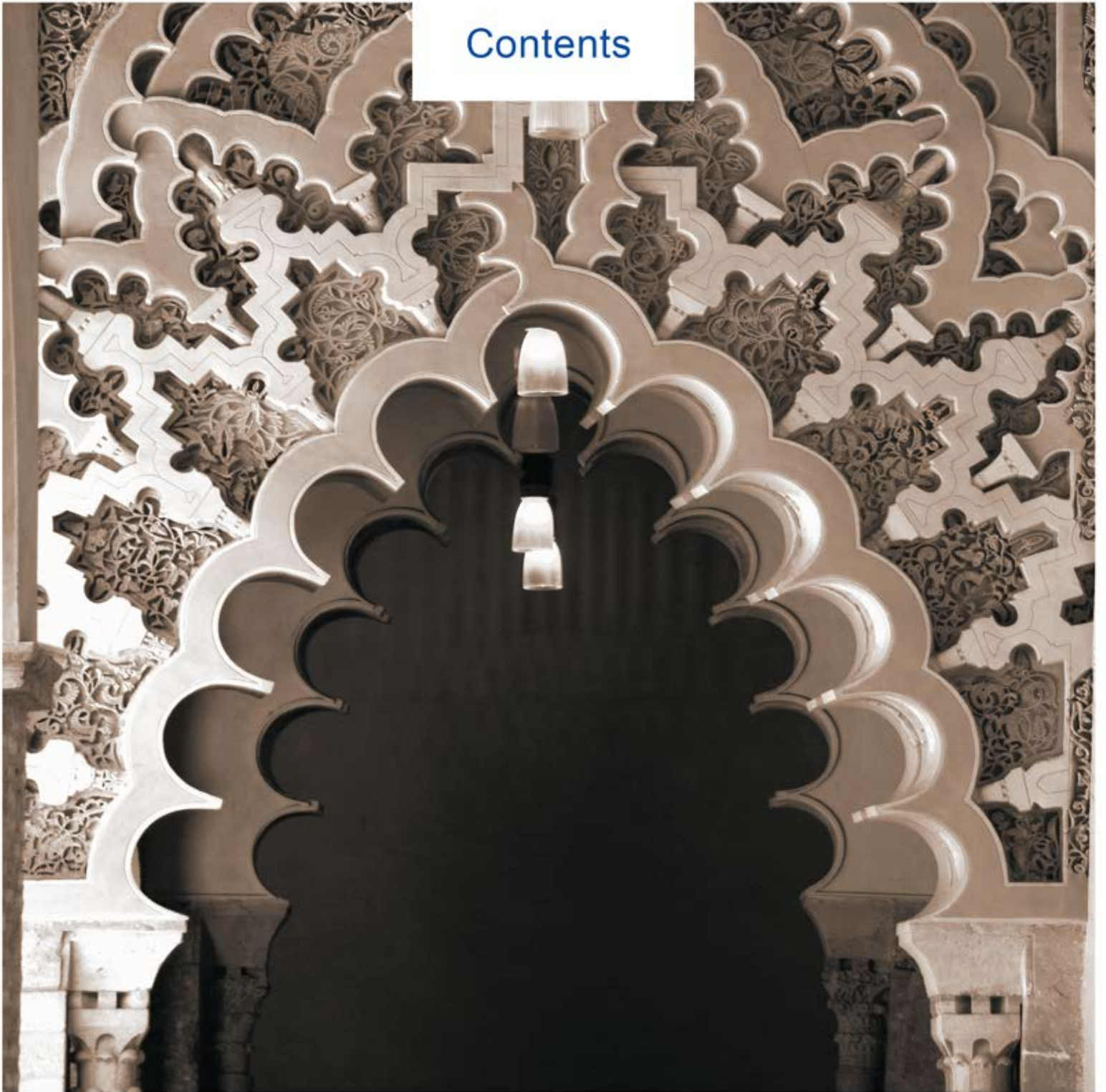


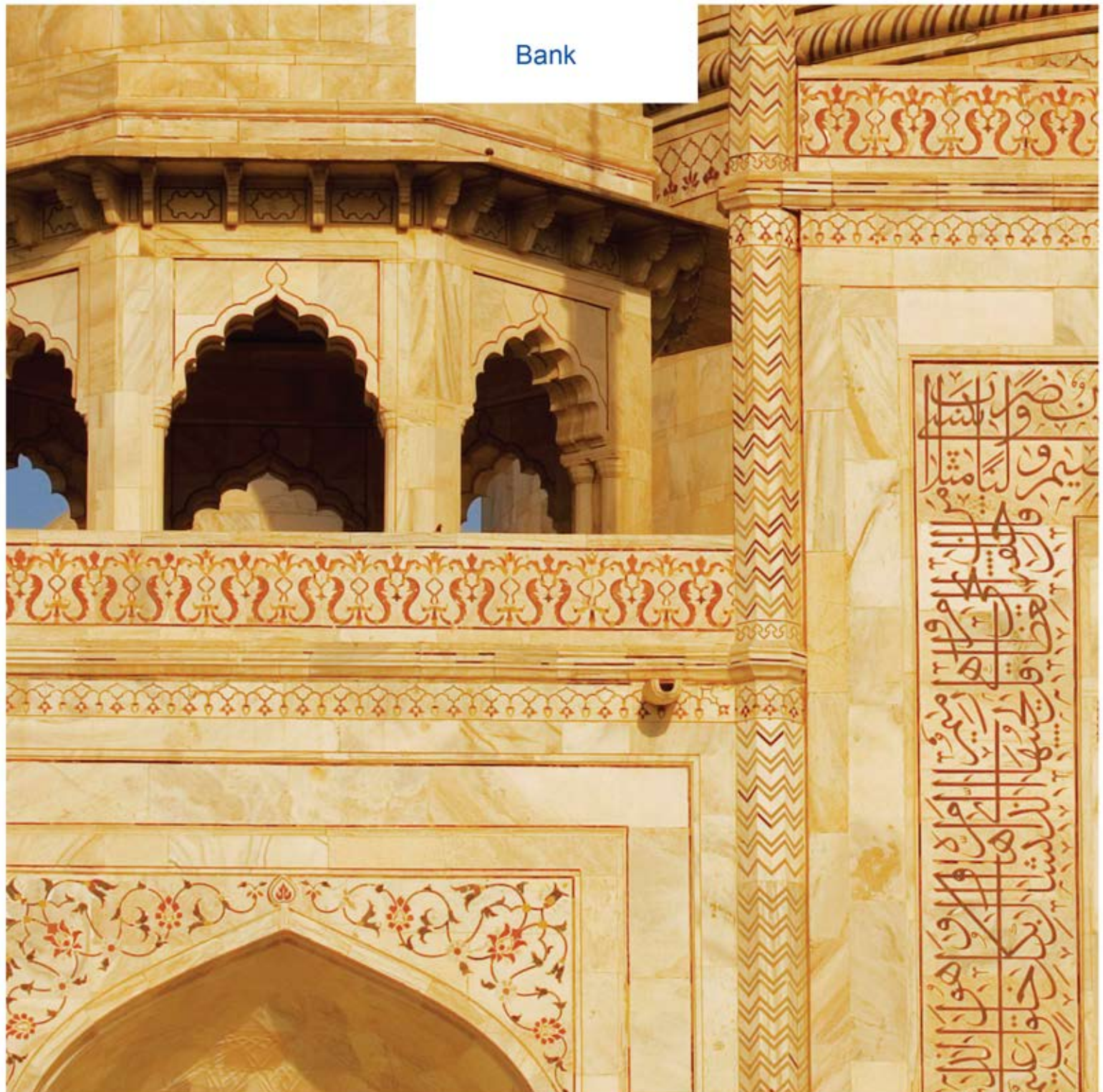
Contents



Contents	Pages
Our Vision..Our Mission..Our Values	4-5
Board of Directors Members	7-8
Fatwa And Shariaa Board's Report	10-11
Auditor's Report	13 - 14
Financial Statement	15-21
Notes To The Financial Statement	22-66
Bank's Branches	67

* * *

Bank



Our Vision

Leading banking services sector in Yemen, and maintaining effective presence on the regional and international levels, to offer integrated Islamic banking services and activities.

