u>
Investment in local banks or financial companies	(64)	(62)
General provision balance as at year end	105	87
Total qualifying capital	<u>12,116</u>	<u>11,224</u>
Risk weighted assets		
On balance sheet	13,862	14,303
Off balance sheet	4,347	4,625
Total risk - weighted assets	<u>18,209</u>	<u>18,928</u>
Capital adequacy ratios		
Tier 1 capital	62%	56%
Total capital	67%	59%

4 CASH ON HAND AND RESERVE BALANCES WITH THE CENTRAL BANK OF YEMEN

	31 December 2009 YR'000	31 December 2008 YR'000
Cash on hand:		
In local currency	571,925	510,086
In foreign currencies	760,438	523,307
Cheques purchased, net	32,624	21,327
Total cash on hand	<u>1,364,987</u>	<u>1,054,720</u>
Reserve balances with the Central Bank of Yemen:		
In local currency	3,694,819	3,908,953
In foreign currencies	5,992,503	4,969,587
Total reserve balances with the Central Bank of Yemen	<u>9,687,322</u>	<u>8,878,540</u>
Total cash on hand and reserve balances with the Central Bank of Yemen	<u>11,052,309</u>	<u>9,933,260</u>

In accordance with the Yemeni Banks Law No. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at stipulated percentages on local currency and foreign currencies of its demand, time and other deposits.

5 DUE FROM BANKS

	31 December 2009 YR'000	31 December 2008 YR'000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with the Central Bank of Yemen:		
In local currency	3,080,770	3,314,510
In foreign currencies	354,991	794,160
Total due from the Central Bank of Yemen	3,435,761	4,108,670
Current accounts with other local banks		
Islamic investment deposits with two local banks	674	1,974
	430,121	400,000
Total due from the Central Bank of Yemen and other local banks	3,866,556	4,510,644
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances		
Provision for outstanding reconciling items	5,526,861	4,816,558
Time deposits	(21,118)	(20,272)
	19,420,000	16,305,637
Total due from foreign banks and other financial institutions	24,925,743	21,101,923
Total due from banks	28,792,299	25,612,567

Current accounts and time deposits with foreign banks carry variable interest rates (0.04% to 5.00%) while current accounts with the Central Bank of Yemen and other local banks do not carry any interest.

6 TREASURY BILLS, NET

	31 December 2009 YR'000	31 December 2008 YR'000
Treasury bills due within:		
42 days	1,258,475	-
49 days	-	101,902
62 days	-	2,150,474
90 days	31,890,049	38,411,030
182 days	8,776,220	537,410
364 days	11,986,540	6,343,870
Total nominal value of treasury bills	53,911,284	47,544,686
Unamortized discount due within:		
42 days	(10,558)	(-)
49 days	(-)	(1,519)
62 days	(-)	(43,308)
90 days	(494,416)	(707,312)
182 days	(255,707)	(27,747)
364 days	(563,415)	(484,751)
Net book value of treasury bills	52,587,188	46,280,049

The treasury bills and repurchased treasury bills carry interest rates ranging from 12.54% to 15.41% (31 December 2008: 13.97% to 15.92%). In accordance with the instructions of the Central Bank of Yemen, treasury bills, which mature within a period not exceeding three months, are considered as part of cash and cash equivalent assets.

7 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	31 December 2009 YR'000	31 December 2008 YR'000
Certificates of deposit – 91 days	-	10,350,000
Total certificates of deposit with the Central Bank of Yemen	-	10,350,000

Certificate of deposits carries interest rates varying from 13.06% to 15.89%. In accordance with the instructions of the Central Bank of Yemen, certificates of deposit are considered as part of cash and cash equivalent assets.

8 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

	31 December 2009 YR'000	31 December 2008 YR'000
Loans and advances to customers in the private sector:		
Overdraft facilities	6,919,650	5,654,601
Short term loans	5,806,624	5,112,777
Total loans and advances to customers in the private sector	<u>12,726,274</u>	<u>10,767,378</u>
Provision for losses on non performing loans and advances (note 8-a)	(2,951,487)	(2,189,068)
Suspended interest (note 8-b)	(405,514)	(169,008)
Total provision for losses on non performing loans and advances and suspended interest	<u>(3,357,001)</u>	<u>(2,358,076)</u>
Net loans and advances to customers	<u>9,369,273</u>	<u>8,409,302</u>

Gross non-performing loans and advances as at 31 December 2009 amounted to YR 3,442,171 thousand (31 December 2008: YR 2,789,807 thousand). The breakup of the above amount is as follows:

	31 December 2009 YR'000	31 December 2008 YR'000
Substandard debts	204,263	469,331
Doubtful debts	71,560	336,241
Bad debts	3,166,348	1,984,235
Total gross non performing loans and advances	<u>3,442,171</u>	<u>2,789,807</u>

8-a) Provision for Losses on Non-Performing Loans and Advances

In accordance with article no. 85 of the Banks Law No. 38 of 1998, which came into effect on 27 December 1998, and Article 9 - (j) of the Income Tax Law No. 31 of 1991 as amended by Republican Decree Law No. 12 of 1999, any provision for losses on loans and advances made by a bank in compliance with the regulations of the Central Bank of Yemen in this respect, are not subject to the provisions of any income tax law and are allowable as a deduction in arriving at the taxable income.