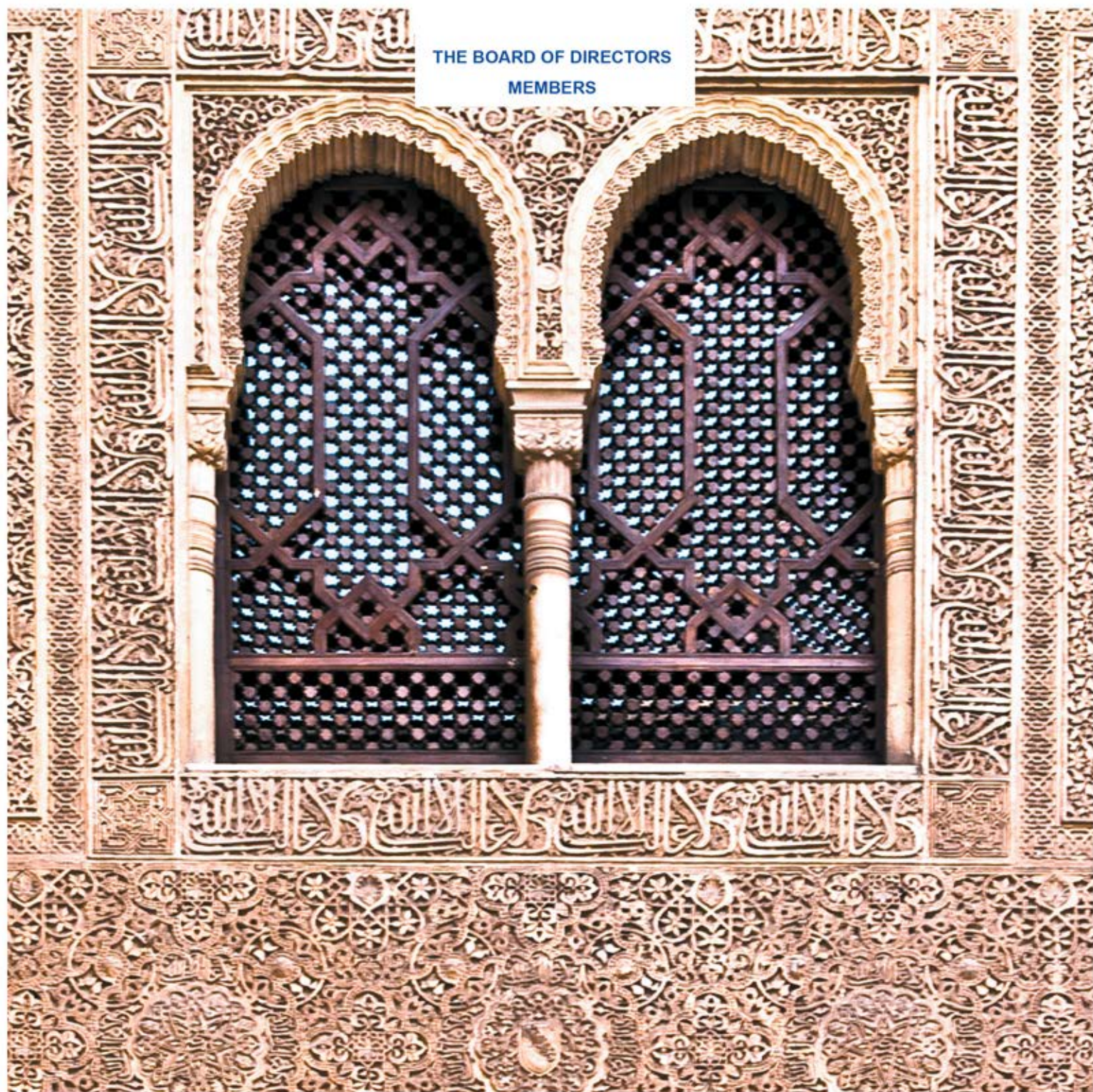
Our Mission

Tadhamon International Islamic Bank, a Yemeni closed joint stock company, provides integrated banking and investment services and activities on the local and international levels through its outstanding Islamic-Sharia-compliant improved products and modes managed by highly-skilled, committed professional staff aiming at realizing the best return for shareholders and depositors and offering outstanding services to our clients and to participate in the economic and social development in the country.

Our Values

- Trust
- Commitment
- Responsibility
- Transparency
- Client First
- Team Work
- Quality

THE BOARD OF DIRECTORS
MEMBERS





Abdul-Gabbar Hayel Saeed

Chairman



Omar Abdu Qaid

Member -Asst.
Managing Director



Mohammed Abdu Saeed

Managing Director



Abdul-Galeel Radman

Vice-Chairman



**Tawfiq Abdul-Raheem
Motahar**

Member



**Mansoor Mohammed
Al-Musleh**

(Qatar Islamic Bank
Representative)



**Mohammed Abdullah
Al-Sunaidar**

Member



**Abdullah Salem
Al-Rammah**

Member



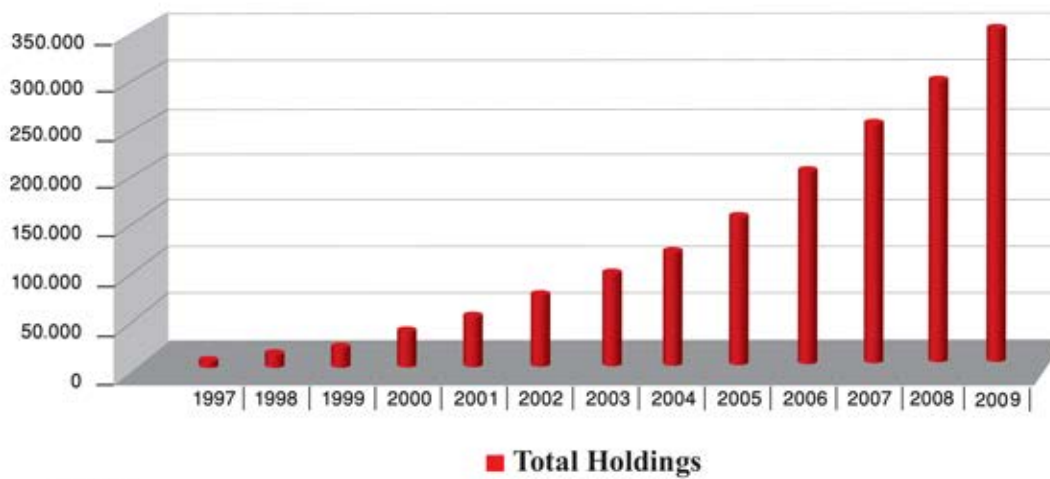
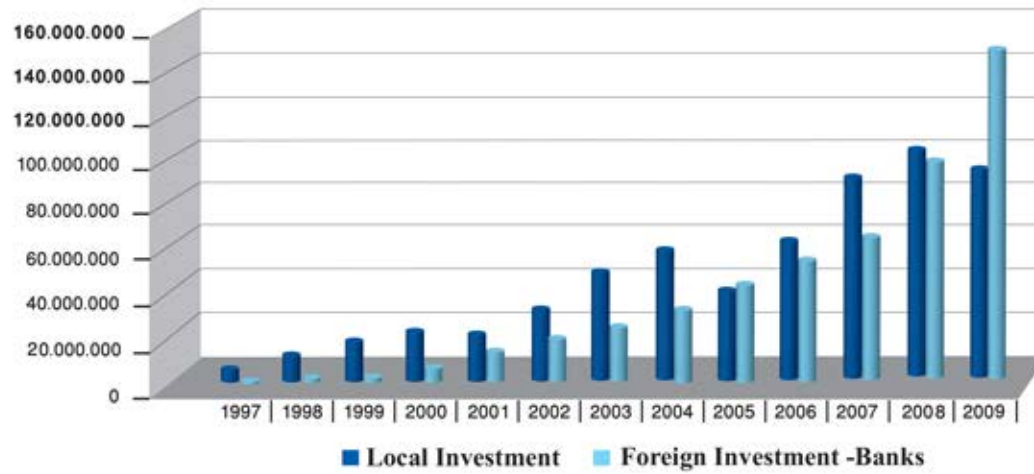
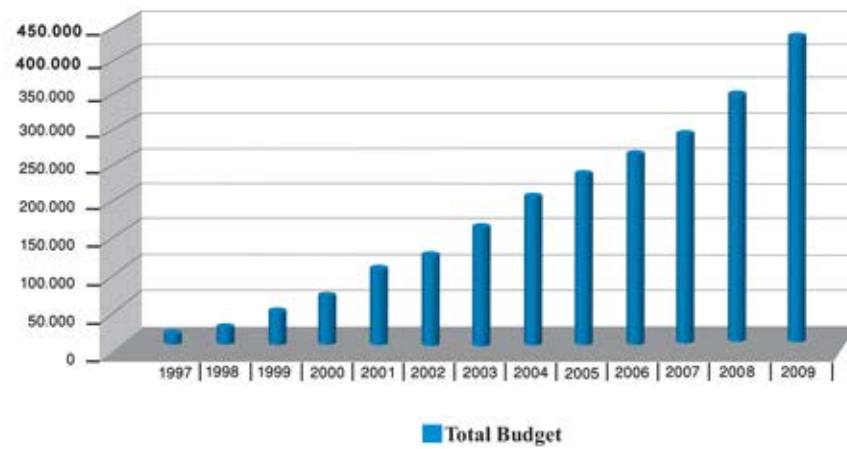
Dirhim Abdu Saeed

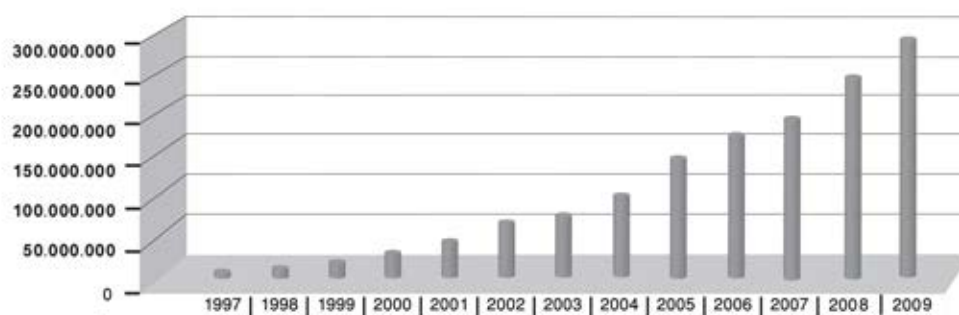
Member



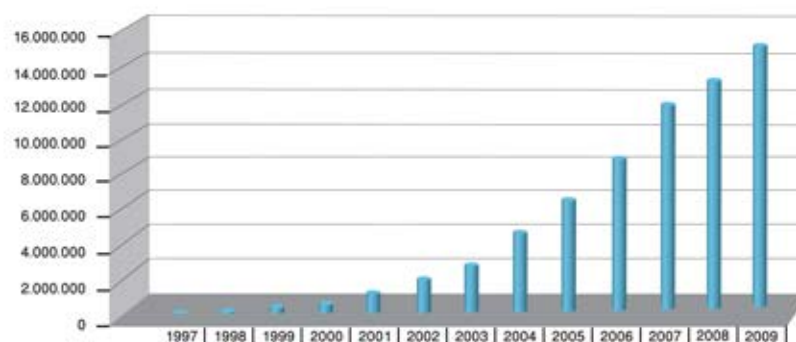
**Mahfood Ali Mohammed
Saeed**

Member

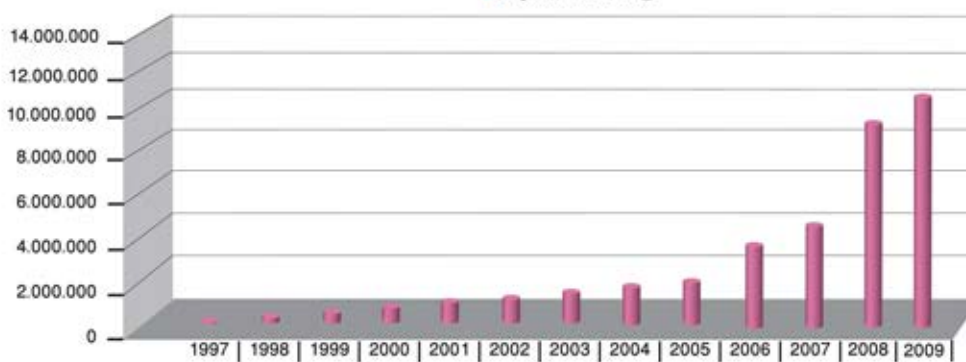




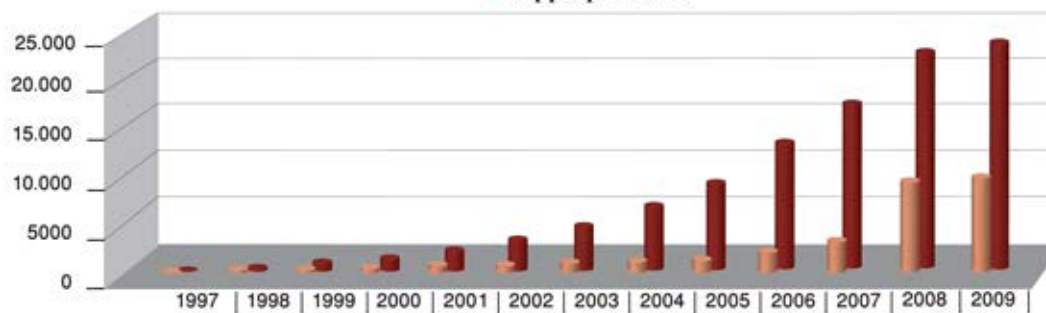
■ Customers' accounts



■ Depositors' earnings

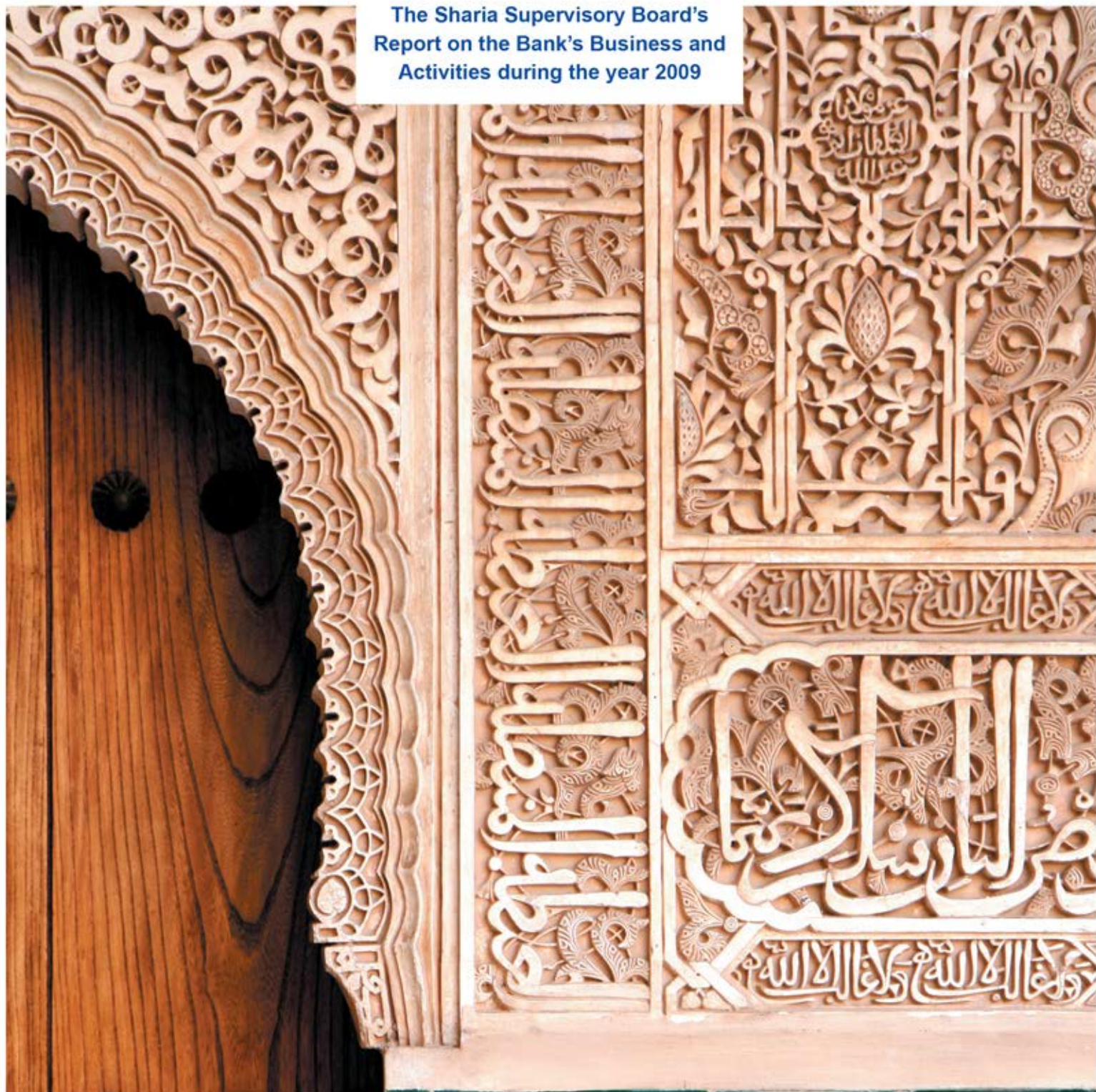


■ Appropriations



■ Revenues ■ Expenses

**The Sharia Supervisory Board's
Report on the Bank's Business and
Activities during the year 2009**



Praise be to Allah, and peace upon our prophet Muhammad, the Seal of the Prophets and his family , companions and those who follow his path up to the day of Judgment

Attn : the Bank's Chairman
Members of the Board of Directors,
and Shareholders

Dear all ,

In accordance with the bank's article of association wherein it is stipulated that the Bank should establish its own Shariah Supervision Board and to assign tasks and duties of this Board to ensure that all the bank's transactions are in strict compliance with Islamic rules , and in view of the bank's submission of its balance sheet of the financial year ended 31/12/2009, we are pleased to present our report as follows:



1 - The Shariah Supervision Board held a number of meetings involving the bank's concerned personnel in order to tackle issues scheduled for discussion, and has followed up the resolutions, and recommendations that were approved by the Board , in addition to providing guidance , "Fatawa" , and Shariah-wise instructions in relation to the bank's transactions .

2 - the board has conducted an internal Shariah Audit in order to insure proper monitoring of regulations and procedures pertinent to work of the bank , as well as answering questions raised by employees , and customers of the bank. Besides, the Shariah Supervision Board is referred to in case urgent and proper solutions are needed for crucial problems that are hindering the course of work .

3 - The Bank's management is in charge of executing and applying the decisions passed by Shariah Board and is required to keep the Board informed about all cases and operations for which the Sharia Board should issue a recommendation or decision , and thus the Board 's responsibility shall be limited to express an independent opinion based on its supervision of the bank operations.

4 - The board , through its reviewing of the bank 's balance sheet, profit and loss ratios and the way dividends and profits were distributed for shareholders and depositors in the financial year 2009 has arrived at the following observations :
A) - the contracts , transactions and operations which the bank has been involved in during the year ended 31/12/2009, and which were observed by Board , were deemed in compliance with the principles of Islamic Shariah. As for those minor breaches, which have been found in some transactions, clear instructions have been given to make proper adjustment and correction in line with Shariah .

B) - The distribution of profits and losses accrued on investment accounts has been seen as complying with the principles and rules adopted by Islamic Shariah.

C) - the returns received from dubious sources and transactions which might have not been conducted in compliance to Islamic law have been recommended to be devoted for charitable purposes.

In conclusion, the Shariah Board extends its thankfulness to the Board of Directors and Executive management and employees in the bank for their cooperation , and supplicate to God to help and guide all of us .

Dr. Mohamed Sinan AL-Jalal
Member of Shariah supervision Board
And Shariah Supervisor

Dr. Ghalib Abdul-Kafi al-Qurashi
Member Shariah supervision Board

Dr. Hassan Maqboli Al-Ahdal
chairman of Shariah supervision Board



KPMG Mejanni, Hazem Hassan & Co.
Public Accountants
150 Zubairy St.
PO Box 3501
Sana'a, Republic of Yemen

Telephone +967 (1) 401 67 /8 9
Fax +967 (1) 206 130
E-mail Kpmgyemen@kpmg.com.ye

INDEPENDENT Auditor'S Report

**TO THE SHAREHOLDERS OF
TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)
SANA'A, REPUBLIC OF YEMEN**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Tadamon International Islamic Bank – Yemen Joint Stock Company (the Bank) and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2009, and the statements of consolidated income, cash flow statement, changes in shareholders' equity and statements of sources and uses of Qard Hasan fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

According to Note no. 2.1 of the consolidated financial statements, all subsidiaries financial statements were audited by other auditors who issued unqualified audit reports in accordance with the Accounting Standards for Islamic Financial Institutions and also in accordance with International Financial Reporting Standards and there are no material differences for that on the value and presentation of these financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Accounting Standards for Islamic Financial Institutions and instructions issued by Central Bank of Yemen and also operating in accordance with Islamic Sharia'. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, the Auditing Standards for Islamic Financial Institutions and applicable 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2009, and of its consolidated financial performance, its consolidated cash flows and consolidated sources and uses of Qard Hasan fund for the year then ended in accordance with the accounting standards for Islamic Financial Institutions and instructions issued by Central Bank of Yemen.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Group keeps proper books of account, and the accompanying consolidated financial statements are in agreement with these books.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2009