Details of movements in the provision for possible losses on loans and advances during the period / year were as follows:

	-----31 December 2009-----			-----31 December 2008-----		
	Specific YR'000	General YR'000	Total YR'000	Specific YR'000	General YR'000	Total YR'000
Balance at 1 January	2,101,653	87,415	2,189,068	1,673,333	131,616	1,804,949
Revaluation of opening balances in foreign currencies	36,210	819	37,029	1,922	159	2,081
Amount utilized during the year.	(5,896)	(-)	(5,896)	(2,152)	-	(2,152)
Adjusted opening balances	<u>2,131,967</u>	<u>88,234</u>	<u>2,220,201</u>	<u>1,673,103</u>	<u>131,775</u>	<u>1,804,878</u>
Amounts recovered of loans previously written off (note 22)	(317,207)	(13,103)	(330,310)	(409,893)	(61,866)	(471,759)
Provision for the year (note 24)	1,031,949	29,647	1,061,596	838,443	17,506	855,949
Charged to the income statement	714,742	16,544	731,286	428,550	(44,360)	384,190
Balance at end of year	<u>2,846,709</u>	<u>104,778</u>	<u>2,951,487</u>	<u>2,101,653</u>	<u>87,415</u>	<u>2,189,068</u>

The total of the loan loss provision as at 31 December 2009 is based on amount of provision calculated by the Central Bank of Yemen Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2008: 2%).

The Bank has, during the year, written-off fully provided loans and advances amounting to YR 5,896 thousands (2008: YR 2,152 thousands) against impairment provisions where all possible actions for recoveries have been exhausted and the Bank's management believes the possibility of recoveries is remote. The Bank's management, however, continues to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the income statement.

8-b) Suspended Interest

This represents interest on non-performing loans and advances in accordance with the Central Bank of Yemen regulations and which is recognised as revenue only when collected.



8 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION (CONTINUED)

8-b) Suspended Interest (Continued)

	31 December 2009 YR'000	31 December 2008 YR'000
Balance at 1 January	169,008	89,988
Exchange differences for the year	2,457	373
Amounts written-off during the year	(-)	(917)
Recovered during the year	(1,028)	(5,900)
Suspended during the year	235,077	85,464
Balance at end of year	<u>405,514</u>	<u>169,008</u>

9 AVAILABLE FOR SALE INVESTMENTS, NET

These comprise investments, available for sale, in the following banks and financial institution:

	Ownership Percentage %	No. of shares of USD 50 each	31 December 2009 YR'000	31 December 2008 YR'000
Unquoted investments in shares of UBAF Group:				
UBAF - Curacao - A Shares of US \$ 1 each (note 9-a)	0.788	29,944	310,385	17,982
UBAF - Curacao - B Shares of US \$ 1 each (note 9-a)	0.782	4,693	48,645	2,818
UBAF - Curacao - C Shares of US \$ 1 each (note 9-a)	1.221	10,565	109,511	6,344
Total investment in shares in UBAF Group		<u>45,202</u>	<u>468,541</u>	<u>27,144</u>
Other unquoted investments:				
ALUBAF Arab International Bank (BSC) – Bahrain (note 9-b)	0.344		73,127	61,073
Arab Financial Services Company - Bahrain (note 9-c)	0.167		20,586	21,388
Yemen Financial Services Company - Yemen (note 9-d)	10.000		64,411	62,165
Yemen Mobile Company for Telecommunication - Yemen (note 9-e)	0.139		61,200	61,200
Total other unquoted investments			<u>219,324</u>	<u>205,826</u>
Total available for sale investments			<u>687,865</u>	<u>232,970</u>
Provision for impairment (note 9-f)			<u>(471,541)</u>	<u>(27,144)</u>
Net book value of investments available for sale			<u>216,324</u>	<u>205,826</u>

9-a) UBAF - Curacao

The increase in the amount is due to the revaluation of the balances in foreign currencies at the year end rate.

9-b) Al UBAF Arab International Bank (BSC) - Bahrain

The fair value of the full investment in Al UBAF Arab International Bank (BSC) - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2008) which amounted to US\$ 51.26 per share.

9-c) Arab Financial Services Company - Bahrain

The fair value of the investment in Arab Financial Services Company - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2008) which amounted to US\$ 9.93 per share (2008: US\$ 10.69 per share).

9-d) Yemen Financial Services Company - Yemen

The Bank has contributed a sum of USD 310 thousands to the capital of Yemen Financial Services Company (Closed Yemeni Shareholding Company), which had been established in joint venture with a number of other local banks. The share capital of YFSC is USD 3 million.

9-e) Yemen Mobile Company for Telecommunication - Yemen

The Bank has purchased 120,000 shares of YR 500 each for a sum of YR 60 million of Yemen Mobile Company for Telecommunication (Yemeni Shareholding Company). The total share capital of this Company is YR 43,262 million. The Bank paid YR 1,200,000 as acquisition costs which have been added to cost in accordance with IAS 39: Financial Instrument - Recognition and Measurement.

9-f) Provision for Impairment

Since no dividends were received from the investments in UBAF - Curacao during the last few years and no dividends are expected to be received in the coming years, a full impairment provision was taken for the balances of those investments because their net present value is nil.

10 DEBIT BALANCES AND OTHER ASSETS

	31 December 2009 YR'000	31 December 2008 YR'000
Prepaid expenses and other debit balances	7,838	10,940
Interest receivable	24,937	249,222
Capital costs of new branches under construction	147,635	199,093
Real estate properties acquired from customers, net of provision	153,936	162,674
Al Amal Bank for Microfinance –Yemen	10,000	10,000
Al Tadhamon Microfinance – Yemen	1,000	1,000
Customer acceptances	732,395	1,057,029
Sundry debit balances, net of provision	42,826	49,953
Total debit balances and other assets	1,120,567	1,739,911

The balance of real estate properties acquired from customers is net of a provision of YR 9,219 thousand (2008: YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

The shareholdings in Al Amal Bank for Microfinance - Yemen and Al Tadhamon Microfinance - Yemen have been included in the "debit balance and other assets" rather than "available for sale investments" as management is of the opinion that these amounts would be fully refundable in the future.

In accordance with IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" and the corresponding liability is disclosed under "credit balances and other liabilities".

11 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

	<i>Freehold land and buildings</i> YR'000	<i>Leasehold improvements</i> YR'000	<i>Furniture & equipment</i> YR'000	<i>Motor vehicles</i> YR'000	<i>Swift & computers</i> YR'000	<i>Total</i> YR'000
Cost or valuation						
At 31 December 2007	1,687,358	64,962	291,257	110,054	173,661	2,327,292
Additions during the year	228,144	11,167	50,403	11,462	47,511	348,687
Disposal during the year	(8,421)	-	(507)	-	-	(8,928)
At 31 December 2008	1,907,081	76,129	341,153	121,516	221,172	2,667,051
Additions during the year	162,563	16,479	29,307	-	9,479	217,828
Disposal during the year	-	(85)	-	-	-	(85)
At 31 December 2009	2,069,644	92,523	370,460	121,516	230,651	2,884,794
Accumulated depreciation						
At 31 December 2007	65,117	27,277	136,774	55,020	125,230	409,418
Charge for the year	12,839	6,755	26,082	17,592	18,188	81,456
On disposal for the year	(454)	-	(6)	-	-	(460)
At 31 December 2008	77,502	34,032	162,850	72,612	143,418	490,414
Charge for the year	15,391	7,419	28,656	17,823	21,816	91,105
At 31 December 2009	92,893	41,451	191,506	90,435	165,234	581,519
Net book value						
At 31 December 2009	1,976,751	51,072	178,954	31,081	65,417	2,303,275
At 31 December 2008	1,829,579	42,097	178,303	48,904	77,754	2,176,637

Property, plant and equipment depreciation is calculated on the basis of the rates set out in the Council of Ministers' Resolution no. 144 of 1999 in that regard. Freehold land, land leased from the Government and buildings on freehold and leasehold were revalued at their open market value for existing use on 1 December 1999, effective from 31 December 1999, by an independent professional real estate firm. In accordance with IAS 16, the cost and related accumulated depreciation as at 31 December 1999 were eliminated and the revalued amount has been considered to be the new gross book carrying amount.



12 DUE TO BANKS

Current and demand accounts:

Local banks

Foreign banks

Total due to banks

31 December 2009 YR'000	31 December 2008 YR'000
-	1,501,408
573,410	575,219
573,410	2,076,627

13 CUSTOMERS' DEPOSITS

Current accounts

Savings accounts

Term deposits

Other deposit margins

Cash deposits for documentary letters of credit, guarantees and others

Total customers' deposits

31 December 2009 YR'000	31 December 2008 YR'000
18,094,564	16,951,276
27,826,691	26,456,386
35,487,424	37,961,229
1,780,359	419,636
6,625,382	6,083,114
89,814,420	87,871,641

14 CREDIT BALANCES AND OTHER LIABILITIES

Accrued interest payable

Unclaimed balances (note 14-a)

Provision for employees' leave pay

Provision for off balance sheet items (note 14-b)

Employees' share in profit

Other provision

Provision for contingent liabilities (note 34)

Customer acceptances

Sundry credit balances

Total credit balances and other liabilities

31 December 2009 YR'000	31 December 2008 YR'000
581,927	876,076
201,142	193,442
61,970	59,541
115,856	114,485
77,781	90,613
18,898	28,000
59,392	58,201
732,395	1,057,029
354,575	258,609
2,203,936	2,735,996

14-a) Unclaimed Balances

This amount includes balances that are over 15 years old and have not been claimed by the beneficiaries. The increase in the amount is due to the revaluation of the balances in foreign currencies at the year end rate. Management regularly reviews the likelihood of these amounts being claimed and based on the outcome of such review; it considers the amount that should be transferred to the Ministry of Finance in accordance with the relevant article in the Banks Law No. 38 of 1998.