	Note	2009 YR 000s	2008 (Restated) YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	9	44,235,749	38,597,136
Due from banks and financial institutions	10	62,242,605	54,587,694
Financing Murabaha transactions (net)	11	69,317,854	71,647,259
Financing Istisna'a transactions (net)	13	6,799,132	8,256,607
Investments in Mudaraba contracts (net)	15	18,054,120	23,412,838
Investments in Musharaka contracts (net)	17	9,647,018	7,156,755
Ijarah Muntahia Bittamleek	19	639,626	363,023
Investments in real estate	20	82,150,491	45,997,304
Available for sale investments	21	32,073,990	30,000,336
Held-for-trading investments	22	282,408	-
Investments in associates	23	51,956	18,247
Qard Hasan (net)		525,358	1,738
Restricted investments	3.11	378,600	365,995
Debit balances and other assets (net)	24	8,398,470	6,518,356
Property and equipment (net)	26	5,598,282	5,460,523
Total assets		340,395,659	292,383,811
Liabilities, investment accounts and shareholders' equity			
Liabilities			
Current accounts and other deposits	27	68,957,863	71,258,485
Due to banks and financial institutions	28	41,390	3,818,884
Credit balances of Murabaha		2,288,912	1,858,373
Credit balances and other liabilities	29	1,714,136	2,084,367
Other provisions	31	1,577,852	1,771,357
Dividends payable		-	1,165,506
Total liabilities		74,580,153	81,956,972
Unrestricted investments and saving accounts' holders	32	213,613,147	167,291,069
Restricted investments accounts		378,600	365,995
Shareholders' equity			
Paid-up capital	34	20,000,000	14,763,750
Statutory reserve	35	15,900,012	10,421,577
General reserve		1,069,000	1,069,000
Other reserves		13,430,142	16,349,476
Retained earnings		1,406,716	153,719
Total equity attributable to equity holders of parent		51,805,870	42,757,522
Non-controlling interest		17,889	12,253
Total shareholders' equity		51,823,759	42,769,775
Total liabilities, investment accounts and shareholders' equity		340,395,659	292,383,811
Contingent liabilities and commitments (net)	36	60,798,110	41,865,028

(The notes on pages 10 to 47 are an integral part of these consolidated financial statements)

Abdul-Jabbar Hayat Saeed
Chairman / Investment

Rafiq Nikolaus Schwarz
Chief Executive Officer

Independent auditor's report at's
M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan Ha

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009 YR 000s	2008 YR 000s
Revenue of Murabaha and Istisna'a financing transactions	37	6,804,805	7,801,336
Revenue from other joint investments	38	8,806,820	13,631,101
		15,611,625	21,432,437
Less:			
Return on unrestricted investment and saving accounts		(14,301,629)	(12,199,933)
		1,309,996	9,232,504
Commissions, revenue and bank service charges	39	1,867,324	2,280,731
Less: Commissions expenses on bank service charges		(43,842)	(38,908)
Gains from foreign currency transactions	40	6,066,988	197,721
Losses of investments in associates		(26,189)	-
Unrealized gain on held for trading investments		89,174	-
Impairment of available for sale investments		(1,616,433)	(1,058,360)
Unrealized gain (impairment) of investments in real estate		90,148	(90,148)
Other operating income	41	1,166,197	90,243
Operating profit		8,903,363	10,613,783
Less:			
Provisions	42	(2,973,996)	(5,182,321)
General and administrative expenses and depreciation	43	(4,109,962)	(2,705,679)
Impairment of assets which titles have been transferred to the Bank's ownership		(93,737)	-
Depreciation of assets acquired for leasing		(245,990)	(89,084)
Net profit before tax		1,479,678	2,636,699
Income tax for the year		-	(605,182)
Net profit for the year		1,479,678	2,031,517
Attributable to:			
Equity holders of the parent		1,474,114	2,031,340
Non-controlling interest		5,564	177
Net profit for the year		1,479,678	2,031,517
Earnings per share	44	YR 84.80	YR 153.50

(The notes on pages 10 to 47 are an integral part of these consolidated financial statements)

Abdul-Jabbar Haye Saeed
Chairman

Rafiq Nikolaus Schwarz
Chief Executive Officer

Independent auditor's report attached
M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Or)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

	Other reserves										
	Paid up Capital YR 000s	Statutory Reserve YR 000s	General Reserve YR 000s	Fair value reserve for		Reserve for Translation	Total Other Reserves YR 000s	Retained Earnings YR 000s	Equity	Non- Controlling Interest YR 000s	Total YR 000s
				Available- For-sale Investment YR 000s	Investment in Real Estate YR 000s	Difference of Investment in Subsidiaries YR 000s			Attributable		
									Holder of Parent YR 000s		
Balance at January 1, 2008	9,192,051	4,387,926	2,958,435	-	-	-	-	1,164	16,539,576	-	16,539,576
The impact of changes in accounting policies:											
Net movement in fair value reserve	-	-	-	1,564,590	-	-	1,564,590	-	1,564,590	-	1,564,590
Balance at January 1, 2008, after restated	9,192,051	4,387,926	2,958,435	1,564,590	-	-	1,564,590	1,164	18,104,166	-	18,104,166
Transfer from general reserve to increase the capital		-		-	-	-	-	-	-	-	-
Cash payment to increase in paid-up capital	2,298,013		(2,298,013)								
Share premium	3,273,686								3,273,686		3,273,686
Net movement in fair value reserve	-	5,728,950	-	-	-	-	-	-	5,728,950	-	5,728,950
Net movement in currency translation differences	-	-	-	(1,233,783)	16,018,411	-	14,784,628	-	14,784,628	-	14,784,628
Net profit for the year	-					258	258		258		258
Non-controlling interest	-	-	-	-	-	-	-	2,031,340	2,031,340	177	2,031,517
Transfer to statutory reserve	-		-	-	-	-	-	-	-	12,076	12,076
Transfer to general reserve	-	304,701	-	-	-	-	-	(304,701)	-	-	-
Dividends to shareholders	-	-	408,578	-	-	-	-	(408,578)	-	-	-
BOD remuneration	-	-	-	-	-	-	-	(1,149,006)	(1,149,006)	-	(1,149,006)
Balance at December 31, 2008	14,763,750	10,421,577	1,069,000	330,807	16,018,411	258	16,349,476	153,719	42,757,522	12,253	42,769,775

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Other reserves										Total	Equity Attributable to Holder of Parent YR 000s	Non- Controlling Interest YR 000s	Total YR 000s
	Paid up Capital YR 000s	Statutory Reserve YR 000s	General Reserve YR 000s	Fair value		Reserve for Translation Difference of Investment in Subsidiaries YR 000s	Other Reserves YR 000s	Retained Earnings YR 000s	Equity Attributable to Holder of Parent YR 000s	Non- Controlling Interest YR 000s				
				reserve for										
				Available- For-sale Investment YR 000s	Investment in Real Estate YR 000s									
Balance at December 31, 2008	14,763,750	10,421,577	1,069,000	330,807	16,018,411	258	16,349,476	153,719	42,757,522	12,253	42,769,775			
Cash payment to increase in paid-up capital	5,236,250	-	-	-	-	-	-	-	5,236,250	-	5,236,250			
Share premium	-	5,257,318	-	-	-	-	-	-	5,257,318	-	5,257,318			
Net movement in fair value reserve	-	-	-	-	-	-	-	-	-	-	-			
Net movement in currency translation differences	-	-	-	(1,165,248)	(1,788,877)	-	(2,954,125)	-	(2,954,125)	-	(2,954,125)			
Net profit for the year	-	-	-	-	-	34,791	34,791	-	34,791	72	34,863			
Transfer to statutory reserve	-	221,117	-	-	-	-	-	1,474,114	1,474,114	5,564	1,479,678			
Balance at December 31, 2009	<u>20,000,000</u>	<u>15,900,012</u>	<u>1,069,000</u>	<u>(834,441)</u>	<u>14,229,534</u>	<u>35,049</u>	<u>13,430,142</u>	<u>1,406,716</u>	<u>51,805,870</u>	<u>17,889</u>	<u>51,823,759</u>			

(The notes on pages 10 to 47 are an integral part of these consolidated financial statements)

Abdul Jabbar Hayel Saeed
Chairman

Rafiq Nikolaus Schwarz
Chief Executive Officer

Independent auditor's report attached.
M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009 YR 000s	2008 YR 000s
Cash flows from operating activities:			
Net profit before tax		1,479,678	2,636,699
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of property and equipment	26	367,173	263,596
Depreciation of assets acquired for leasing		245,990	89,084
Provisions	42	2,973,996	5,182,321
Provision for end of service compensation		321,411	107,900
Net (gains) losses on sale of property and equipment		(4,877)	602
Losses of investment in associates		26,189	-
Unrealized gain on held-for-trading investment		(89,174)	-
Impairment of available for sale investment		1,616,433	1,058,360
(Unrealized gain) impairment of investments in real estate		(90,148)	90,148
Provisions used		(748,304)	(452,952)
Provisions reversed	41	(1,091,763)	(20,929)
Foreign currency translation of property and equipment		807	-
Foreign currency translation of investment in associates		(636)	(51)
Translation differences on foreign currency		34,863	258
Return of unrestricted investments and saving accounts		14,301,629	12,199,933
Operating profit before changes in assets and liabilities related to operating activities		19,343,267	21,154,969
(Increase) decrease in reserve balances with CBY		(5,887,495)	1,395,411
(Increase) in Qard Hasan		(528,909)	(420)
(Increase) decrease in debit balances and other assets		(1,790,352)	1,850,966
Increase (decrease) in credit balances and other liabilities		665,490	(6,543,172)
Income tax paid		(605,182)	(768,846)
Net cash flows provided by operating activities (1)		11,196,819	17,088,908
Cash flows from investing activities:			
Decrease in financing Murabaha transactions		3,094,683	5,970,546
Decrease in financing Istisna'a transactions		1,475,656	273,304
Decrease (increase) in investments in Mudaraba contracts		3,570,857	(3,259,618)
(Increase) in Ijarah Muntahia Bittamleek		(522,593)	(378,289)
(Increase) in investments in Musharaka contracts		(3,219,179)	(1,525,092)
(Increase) in investments in real estate		(37,851,916)	(18,545,585)
Decrease in usufruct		-	8,274,238
(Increase) in held-for-trading investments		(193,234)	-
(Increase) in available for sale investments		(4,855,335)	(10,472,357)
(Increase) in investments in associates		(59,262)	-
(Increase) in deposits with financial institutions		(18,209,282)	(771,060)
Net payments to purchase property and equipment		(500,862)	(2,513,445)
Net cash flows (used in) investing activities (2)		(57,270,467)	(22,947,358)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 <u>YR 000s</u>	2008 <u>YR 000s</u>
Cash flows from financing activities:		
Cash increase in paid-up capital	5,236,250	3,273,686
Increase in share premium	5,257,318	5,728,950
Increase in unrestricted investment and saving accounts	44,220,382	18,616,583
(Decrease) increase in current accounts and other deposits	(2,300,622)	18,954,222
(Decrease) increase in due to banks and financial institutions	(3,777,494)	1,268,479
Dividends paid to depositors	(12,199,933)	(10,891,616)
Dividends paid to shareholders and Board of Directors	(1,165,506)	(1,165,506)
Net cash flows provided by financing activities (3)	<u>35,270,395</u>	<u>35,784,798</u>
Net change in cash and cash equivalents (1+2+3)	(10,803,253)	29,926,348
Cash and cash equivalents at the beginning of the year	<u>60,279,542</u>	<u>30,353,194</u>
Cash and cash equivalents at the end of the year	<u><u>49,476,289</u></u>	<u><u>60,279,542</u></u>
Cash and cash equivalents consist of:		
Cash on hand and balances at CBY, other than reserve	19,820,750	25,392,521
Due from banks and financial institutions maturing within 3 months	<u>29,655,539</u>	<u>34,887,021</u>
	<u><u>49,476,289</u></u>	<u><u>60,279,542</u></u>