14-b) Provision for Off-balance sheet Sheet Items

Balance at 1 January

Revaluation of opening balance in foreign currencies

Provision charged during the year (note 24)

Provision written back during the year (note 22)

Balance at end of the year

31 December 2009 YR'000	31 December 2008 YR'000
114,485	281,403
3,881	460
86,798	82,903
(89,308)	(250,281)
115,856	114,485

15 INCOME TAX PAYABLE

	31 December 2009 YR'000	31 December 2008 YR'000
<i>Amounts due to the Tax Authority</i>		
Balance at 1 January	824,041	1,260,109
Charged for the year in the income statement (note 15-a)	774,586	824,041
Total amounts due to the Tax Authority	1,598,627	2,084,150
Amount paid during the year	(824,041)	(1,260,109)
Total income tax payable	774,586	824,041

15-a) Charge For The Period

The tax provision for the year has been calculated on the basis of 35% of the profit for the year.

15-b) Prior Year Tax Assessments

The Bank received on 9 June 2009 the final tax clearance for the income tax liability for the financial year ended 31 December 2008.

16 EQUITY

16-a) Authorized Capital

The authorized share capital amounting YR 10,000 million (2008: YR 10,000 million) consists of 10,000 thousand shares of YR 1,000 par value each (2008: of 10,000 thousand shares of YR 1,000 par value each).

16-b) Declared and Paid Up Capital

The declared and paid up share capital amounting YR 9,000 million (2008: YR 8,500 million) consists of 9,000 thousand shares of YR 1,000 par value each (2008: 8,500 thousand shares of YR 1,000 par value each).

16-c) Profit Distribution

In accordance with the provisions of the Public Corporations, Establishments and Companies Law No. 35 of 1991, the annual profit of the Bank shall be allocated as follows:

- 15% to statutory reserve;
- 15% to general reserve;
- 65% to the Government for its share of profit;
- 2% to employee's incentives; and
- 3% to employees' social fund.

16-d) Surplus on Revaluation of Property Reserve

The difference between the revalued amounts of the freehold land and the buildings and their book value as at 31 December 1999 had been credited to this account and included in equity.

16-e) Cumulative Changes in Fair Value Reserve

In accordance with the provisions of IAS 39: Financial Instruments - Recognition and Measurement, the differences between the fair values and the book values of the "available for sale" investments are recognized in the cumulative changes in fair value until they are sold, collected, disposed off, or until they are determined to be impaired, at which time the cumulative gain or loss previously recognized is included in the income statement

17 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.



17 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET (CONTINUED)

The commitments on behalf of customers for which there were corresponding customer liabilities, as of the reporting date, consisted of the following:

As at 31 December 2009

	Gross commitments YR'000	Covered by margin YR'000	Net commitments YR'000
Documentary letters of credit	14,338,358	5,104,701	9,233,657
Letters of guarantee - customers	5,255,795	1,493,966	3,761,829
Letters of guarantee - correspondent banks	6,775,468	-	6,775,468
Credit cards	67,583	11,392	56,191
Cheques purchased	102,154	15,323	86,831
Total contra accounts and other commitments	26,539,358	6,625,382	19,913,976

As at 31 December 2008

	Gross commitments YR'000	Covered by margin YR'000	Net commitments YR'000
Documentary letters of credit	12,494,585	4,571,414	7,923,171
Letters of guarantee - customers	5,924,769	1,491,482	4,433,287
Letters of guarantee - correspondent banks	7,241,521	-	7,241,521
Credit cards	66,627	16,957	49,670
Cheques purchased	21,744	3,262	18,482
Total contra accounts and other commitments	25,749,246	6,083,115	19,666,131

18 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	2009 YR'000	2008 YR'000
Interest on loans and advances to customer and banks:		
Loans and advances to customers	1,230,593	1,155,697
Other facilities	1,414	10,992
Murabaha transaction	73	-
Total interest on loans and advances to customers and banks	1,232,080	1,166,689
Interest on accounts with foreign banks:		
Current accounts	3,021	56,208
Call accounts	341	1,205
Deposits	169,674	518,450
Total interest on accounts with foreign banks	173,036	575,863
Interest on accounts with local banks:		
Reserves balances with the Central Bank of Yemen	-	146,628
Total interest on accounts with banks	173,036	722,491
Total interest on loans and advances and due from banks	1,405,116	1,889,180

19 COST OF DEPOSITS

	2009 YR'000	2008 YR'000
Interest on current and saving accounts	1,583,204	2,004,892
Interest on time deposits	3,444,764	3,606,736
Total cost of deposits	5,027,968	5,611,628



20 COMMISSIONS AND FEE INCOME ON BANKING SERVICES

	2009 YR '000	2008
Commissions on:		
Documentary letters of credits	172,045	158,548
Letters of guarantee	202,674	190,515
Transfer of funds	30,265	33,852
Acceptances	10,358	13,304
Cheques	334,666	353,542
Fees on:		
Banking services	10,331	8,196
Other services	49,256	47,157
Total commissions and fee income on banking services	809,595	805,114

21 GAIN / (LOSS) ON FOREIGN CURRENCY TRANSACTIONS

	2009 YR '000	2008 YR '000
Revaluation differences on foreign currency balances	(54,326)	(199,186)
Gain on foreign exchange trading transactions	67,327	77,259
Total gain / (loss) on foreign currency transactions	13,001	(121,927)

22 OTHER OPERATING INCOME

	2009 YR '000	2008 YR '000
Provision for losses on loans no longer required (note 8-a)	330,310	471,759
Provision for off-balance sheet items no longer required (note 14-b)	89,308	250,281
Provision for other assets no longer required	-	40,000
Provision for available for sale investments no longer required (note 9-e)	-	2,067
Provision for outstanding reconciling item no longer required (BCCI- under liquidation)	-	2,395
Sundry income	13,645	63,861
Total other operating income	433,263	830,363

23 GENERAL AND ADMINISTRATION EXPENSES

	2009 YR '000	2008 YR '000
Salaries, wages and related costs	1,026,144	946,527
Depreciation of property, plants and equipment (note 11)	91,105	81,456
Rent	35,720	34,844
Electricity and water	53,012	37,369
Repairs and maintenance	31,092	31,523
Telephone, telex and postage	23,650	26,615
Transportation and allowances	31,353	34,806
Promotions and publications	47,370	40,804
Computer maintenance	534	192
Training	36,174	17,514
Taxes and government fees	40,715	74,735
Donations	13,057	14,001
Stationery and printing supplies	26,845	25,065
Consultancy fees for programme for development and improvement of the Bank	55,848	61,420
Other general and administration expenses	83,150	99,984
Total general and administration expenses	1,595,768	1,526,855

The number of employees with the Bank as on 31 December 2009 was 626 (31 December 2008: 637 employees).



Annual Report 2009

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2009



24 PROVISIONS

	2009 YR'000	2008 YR'000
Provision for losses on loans and advances (note 8-a)	1,061,596	855,949
Provision for off-balance sheet items (note 14-b)	86,798	82,903
Other provisions	40,799	30,619
Total provisions	<u>1,189,193</u>	<u>969,471</u>

25 ZAKAT

	2009 YR'000	2008 YR'000
Zakat paid for the year	85,000	75,000
Total Zakat	<u>85,000</u>	<u>75,000</u>

26 BASIC EARNINGS PER SHARE

		2009 YR'000	2008 YR'000
Profit for the year	YR'000	1,438,517	1,530,362
Weighted average number of shares	Share	8,750,000	8,000,000
Basic earnings per share	YR	<u>164</u>	<u>191</u>

27 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, senior management and their families and companies in which they own 25% or more of its capital and who were customers of the Bank during the year. The terms of these transactions are approved by the Bank's management.

The year-end balances included in the financial statements are as follow:

	31 December 2009 YR'000	31 December 2008 YR'000
Board members and parties related to them:		
Loans and advances, gross	16,300	19,722
Customers' deposits	11,528	12,761
	2009 YR'000	2008 YR'000
Interest income for the year	1,165	653
Interest expense for the year	375	691

28 CASH AND CASH EQUIVALENT

	31 December 2009 YR'000	31 December 2008 YR'000
Cash on hand and reserve balances with the Central Bank of Yemen (note 4)	11,052,309	9,933,260
Due from banks (note 5)	28,792,299	25,612,567
Treasury bills and certificates of deposit with the Central Bank of Yemen (note 6 and note 7)	52,587,188	56,630,049
Reserve balances with the Central Bank of Yemen (note 4)	(9,687,322)	(8,878,540)
Treasury bills maturing after three months, net of unamortized discount (note 29)	(11,423,125)	(531,180)
Due from banks maturing after three months (note 29)	(3,726,344)	(2,220,672)
Total cash and cash equivalents	<u>67,595,005</u>	<u>80,545,484</u>