(The notes on pages 10 to 47 are an integral part of these consolidated financial statements)

Abdul-Jabbar Hayel Saeed

Chairman

Rafiq Nikolaus Schwarz

Chief Executive Officer

Independent auditor's report attached.
M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF QARD HASAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

Description	2009 YR 000s	2008 YR 000s
Opening balance		
Outstanding utilized loans	1,756	1,336
Add: Sources of Qard Hasan		
Transfer from customers' current accounts	530,348	2,326
Less: Uses of Qard Hasan		
Payment to customers' current accounts	(1,439)	(1,906)
Ending balance		
Outstanding utilized loans	530,665	1,756
Less: Qard Hasan fund provision	(5,307)	(18)
	<u>525,358</u>	<u>1,738</u>

The following shows the transactions of Qard Hasan fund provision:

	Note	2009 YR 000s	2008 YR 000s
Balance as at January 1		18	162
Provided during the year	42	5,289	-
Provision reversed		<u>-</u>	(144)
Balance as at December 31		<u>5,307</u>	<u>18</u>

(The notes on pages 10 to 47 are an integral part of these consolidated financial statements)

Abdul-Jabbar Hayel Saged
Chairman

Rafiq Nikolaus Schwarz
Chief Executive Officer

Independent auditor's report attached.
M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

1. BACKGROUND

Tadhamon International Islamic Bank - a Yemeni joint-stock company - was established under the name of Yemen Islamic Bank for Investment and Development in accordance with the Ministerial Decree No. (147) for the year 1995. The name of the Bank has been changed to Tadhamon Islamic Bank according to the Ministerial Decree No. (169) for the year 1996. The shareholders extra ordinary meeting decided on March 20, 2002 to change the name of the Bank to Tadhamon International Islamic Bank. The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (3) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a. The Bank started its activities on July 20th, 1996, through the main branch in Sana'a and expanded to (23) branches all over the Republic of Yemen, in addition to the subsidiaries inside and outside Yemen as follows:

<u>Subsidiaries name</u>	<u>Percentage of equity</u>	
	<u>2009</u>	<u>2008</u>
Tadhamon Capital B.S.C. – Bahrain	99.9%	99.9%
Tadhamon Real Estate Ltd. – Yemen	95.0%	95.0%
Al-Wedad for Trading and Investment – Yemen	95.0%	95.0%

The Group has prepared and presented these consolidated financial statements as at December 31, 2009 for the first time in accordance with the Financial Accounting Standard for Islamic Financial Institutions No. 23 "Consolidation" which was issued by AAOIFI and in compliance with Central Bank of Yemen (CBY) instructions which were issued on January 9, 2010 regarding compliance with the Accounting Standards for Islamic Financial Institutions.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

- The consolidated financial statements are prepared on a going-concern and the historical cost basis, except available-for-sale investments, investments in real estate and financial instruments (financial assets and liabilities) held at fair value, and in accordance with Accounting Standards for Islamic Financial Institutions, and instructions issued by CBY.
- The consolidated financial statements included all balances of assets, liabilities and results of operation of subsidiaries after eliminating all balances and transactions and income statement items which result from intra-group transactions.
- Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated financial statements and within equity in the consolidated

statement of financial position, separately from the parent shareholders' equity.

d. All subsidiaries financial statements are prepared and presented in accordance with the Accounting Standards for Islamic Financial Institutions and also in accordance with International Financial Reporting Standards, and there are no material differences for that on the value and presentation of these financial statements.

2.2 Functional and presentation currency

The consolidated financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rials except when otherwise is indicated.

2.3 Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 7, 11, 13, 15, 17, 29 and 31.

2.4 Change in accounting policies

In accordance with CBY instructions which were issued on January 9, 2010, related to the rules of preparation and presentation of the financial statements and the basis of Bank's evaluation, the Group as at December 31, 2009 revised its policies of valuation of available-for-sale investments as described in Note no. 3.8 and also policies of valuation of real estate investment as described in Note no. 3.6. Accordingly, these investments are valued at fair value and any changes are presented in the shareholders' equity in the consolidated statement of changes in shareholders' equity, and this also applies to the available for sale investments and real estate investments. There is no material impact on the income statement that requires restatement of the comparative figures in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currencies transactions

The Bank maintains its accounting records in Yemeni Rial, (presentation currency). Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the income statement.

- b. The assets and liabilities of the subsidiaries at the consolidated financial statements date are translated into Yemeni Rial (presentation currency) at the prevailing exchange rates at that date. The income and expenses of these subsidiaries are translated at the average exchange rates during the year. Exchange differences arising on translation are taken directly to other reserves within shareholders' equity.
- c. The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies.

3.2 Revenue recognition

a. Financing Murabaha and Istisna'a transactions

- 1- Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contract are recorded as deferred revenues and taken to the income statement, depending on the finance percentage, using the straight line method over the term of contract.
- 2- In order to comply with the requirements of CBY, the Bank does not accrue the profits relating to non-performing debts.

b. Investments in Mudaraba and Musharaka contracts

- 1- Profits on investments in Mudaraba and Musharaka contracts, which initiate and terminate during the financial year, are recorded in the statement of income.
- 2- Profits on investments in Mudaraba and Musharaka contracts, which last for more than one financial year, are recorded, based on cash profits distributed on these transactions during the year.

c. Ijarah and Ijarah Muntahia Bittamleek

The Ijarah and Ijarah Muntahia Bittamleek revenues are recorded over the term of the lease contract.

d. Available for sale investments

Revenues of available for sale investments are recorded based on the cash dividends received on these investments during the year.

e. Investments in associates

Revenue from investments in associates are recorded based on the Bank's share in the equity of these companies in accordance with the approved financial statements of these companies.

f. Commissions' revenues and bank service

Commissions' revenues and bank service charges are recognized as the related services are performed.

3.3 Valuation of Murabaha and Istisna'a financing transactions

- a. Debts relating to financing Murabaha and Istisna'a transactions, whether short or long-term, are recorded at cost in addition to agreed upon profits stated in Murabaha and Istisna'a contracts.

In order to comply with the requirements of CBY, provision is provided for specific debts and contingent liabilities, in addition to a percentage for general risk calculated on the total of other debts and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the portfolio and contingent liabilities and made in accordance with the following minimum rates:

<u>Performing debts including watch list</u>	1%
<u>Non-performing debts:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

- b- Debts relating to financing Murabaha and Istisna'a transactions are written off if procedures taken toward their collection prove useless, or if directed by CBY examiners upon review of the portfolio. Proceeds from debts previously written off in prior years are credited to the provision.
- c- Debts relating to financing Murabaha and Istisna'a transactions, whether short or long term, are presented on the balance sheet net of related provisions (non performing debts provision and general risk provision on performing debts), and deferred revenues.

3.4 Valuation of investments in Mudaraba and Musharaka contracts

- a- Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Musharaka. Investments in in-kind Mudaraba and Musharaka contracts are recorded based on the agreed-upon value between the Bank and the customer or partner. Accordingly, any differences between this value and the book value are recorded as profits or losses in the income statement. In order to comply with the requirements of CBY, provision is provided for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total of other Mudaraba and Musharaka contracts after deducting balances secured by deposits and banks' guarantees issued by worthy banks.

Provision is determined based on periodical comprehensive reviews of the portfolio and made in accordance with the following minimum rates:

Performing debts including watch list	1%
Non-performing debts:	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

- b- At the end of each year, the Mudaraba and Musharaka capital is reduced by losses incurred which are charged to the income statement.
- c- Investments in Mudaraba and Musharaka contracts are presented on the balance sheet at carrying value which represents cost less recognized losses and related provisions (provision for non-performing debts and general risk provision on performing debts).

3.5 Ijarah and Ijarah Muntahia Bittamleek

- a- Assets acquired for Ijarah and Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the Ijarah term.
- b- At the end of the Ijarah term, title of leased assets passes to the lessee, provided that all Ijarah installments are settled by the lessee.

3.6 Valuation of investments in real estate

Investments in real estate are treated as a portfolio. After initial recognition, investments in real estate are subsequently measured at fair value (instead of the cost less impairment losses in accordance with CBY instructions). Unrealized gain

or losses arising from a change in the fair value are recognized in the fair value reserve under equity to the extent of the available balance of the reserve. In case such losses exceed the available balance, the unrealized losses are recognized in the income statement under "unrealized re-measurement gain or losses on investments", and when the investment is sold the cumulative gain or loss previously recognized in equity is included in the statement of income.

In cases there are unrealized losses that have been recognized in the income statement in a previous financial period as a result of where objective evidence exists that a specific investment is impaired, the unrealized gain related to the current financial period shall be recognized to the extent of crediting back such previous losses in the income statement. Any excess of such gain over such prior-period losses shall be added to the investments fair value reserve in the statement of financial position. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

3.7 Valuation of held-for-trading investments

The investments which were held for trading are recorded at cost on the acquisition date, in the financial statement date shall be re-measured at fair value. The differences are taken to the income statement.

3.8 Valuation of available for sale investments

After initial recognition of available for sale investments, they are subsequently measured at fair value individually. Unrealized gains or losses arising from a change in the fair value are recognized directly in the fair value reserve under equity (instead of income statement in accordance with CBY instructions) until the investment is sold, at which time the cumulative gain or loss previously recognized in equity is included in the statement of income.

In cases there are unrealized losses that have been recognized in the income statement in a previous financial period as a result of where objective evidence exists that a specific investment is impaired, the unrealized gain related to the current financial period shall be recognized to the extent of crediting back such previous losses in the income statement. Any excess of such gain over such prior-period losses shall be added to the investments fair value reserve in the statement of financial position. A significant or prolonged decline in its fair value below its cost is an objective evidence of impairment. In case that reliable estimate of the fair value of these investments cannot be obtained due to lack of either quoted market prices or tangible stability in its prices and also cannot be determined with sufficient accuracy, as future cash flow are not determinable, these investments were carried at cost.

3.9 Valuation of investments in associates

Investments in associates which the Bank has significant influence over are recorded at acquisition cost. At the consolidated financial statements date, these investments are adjusted according to the Bank's share in the equity of associates based on the approved financial statements of these companies. This adjustment is taken to the income statement.

3.10 Valuation of assets for which titles have been transferred to the Bank as a repayment of debts

Assets for which titles have been transferred to the Bank are recorded in the statement of financial position under "Debit balances and other assets" at the values carried by the Bank less any impairment in its value at the financial statements' date. This impairment is charged to the consolidated income statement, in case of increase on these assets the difference are recognized in the consolidated income statement to the extent of impairment previously recognized.

3.11 Valuation of restricted investments

Murabaha transactions financed by restricted investment accounts are recorded on the same valuation basis mentioned above (Note nos. 3.3 and 3.4) with related profits (losses) and provisions taken to restricted investment accounts net of the Bank's share for managing these investments.

3.12 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off financial position, net of margin held from customers, under "contingent liabilities and commitments" as they do not represent actual assets or liabilities at the financial statements date.

3.13 Cash and cash equivalents

For the purpose of preparing the cash flow statement, cash and cash equivalents consist of cash on hand, cash balances with CBY, other than reserve balances, and demand deposits with other banks.

3.14 Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the income statement on the straight-line basis over the estimated useful lives of items of property and equipment. The depreciation method, useful lives and residual value, if any, are reassessed annually by the Bank's management. The estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Buildings	40 years
Machinery & equipment	10 years
Motor vehicles	5 years
Furniture and fixtures	5 - 40 years
Computer equipment	5 years

3.15 Impairment of assets

The Bank reviews the carrying amounts of the assets, according to its materiality, at the balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated and compared with the carrying amount and any excess in the carrying amount is charged to the statement of income.

Any increase in the value of the assets is also recognized in the statement of income provided that the increase does not exceed the original recoverable value of the asset before impairment.

3.16 End of service bonus

End of service bonus for uninsured Bank employees is calculated at 9% of last comprehensive wage for each complete month of service. The accrued bonus is included in other provisions.

3.17 Taxation

- a- For the Group operations inside Yemen, the taxes are calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.
- b- For the Group operations outside Yemen, taxes are calculated based on tax laws and regulations in other countries in which the Group operates.
- c- Provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

3.18 Other provisions

A provision is provided for present legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation based on the study prepared by the Bank in order to estimate the amount of the obligation.

3.19 Prohibited revenues

Revenues prohibited by Islamic Sharia' are recorded in a separate account under "Credit balances and other liabilities". They are utilized in the areas approved by the Bank's Sharia' Board.

4. SUPERVISION OF CENTRAL BANK OF YEMEN

The Bank's activities are subject to the supervision of CBY in accordance with the prevailing banking laws and regulations in the Republic of Yemen and those relating to Islamic banks.

5. SHARIA' BOARD

The Bank's activities are subject to the supervision of the Sharia' Board which consists of 3 members appointed by the Bank's General Assembly to monitor the Bank's activities according to the Islamic Sharia' rules.

6. ZAKAT

Zakat is computed according to the directions of the Sharia' Board of the Bank and collected from the shareholders on behalf of the relevant government authority. The amount collected is remitted to this authority, which decides on the allocation of the Zakat.

7. FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

7.1 Financial instruments

- a. The Group's financial instruments consist of financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with banks and financing of Murabaha, Istisna'a, Mudaraba and Musharaka transactions and related debts, investment property, Ijarah Muntahia Bittamleek, financial investments and investments in associates. Financial liabilities include current and saving accounts, due to banks and investment accounts. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

Note (3) to the consolidated financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

- b. Fair value of financial instruments

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

The following table provides a comparison by class of the carrying amount and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial asset and non-financial liabilities.

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	YR 000s	YR 000s	YR 000s	YR 000s
Financial assets				
Cash on hand and reserve balances with the CBY				
Due from banks and financial institutions	44,235,749	44,235,749	38,597,136	38,597,136
Financing Murabaha transactions (net)	62,242,605	62,242,605	54,587,694	54,587,694
Financing Istisna'a transactions (net)	69,317,854	69,317,854	71,647,259	71,647,259
Investments in Mudaraba contracts (net)	6,799,132	6,799,132	8,256,607	8,256,607
Investments in Musharaka contracts (net)	18,054,120	18,054,120	23,412,838	23,412,838
Ijarah Muntahia Bittamleek	9,647,018	9,647,018	7,156,755	7,156,755
Investments in real estate	639,626	639,626	363,023	363,023
Available for sale investments	82,150,491	82,150,491	45,997,304	45,997,304
Held-for-trading investments	32,073,990	32,073,990	30,000,336	30,000,336
Investments in associates	282,408	282,408	-	-
Restricted investments	51,956	51,956	18,247	18,247
	378,600	378,600	365,995	365,995
Financial liabilities				
Current accounts and other deposits				
Due to banks	68,957,863	68,957,863	71,258,485	71,258,485
Unrestricted investment and saving accounts' holders	41,390	41,390	3,818,884	3,818,884
	213,613,147	213,613,147	167,291,069	167,291,069

(c) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.
- Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices).
- Level 3: Fair values are based on inputs for assets that are not based on observable market data.

The fair values for available-for-sale investments comprise of YR 2,127,468 thousand under the level 1 category, YR 14,678,881 thousand under the level 2 category and YR 15,267,641 thousand under the level 3 of the fair value hierarchy. Moreover, the fair value for held-for-trading investments comprise of YR 282,408 thousand under the level 1 category. There were no investments qualifying for levels 2 and 3 fair value disclosures.

7.2 Risk management of financial instruments

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Board of Directors (ultimately responsible for identifying and controlling risks), the risk committee, and the head of each business division.

The Bank is exposed to credit risk, liquidity risk, interest rate risk, currency risk, operating risk and other risks.

a. Credit risk

Financing of Murabaha, Istisna'a, Mudaraba, Musharaka transactions and Ijarah Muntahia Bittamleek and their related debts, current accounts, deposits with banks and financial investments and rights and obligations from others are considered financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due. In order to comply with CBY circular No. 10 of 1997 regarding the credit risk exposure, the Group adheres to certain minimum standards in order to properly manage its credit risk such as:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rating.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result in cases of insolvency of customers and banks.
- Following up and periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing debts.
- Distributing credit portfolio and investments over diversified sectors to minimize concentration of credit risk.

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

	2009 YR 000s	2008 YR 000s
Cash on hand and reserve balances CBY (excluding cash on hand and ATM)	32,487,345	26,599,850
Due from banks and financial institutions	62,242,605	54,587,694
Financing Murabaha transactions (net)	69,317,854	71,647,259
Financing Istisna'a transactions (net)	6,799,132	8,256,607
Investments in Mudaraba contracts (net)	18,054,120	23,412,838
Investments in Musharaka contracts (net)	9,647,018	7,156,755
Ijarah Muntahia Bittamleek	639,626	363,023
Investments in real estate	82,150,491	45,997,304
Held-for-trading investments	282,408	-
Available for sale investments	32,073,990	30,000,336
Investments in associates	51,956	18,247
Restricted investments	378,600	365,995
Debit balances and other assets (net)	8,398,470	6,518,356
	<u>322,523,615</u>	<u>274,924,264</u>
Contingent liabilities and commitments	<u>65,698,981</u>	<u>46,477,588</u>
Total credit exposure	<u>388,222,596</u>	<u>321,401,852</u>

The Group manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note no. 46 shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note no. 47 shows the distribution of financial instruments based on geographical locations at the financial statement date.

b. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the Group's management in addition to its core deposit base, manages assets with liquidity in mind and 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:

	2009				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	41,390	-	-	-	41,390
Current accounts and other deposits	17,396,686	29,694,486	9,097,799	12,768,892	68,957,863
Unrestricted investment and saving account's holders	35,542,158	48,933,333	60,466,603	68,671,053	213,613,147
Restricted investments	-	-	378,600	-	378,600
Total liabilities	<u>52,980,234</u>	<u>78,627,819</u>	<u>69,943,002</u>	<u>81,439,945</u>	<u>282,991,000</u>

	2008				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	3,140,884	678,000	-	-	3,818,884
Current accounts and other deposits	24,966,871	21,704,420	15,407,710	9,179,484	71,258,485
Unrestricted investment and saving account's holders	27,264,136	40,295,608	38,852,978	60,878,347	167,291,069
Restricted investments	-	-	365,995	-	365,995
Income tax for the year	-	605,182	-	-	605,182
Total liabilities	<u>55,371,891</u>	<u>63,283,210</u>	<u>54,626,683</u>	<u>70,057,831</u>	<u>243,339,615</u>

In addition to the above, Note no. 45 shows the maturity analysis of assets and liabilities and the net gap between them at the consolidated financial statement compared with last year.

c. Return rate risk

Return due on unrestricted investment and saving accounts is determined on the basis of Mudaraba contract, which determines profit (loss) sharing basis during the period. Accordingly, any change in the profitability level will determine the return ratio that the bank could pay to unrestricted investment and saving accounts holders. Therefore, the bank is not exposed, directly, to the risk of change in return rate.

Note no. 32 shows the average allocation of investment and saving accounts return rate during the year compared with the last year.

d. Exchange rate risk

Due to the nature of the Bank's activity, the Bank deals in different foreign currencies, hence it is exposed to exchange rate risk. In order to minimize the exposure to exchange rate risk, the Bank is trying to maintain a balanced foreign currencies position in compliance with CBY instructions and the requirements of CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all foreign currencies should not exceed 25% of the Bank's capital and reserves.

In order to comply with CBY circular no. 6 of 1998 the Bank regulatory monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing exchange rates at the date of transaction.