29 MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2009	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS					
Cash on hand and reserve balances with the Central Bank of Yemen	11,052,309	-	-	-	11,052,309
Due from banks	25,065,955	2,292,830	1,350,590	82,924	28,792,299
Treasury bills, net	41,164,063	-	11,423,125	-	52,587,188
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	-
Loans and advances to customers, net of provision	2,129,260	437,015	4,750,659	2,052,339	9,369,273
Available for sale Investments, net	-	-	-	216,324	216,324
Total assets	79,411,587	2,729,845	17,524,374	2,351,587	102,017,393
LIABILITIES					
Due to banks	573,410	-	-	-	573,410
Customers' deposits	57,091,212	9,358,532	22,843,233	521,443	89,814,420
Total liabilities	57,664,622	9,358,532	22,843,233	521,443	90,387,830
Net Gap	21,746,965	(6,628,687)	(5,318,859)	1,830,144	11,629,563

As at 31 December 2008	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS					
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	-	-	-	9,933,260
Due from banks	23,391,895	769,090	289,120	1,162,462	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	10,350,000	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	8,409,302
Available for sale Investments, net	-	-	-	205,826	205,826
Total assets	91,728,124	1,290,840	3,318,032	4,454,008	100,791,004
LIABILITIES					
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Total liabilities	60,028,378	12,174,394	17,618,272	127,224	89,948,268
Net Gap	31,699,746	(10,883,554)	(14,300,240)	4,326,784	10,842,736

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

As at 31 December 2009

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %	United Arab Emirates Dirham
ASSETS						
Reserve balances with the Central Bank of Yemen	-	-	-	-	-	-
Due from banks:						
Current accounts						
Time deposits	-	1.48	0.58	0.73	0.71	5.75
Treasury bills, net	12.97	-	-	-	-	-
Certificates of deposit with the Central Bank of Yemen						
Loans and advances to customers, net of provision	17.50	8.50	-	-	-	-
LIABILITIES						
Customers' deposits	10.00	0.37	0.31	0.31	0.31	-

As at 31 December 2008

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %	United Arab Emirates Dirham
ASSETS						
Reserve balances with the Central Bank of Yemen	-	-	-	-	-	-
Due from banks:						
Current accounts	-	0.57	-	2.56	2.50	-
Time deposits	-	0.75	2.85	3.20	2.68	-
Treasury bills, net	14.96	-	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.86	-	-	-	-	-
Loans and advances to customers, net of provision	17.50	8.50	-	-	-	-
LIABILITIES						
Customers' deposits	13.00	1.95	1.14	2.20	1.45	-

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS

As at 31 December 2009

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Services YR'000	Financing YR'000	Personal YR'000	Total YR'000
ASSETS							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,052,309	-	11,052,309
Due from banks	-	-	-	-	28,792,299	-	28,792,299
Treasury bills, net	-	-	-	-	52,587,188	-	52,587,188
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	-	-	-
Loans and advances to customers, net of provision	691,931	-	5,576,570	41,421	18,314	3,041,037	9,369,273
Available for sale Investments, net	-	-	-	-	216,324	-	216,324
Total assets	691,931	-	5,576,570	41,421	92,666,434	3,041,037	102,017,393
LIABILITIES							
Due to banks	-	-	-	-	573,410	-	573,410
Customers' deposits	1,266,970	193,429	17,854,699	2,637,481	105,064	67,756,777	89,814,420
Total liabilities	1,266,970	193,429	17,854,699	2,637,481	678,474	67,756,777	90,387,830
Contra accounts and other commitments	666,059	36,057	21,481,945	664,750	1,626,237	2,064,310	26,539,358

As at 31 December 2008

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Services YR'000	Financing YR'000	Personal YR'000	Total YR'000
ASSETS							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	-	9,933,260
Due from banks	-	-	-	-	25,612,567	-	25,612,567
Treasury bills, net	-	-	-	-	46,280,049	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	10,350,000	-	10,350,000
Loans and advances to customers, net of provision	730,332	-	4,450,826	22,623	35,479	3,170,042	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	-	205,826
Total assets	730,332	-	4,450,826	22,623	92,417,181	3,170,042	100,791,004
LIABILITIES							
Due to banks	-	-	-	-	2,076,627	-	2,076,627
Customers' deposits	755,770	145,156	9,907,497	4,098,002	635,080	72,330,136	87,871,641
Total liabilities	755,770	145,156	9,907,497	4,098,002	2,711,707	72,330,136	89,948,268
Contra accounts and other commitments	1,335,594	76,630	18,137,768	935,209	1,954,530	3,309,515	25,749,246

32 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS
BASED ON GEOGRAPHICAL LOCATIONS