The table below shows the Bank's significant net exposures to foreign currencies:

2009							
	US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s	Total YR 000s
Assets	111,368,875	5,811,851	20,754,898	747,844	2,340,400	6,532,316	147,556,184
Liabilities	(110,172,244)	(3,943,700)	(15,710,972)	(340,316)	(79,390)	(453,207)	(130,699,829)
Net currency position	<u>1,196,631</u>	<u>1,868,151</u>	<u>5,043,926</u>	<u>407,528</u>	<u>2,261,010</u>	<u>6,079,109</u>	<u>16,856,355</u>

2008							
	US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s	Total YR 000s
Assets	99,629,363	3,556,244	19,212,590	1,119,502	2,791,930	627,501	126,937,130
Liabilities	(102,243,913)	(2,092,260)	(15,331,047)	(121,066)	(93,544)	(363)	(119,882,193)
Net currency position	(2,614,550)	1,463,984	3,881,543	998,436	2,698,386	627,138	7,054,937

Note 48 to the financial statements indicates the significant foreign currencies' positions at the financial statement date compared with the last year.

e. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process or personnel. The Group seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

f. Other risks

Other risks to which the Bank is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective implementation of the advise of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

8. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on banking supervision and the instructions adopted by the CBY. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and excellent capital ratios in order to support its business and to maximise shareholders' value.

The CBY requires each bank in Yemen to maintain a minimum ratio of total capital to the risk-weighted assets at or above

the internationally agreed minimum of 8%.

The capital adequacy ratio calculated compares between the core and supplementary capital with risk weighted total assets and liabilities at the consolidated financial statements date, is as follows:

	2009 YR Million	2008 YR Million
Core capital	38,273	26,307
Supplementary capital	1,452	1,839
Total capital	39,725	28,146
Risk-weighted assets and liabilities:		
Total assets	207,163	163,691
Contingent liabilities and commitments	26,595	25,870
Total risk-weighted assets and liabilities	233,758	189,561
Capital adequacy ratio	17.0%	14.8%

The core capital consists of paid-up capital, reserves (statutory and general) and retained earnings (after deducting investment in any local bank or financial company) while supplementary capital consists of general provisions on performing debts with percentage 1% which should not exceed more than 2% of risk weighted assets.

9. CASH ON HAND AND RESERVE BALANCES WITH CENTRAL BANK

	2009 YR 000s	2008 YR 000s
Cash on hand and ATM machines – local currency	4,037,472	3,499,020
Cash on hand and ATM machines – foreign currency	7,710,932	8,498,266
	11,748,404	11,997,286
Reserve balances at CBY – local currency	9,650,489	7,910,977
Reserve balances at CBY – foreign currency	22,836,856	18,688,873
	32,487,345	26,599,850
	44,235,749	38,597,136

The reserve balances with CBY represent the reserve requirements against customers' accounts in Yemeni Rial and foreign currencies. These funds are not available for the Bank's daily business.

In accordance with CBY Circular No. (1) of 2008 effective from 1 April 2008, the percentage of reserve balances held at CBY on Yemeni Rial customer accounts was reduced from 10% (return bearing) to 7% (non-return bearing). The percentage of reserve balances on foreign currency customer accounts remained unchanged at 20% (non-return bearing).

10. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2009 YR'000's	2008 YR'000's
<u>Central Bank of Yemen</u>		
Current accounts – local currency	7,057,375	7,373,714
Current accounts – foreign currency	1,014,971	6,021,521
	<u>8,072,346</u>	<u>13,395,235</u>
<u>Foreign banks</u>		
Current accounts	29,655,539	34,887,021
Deposits with Islamic financial institutions	24,514,720	6,305,438
	<u>54,170,259</u>	<u>41,192,459</u>
	<u>62,242,605</u>	<u>54,587,694</u>

11. FINANCING MURABAHA TRANSACTIONS (NET)

	Note	2009 YR 000s	2008 YR 000s
Financing Murabaha transactions – local		73,293,795	75,532,888
Financing Murabaha transactions – foreign		-	727,882
		<u>73,293,795</u>	<u>76,260,770</u>
Less: Murabaha transactions provision	12	(1,292,164)	(2,057,442)
Less: Deferred revenues		<u>(2,683,777)</u>	<u>(2,556,069)</u>
		<u>69,317,854</u>	<u>71,647,259</u>

Non-performing financing Murabaha transactions amounted to YR 1,446,226 thousand at 31/12/2009 (YR 2,132,214 thousand at 31/12/2008). The break up of the above amount is as follows:

	2009 YR 000s	2008 YR 000s
Substandard debts	720,683	191,819
Doubtful debts	128,488	1,140,820
Bad debts	597,055	799,575
	<u>1,446,226</u>	<u>2,132,214</u>

12. MURABAHA TRANSACTIONS PROVISION (PERFORMING AND NON-PERFORMING)

	2009			2008		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year	1,341,717	715,725	2,057,442	952,079	785,697	1,737,776
Provided during the year (income statement)	-	-	-	319,666	-	319,666
Transfer from general to specific provision	-	-	-	69,972	(69,972)	-
Provision used	(150)	-	(150)	-	-	-
Provision reversed	(693,096)	(72,032)	(765,128)	-	-	-
Balance at end of the year	<u>648,471</u>	<u>643,693</u>	<u>1,292,164</u>	<u>1,341,717</u>	<u>715,725</u>	<u>2,057,442</u>

13. FINANCING ISTISNA'A TRANSACTIONS (NET)

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Financing Istisna'a transactions		7,144,480	8,752,299
Less: Istisna'a transactions provision	14	(68,678)	(86,859)
Less: Deferred revenues		(276,670)	(408,833)
		<u>6,799,132</u>	<u>8,256,607</u>

There is no non-performing financing Istisna'a transactions at 31/12/2009 (YR 3,459 thousand at 31/12/2008).

14. ISTISNA'A TRANSACTIONS PROVISION (PERFORMING AND NON-PERFORMING)

	<u>2009</u>			<u>2008</u>		
	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>
Balance at beginning of the year	3,459	83,400	86,859	-	86,168	86,168
Provided during the year (income statement)	-	-	-	691	-	691
Transfer from general to specific provision	-	-	-	2,768	(2,768)	-
Provision reversed	(3,459)	(14,722)	(18,181)	-	-	-
Balance at end of the year	<u>-</u>	<u>68,678</u>	<u>68,678</u>	<u>3,459</u>	<u>83,400</u>	<u>86,859</u>

15. INVESTMENTS IN MUDARABA CONTRACTS (NET)

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Investments in Mudaraba contracts - foreign		21,214,355	26,918,230
Investments in Mudaraba contracts - local		<u>3,505,000</u>	<u>1,371,982</u>
		24,719,355	28,290,212
Less: Mudaraba contracts provision	16	<u>(6,665,235)</u>	<u>(4,877,374)</u>
		<u>18,054,120</u>	<u>23,412,838</u>

Non-performing Mudaraba contracts, which are classified as bad debts, amount to YR 6,527,880 thousand at 31/12/2009 (YR 4,640,881 thousand at 31/12/2008).

16. MUDARABA CONTRACTS PROVISION (PERFORMING AND NON-PERFORMING)

	<u>2009</u>			<u>2008</u>		
	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>
Balance at beginning of the year	4,640,881	236,493	4,877,374	624,715	244,059	868,774
Provided during the year from income statement	1,787,861	-	1,787,861	4,008,600	-	4,008,600
Transfer from general to specific provision	<u>99,138</u>	<u>(99,138)</u>	<u>-</u>	<u>7,566</u>	<u>(7,566)</u>	<u>-</u>
Balance at end of the year	<u>6,527,880</u>	<u>137,355</u>	<u>6,665,235</u>	<u>4,640,881</u>	<u>236,493</u>	<u>4,877,374</u>

17. INVESTMENTS IN MUSHARAKA CONTRACTS (NET)

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Investments in Musharka contracts - foreign		8,878,363	7,169,021
Investments in Musharka contracts - local		<u>1,569,861</u>	<u>60,024</u>
		10,448,224	7,229,045
Less: Musharaka investments provision	18	<u>(801,206)</u>	<u>(72,290)</u>
		<u>9,647,018</u>	<u>7,156,755</u>

Non-performing Musharka contracts which were classified as bad debts amount to YR 710,914 thousand at 31/12/2009 (Nil at 31/12/2008).

18. INVESTMENTS IN MUSHARAKA CONTRACTS PROVISION (PERFORMING AND NON PERFORMING)

	<u>2009</u>			<u>2008</u>		
	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>	<u>Specific</u> <u>YR 000s</u>	<u>General</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>
Balance at beginning of the year	-	72,290	72,290	-	57,040	57,040
Provided during the year from income statement						
	<u>710,914</u>	<u>18,002</u>	<u>728,916</u>	<u>-</u>	<u>15,250</u>	<u>15,250</u>
Balance at end of the year	<u>710,914</u>	<u>90,292</u>	<u>801,206</u>	<u>-</u>	<u>72,290</u>	<u>72,290</u>

19. IJARAH MUNTAHIA BITTAMLEEK

	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Total cost	900,882	378,289
Less: accumulated depreciation	<u>(261,256)</u>	<u>(15,266)</u>
Net book value	<u>639,626</u>	<u>363,023</u>

The cost as at 31/12/2009 represents 180 cars leased to various entities according to Ijarah Muntahia Bittamleek contracts that end in 2013. The cost as at 31/12/2008 represents 124 cars leased to various entities according to Ijarah Muntahia Bittamleek

contracts that end in 2011.

20. INVESTMENTS IN REAL ESTATE

	2009 YR 000s	2008 YR 000s
Investments in real estate - local	10,576,415	8,271,285
Investments in real estate - foreign	<u>57,254,394</u>	<u>21,797,756</u>
	67,830,809	30,069,041
Add: change in fair value (unrealized gain)	14,229,534	16,018,411
Less: unrealized gain on (impairment of) investments in real estate	<u>90,148</u>	<u>(90,148)</u>
	<u>82,150,491</u>	<u>45,997,304</u>

Investments in real estate – foreign is registered in the name of related party in return for cession in favor of the Bank.

The Bank is currently taking the necessary procedures to approve some of the local lands contracts with Government authorities.