As at 31 December 2009

	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	11,052,309	-	-	-	-	11,052,309
Due from banks	3,866,556	3,482,274	12,776,677	8,558,064	108,728	28,792,299
Treasury bills, net	52,587,188	-	-	-	-	52,587,188
Certificates of deposit with Central Bank of Yemen	-	-	-	-	-	-
Loans and advances to customers, net of provision	9,369,273	-	-	-	-	9,369,273
Available for sale Investments, net	122,611	-	-	93,713	-	216,324
Total assets	<u>76,997,937</u>	<u>3,482,274</u>	<u>12,776,677</u>	<u>8,651,777</u>	<u>108,728</u>	<u>102,017,393</u>
LIABILITIES						
Due to banks	-	-	-	573,410	-	573,410
Customers' deposits	89,814,420	-	-	-	-	89,814,420
Total liabilities	<u>89,814,420</u>	<u>-</u>	<u>-</u>	<u>573,410</u>	<u>-</u>	<u>90,387,830</u>

As at 31 December 2008

	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	-	-	-	-	9,933,260
Due from banks	4,510,644	2,601,576	10,714,485	7,780,434	5,428	25,612,567
Treasury bills, net	46,280,049	-	-	-	-	46,280,049
Certificates of deposit with Central Bank of Yemen	10,350,000	-	-	-	-	10,350,000
Loans and advances to customers, net of provision	8,409,302	-	-	-	-	8,409,302
Available for sale Investments, net	123,365	-	-	82,461	-	205,826
Total assets	<u>79,606,620</u>	<u>2,601,576</u>	<u>10,714,485</u>	<u>7,862,895</u>	<u>5,428</u>	<u>100,791,004</u>
LIABILITIES						
Due to banks	1,501,408	-	-	575,219	-	2,076,627
Customers' deposits	87,871,641	-	-	-	-	87,871,641
Total liabilities	<u>89,373,049</u>	<u>-</u>	<u>-</u>	<u>575,219</u>	<u>-</u>	<u>89,948,268</u>

33 TRUST ACTIVITIES

The Bank does not hold nor manage assets for or on behalf of other parties except for the housing project, which is managed on behalf of the Government.

34 CONTINGENT ASSETS AND LIABILITIES

The Bank has filed a number of legal cases with the Public Fund Court and the Commercial Preliminary Court against former employees and customers of the Bank relating to irregularities and default in settlements of amounts due respectively. Where there are legal cases filed against the Bank at the respective courts, management fully and/or partly provided for such cases in the interim financial statements. In some of the cases, although court decisions were made in favour of the Bank, their executions have not been effected, whereas the other cases are still pending in the courts.

35 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

The Central Bank of Yemen circular no. 6 of 1998 establishes limits for positions in individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of capital and reserves. The Bank had the following significant net exposures denominated in foreign currencies:

	-----31 December 2009-----		-----31 December 2008-----	
	%	YR'000	%	YR'000
		(1,902,69		
United States Dollar	(15.76)	1	3.86	431,773
Pound Sterling	(0.01)	(1,335)	2.05	279,579
Euro	0.54	65,080	(0.13)	(14,952)
Saudi Riyal	1.66	200,888	2.15	240,732
Swiss Franc	0.11	13,083	0.11	12,884
Japan Yen	0.10	12,455	0.06	7,057
		1,030,60		
United Arab Emirates Dirham	8.54	4	0.04	4,689
Other	0.00	18	0.00	16
Aggregate foreign currency positions	(4.82)	(581,898)	8.59	961,778

The US Dollar exchange rate as at 31 December 2009 was 207.31 YR/USD (31 December 2008: 200.08 YR/USD).

36 CAPITAL COMMITMENTS

Capital commitments at 31 December 2009 amounted to YR 446 million (31 December 2008: YR 540 million).

37 PROGRAMME FOR THE MODERNISATION AND DEVELOPMENT OF THE BANK

During the year 2009, the Bank has accomplished implementing most stages related to part one of the modernization and development programme. The remaining stage left is the implementation stage related to carrying out the structuring and technology part (second stage of the programme).

In that regard, the Bank has accomplished, during the year 2009, the bids procedures concerning the structuring and technology part in which the banking equipment systems and programmes will be procured, installed and operated in order to convoy with modern banking industry seeking to accomplish the programme's aims and goals and provide modern banking services and products to its clients and the public.

The Bank is financing the cost of both parts of this programme from its own financial resources.

38 COMPARATIVE FIGURES

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

39 DATE OF AUTHORIZATION

These financial statements have been approved for issue by the Bank's Board of Directors on 5 April 2010 and to be presented to H.E. Minister of Finance as the representative of the Government that is the owner of all equity.

List of Branches

Head office

P. O. Box No. 5
Crater Aden
Republic of Yemen
Tel.: 967 2 253753
Fax: 967 2 252325
E-mail: nby.ho@y.net.ye
WEB Site: www.nbyemen.com
SWIFT: NBOYYESA

Aidroos Branch

P. O. Box No. 5
Queen Arwa Road,
Crater,
Aden
Republic of Yemen
Tel.: 967 2 259171
Fax: 967 2 251579

Queen Arwa Branch

P. O. Box No. 110
Queen Arwa Road,
Crater,
Aden,
Republic of Yemen
Tel.: 967 2 252226
Fax: 967 2 255724
SWIFT: NBOYYESA002

Sana'a Branch

Sana'a Zubairy Street.
P.O. Box No. 198309
Republic of Yemen
Tel.: 967 1 517771
Fax: 967 1 517773
SWIFT: NBOYYESA033

Mukalla Branch

P. O. Box: 8044
Main Road,
Al-Mukalla,
Hadramout,
Republic of Yemen
Tel.: 967 5 302935
Fax: 967 5 302913
SWIFT: NBOYYESA009

Hodeidah Branch

P. O. Box No. 4851
Sana'a Street,
Hodeidah,
Republic of Yemen
Tel.: 967 3 233123
Fax: 967 3 233125
SWIFT: NBOYYESA034

Maalla Branch

P. O. Box No 5117
Madram Street,
Al-Maalla,
Aden
Republic of Yemen
Tel.: 967 2 243409
Fax : 967 2 243291

Steamer Point Branch

P. O. Box No 1181
Crescent Road,
Al-Tawahi,
Aden
Republic of Yemen
Tel.: 967 2 203989
Fax: 967 2 202255

A. Aziz A. Wali Branch

A. Aziz A. Wali Area,
Al-Mansora'a,
Aden
Republic of Yemen
Tel.: 967 2 342929
Fax: 967 2 343263

Public Lending Branch

P. O. Box No. 5
Queen Arwa Road,
Crater,
Aden
Republic of Yemen
Tel.: 967 2 253327
Fax: 967 2 252875

Seiyun Branch

Main Road,
Seiyun,
Hadramout
Republic of Yemen
Tel.: 967 5 402434
Fax: 967 5 405517
SWIFT: NBOYYESA007

Al-Qaa Branch

Al-Qaa,
Sana'a
Republic of Yemen
Tel.: 967 1 296278
Fax: 967 1 296277

Al-Dala Branch

Main Road,
Al-Dala
Republic of Yemen
Tel.: 967 2 432845
Fax : 967 2 434066

Labaus Branch

Main Road,
Labaus,
Lahej
Republic of Yemen
Tel.: 967 2 554111
Fax : 967 2 554112

Little Aden Branch

P. O. Box No. 3018
Al-Doh Road,
Little Aden,
Aden
Republic of Yemen
Tel.: 967 2 377611
Fax: 967 2 377155

Khormaksar Branch

Air Port Road,
Khormaksar,
Aden
Republic of Yemen
Tel.: 967 2 231076
Fax : 967 2 231950

Zingubar Branch

Main Road,
Zingubar,
Abyan
Republic of Yemen
Tel.: 967 2 605070
Fax: 967 2 604281

Al-Habeelain Branch

Main Road,
Al-Habeelain,
Lahej
Republic of Yemen
Tel.: 967 2 572215
Fax: 967 2 572225

Lahej Branch

Gumata Street,
Al-Hotah,
Lahej
Republic of Yemen
Tel.: 967 2 502807
Fax : 967 2 502234

Al-Baidha Branch

Al-Omah Street,
Al-Hay Al-Thakafi,
Al-Baidha
Republic of Yemen
Tel.: 967 6 533599
Fax : 967 6 533599

Rusod Branch

Main Road,
Rusod,
Abyan
Republic of Yemen
Tel.: 967 2 640022
Fax : 967 2 640406

Hai October Branch

Hadramout, Al-Mukalla,
Al-Dees.
Republic of Yemen
Tel.: 967 5 353226
Fax : 967 5 305454

Al-Qatan Branch

Main Road,
Al-Qatan,
Hadramout
Republic of Yemen
Tel.: 967 5 457583
Fax: 967 5 457583

Suqotra Branch

Main Road,
Suqotra Island,
Hadramout
Republic of Yemen
Tel.: 967 5 660192
Fax: 967 5 660358

Zarah Branch

Main Road,
Zarah,
Abyan
Republic of Yemen
Tel.: 967 2 672195
Fax : 967 2 672791

Ataq Branch

Financial Building,
Ataq,
Shabwah
Republic of Yemen
Tel.: 967 5 203233
Fax : 967 5 202530

Al-Sheher Branch

Hadramout, Al- Sheher,
Al-Khor Area, Main Road.
Republic of Yemen
Tel.: 967 5 330999
Fax: 967 5 332285

Al-Ghaedhah Branch

Al-Ghaedhah,
Al-Mahrh
Republic of Yemen
Tel.: 967 5 612156
Fax : 967 5 612137

Taiz Branch

Jamal St.
Tiaz
Republic of Yemen
Tel.: 967 4 266010
Fax.: 967 4 266012



البنك الوطني اليمني
National Bank Of Yemen

عـ 40 عام

من الخبرة

البنك الوطني اليمني
National Bank Of Yemen