21. AVAILABLE FOR SALE INVESTMENTS

	2009		
	Quoted YR 000s	Unquoted YR 000s	Total YR 000s
Available-for-sale investments – local	-	2,110,679	2,110,679
Available-for-sale investments – foreign	<u>2,181,852</u>	<u>28,615,900</u>	<u>30,797,752</u>
	2,181,852	30,726,579	32,908,431
Less: change in fair value (unrealized loss)	<u>(54,384)</u>	<u>(780,057)</u>	<u>(834,441)</u>
	<u>2,127,468</u>	<u>29,946,522</u>	<u>32,073,990</u>

	2008		
	Quoted YR 000s	Unquoted YR 000s	Total YR 000s
Available-for-sale investments – local	-	3,586,406	3,586,406
Available-for-sale investments – foreign	<u>4,187,097</u>	<u>21,896,026</u>	<u>26,083,123</u>
	4,187,097	25,482,432	29,669,529
Add: change in fair value (unrealized gain)	<u>330,807</u>	<u>-</u>	<u>330,807</u>
	<u>4,517,904</u>	<u>25,482,432</u>	<u>30,000,336</u>

- Available-for-sale investments - foreign are presented after deducting YR 1,616,433 thousand which the value of lasting impairment in this investment as at December 31, 2009 (YR 1,058,360 thousand as at December 31, 2008).
- Available-for-sale investments (unquoted) as at December 31, 2009 included YR 15,267,641 thousand which are carried at cost (YR 25,482,432 thousand as at December 31, 2008) due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows cannot be determined with sufficient accuracy.

22. HELD-FOR-TRADING INVESTMENT

	2009 YR 000s	2008 YR 000s
Purchases during the year (cost)	191,652	-
Unrealized fair value gain recognized in the income statement	89,174	-
	1,582	-
	<u>282,408</u>	<u>-</u>

23. INVESTMENT IN ASSOCIATES

	2009		2008	
	YR 000s	Percentage of equity %	YR 000s	Percentage of equity %
Islamic Co. for Payments (Ltd. Yemen)	18,883	44%	18,247	44%
Less: impairment in the value of investment	(18,883)		-	
	<u>-</u>		<u>18,247</u>	
Tadhamon Group Holding Ltd. – United Arab Emirates	59,262	35%	-	
Less: Group share in net assets of associates	(7,306)		-	
	<u>51,956</u>		<u>-</u>	
	<u>51,956</u>		<u>18,247</u>	

All the associates companies are unquoted in a stock market. Total assets of Tadhamon Group Holding Ltd., United Arab Emirates amounted to YR 59.7 billion based on the financial statements as at December 31, 2009 and the net losses for the period from May 1, 2009 to December 31, 2009 amounted to YR 20,875 thousand.

24. DEBIT BALANCES AND OTHER ASSETS (NET)

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Debtors of lagoon land - Dubai		1,180,335	1,461,533
Overdraft accounts		282,695	265,849
Advances to employees		99,860	90,084
Prepaid expenses		38,539	29,076
Debtors of Ijarah Muntahia Bittamleek		727,304	415,112
Projects under processing		958,959	67,445
Stationary inventory		51,834	73,997
Property and equipment in stores		38,226	58,820
Assets which titles have been transferred to the Bank's ownership	3/10	2,518,325	2,389,467
Other debit balances		<u>2,689,475</u>	<u>1,943,817</u>
		8,585,552	6,795,200
Less: Provision for doubtful debts	25	(187,082)	(276,844)
		<u>8,398,470</u>	<u>6,518,356</u>

Assets which titles have been transferred to the Bank's ownership have been recorded after deducting YR 93,737 thousand which represents the value of impairment of these assets as at December 31, 2009 (Nil as at December 31, 2008).

25. PROVISION FOR DOUBTFUL DEBTS

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Balance at beginning of the year		276,844	297,629
Provisions reversed	41	(89,762)	(20,785)
		<u>187,082</u>	<u>276,844</u>
Balance at the end of the year			

26. PROPERTY AND EQUIPMENT (NET)

2009											
	Cost as at 1.1.2009	Additions	Disposals	Foreign Currency Translation	Cost as at 31.12.2009	Accumulated depreciation as at 1.1.2009	Depreciation for the year	Accumulated depreciation of assets disposed	Foreign Currency Translation	Accumulated depreciation as at 31.12.2009	Net book value as at 31.12.2009
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s
Land	2,455,837	2,533	-	-	2,458,370	-	-	-	-	-	2,458,370
Buildings	2,049,701	8,065	-	-	2,057,766	31,808	51,243	-	-	83,051	1,974,715
Equipment	496,351	132,843	(10,629)	-	618,565	213,056	64,863	(8,955)	200	269,164	349,401
Vehicles	309,668	132,000	(65,327)	-	376,341	128,707	62,737	(46,853)	-	144,591	231,750
Furniture and fixtures	395,878	162,915	(8,875)	170	550,088	163,343	91,012	(4,702)	777	250,430	299,658
Computers	670,070	95,166	(10,939)	-	754,297	380,068	97,318	(7,477)	-	469,909	284,388
Total	6,377,505	533,522	(95,770)	170	6,815,427	916,982	367,173	(67,987)	977	1,217,145	5,598,282

2008											
	Cost as at 1.1.2008	Additions	Disposals	Foreign Currency Translation	Cost as at 31.12.2008	Accumulated depreciation as at 1.1.2008	Depreciation for the year	Accumulated depreciation of assets disposed	Foreign Currency Translation	Accumulated depreciation as at 31.12.2008	Net book value as at 31.12.2008
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s
				-		-				-	
Land	2,055,097	525,539	(124,799)	-	2,455,837		-	-	-		2,455,837
Buildings	225,171	1,824,530	-	-	2,049,701	4,316	27,492	-	-	31,808	2,017,893
Equipment	449,438	76,763	(29,850)	-	496,351	183,224	51,595	(21,763)	-	213,056	283,295
Vehicles	263,741	98,614	(52,687)	-	309,668	84,339	56,665	(12,297)	-	128,707	180,961
Furniture and fixtures	353,422	63,302	(20,846)	-	395,878	152,292	30,106	(19,055)	-	163,343	232,535
Computers	<u>581,436</u>	<u>114,832</u>	<u>(26,198)</u>	<u>-</u>	<u>670,070</u>	<u>292,858</u>	<u>97,738</u>	<u>(10,528)</u>	<u>-</u>	<u>380,068</u>	<u>290,002</u>
Total	3,928,305	2,703,580	(254,380)	-	6,377,505	717,029	263,596	(63,643)	-	916,982	5,460,523

*Additions during the year 2008 include an amount of YR 1,072,793 thousand transfer from projects under processing.

27. CURRENT ACCOUNTS AND OTHER DEPOSITS

	2009 YR 000s	2008 YR 000s
Current accounts	62,807,145	65,694,675
Cash deposits	4,901,299	4,619,066
Other deposits	<u>1,249,419</u>	<u>944,744</u>
	<u>68,957,863</u>	<u>71,258,485</u>

28. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2009 YR 000s	2008 YR 000s
Foreign banks – current account	41,390	446,630
Foreign banks – LC's finance	<u>-</u>	<u>3,372,254</u>
	<u>41,390</u>	<u>3,818,884</u>

29. CREDIT BALANCES AND OTHER LIABILITIES

	Note	2009 YR 000s	2008 YR 000s
Income tax for the year		-	605,182
Accrued expenses		91,616	90,261
Creditors and sundry credit balances		922,638	890,462
Installments of Ijarah Muntahia Bittamleek		698,718	408,835
Prohibited revenues by Islamic Sharia'	30	<u>1,164</u>	<u>89,627</u>
		<u>1,714,136</u>	<u>2,084,367</u>

30. PROHIBITED REVENUES BY ISLAMIC SHARIA'

Revenues prohibited by Islamic Sharia' in a separate account under "Credit balances and other liabilities" on the balance sheet. They are utilized in the areas approved by the Bank's Sharia' Board.

The following are the movement of prohibited revenues during the year:

	2009 YR 000s	2008 YR 000s
Balance at the beginning of the year	89,627	-
Revenues during the year	38,136	352,060
	127,763	352,060
<u>Less: Expenses</u>		
Donations	(126,599)	(262,433)
Balance at the end of the year	1,164	89,627

31. OTHER PROVISIONS

	2009			
	Provision for contingent liabilities YR 000s	Provisions for end of service compensation YR 000s	Provisions for contingent claims YR 000s	Total YR 000s
Balance at beginning of the year	730,718	140,639	900,000	1,771,357
Provided during the year	-	321,411	451,930	773,341
Used during the year	-	(296,224)	(451,930)	(748,154)
Provision reversed	(218,692)	-	-	(218,692)
Balance at end of the year	512,026	165,826	900,000	1,577,852

	2008			
	Provision for contingent liabilities YR 000s	Provisions for end of service compensation YR 000s	Provisions for contingent claims YR 000s	Total YR 000s
Balance at beginning of the year	650,449	127,846	500,000	1,278,295
Provided during the year	80,269	107,900	757,845	946,014
Used during the year	-	(95,107)	(357,845)	(452,952)
Provision reversed	-	-	-	-
Balance at end of the year	730,718	140,639	900,000	1,771,357

32. UNRESTRICTED INVESTMENTS AND SAVING ACCOUNTS' HOLDERS

	2009 YR 000s	2008 YR 000s
Saving accounts – local currency	34,595,008	30,317,154
Saving accounts – foreign currency	40,209,338	27,114,968
	<u>74,804,346</u>	<u>57,432,122</u>
Deposits for more than one year – local currency	82,864,982	62,364,714
Deposits for more than one year – foreign currency	41,642,190	35,294,300
	<u>124,507,172</u>	<u>97,659,014</u>
Return for unrestricted investments and saving accounts	<u>14,301,629</u>	<u>12,199,933</u>
	<u>213,613,147</u>	<u>167,291,069</u>

33. ALLOCATION OF INVESTMENT AND SAVING ACCOUNTS RETURN

The investment return allocation between shareholders and customers is based on the percentage of their participation weighted by numbers. This calculation is proposed by the budget committee which calculates investments in local and foreign currencies and their related numbers and participation ratios and approved by the Board of Directors. The average return ratios were as follows:

	2009		2008	
	Local Currency	Foreign Currency	Local Currency	Foreign Currency
	%	%	%	%
Ongoing deposits	12.006	5.006	13.836	5.60
Saving accounts	7.060	3.128	8.139	3.15

34. CAPITAL

The authorized, issued and paid-up capital is YR 20 billion represented in 20 million shares of nominal value of YR 1,000 each, as decided by the Extraordinary General Assembly in its meeting on June 17, 2008 which increased the capital from YR 10 billion to YR 20 billion, and 25% of the increase is a transfer from general reserve.

The following shows the movement of the capital during the year:

	2009 YR 000s	2008 YR 000s
Capital before the increase	10,000,000	10,000,000
Capital increase according to the Extraordinary General Assembly	<u>10,000,000</u>	<u>10,000,000</u>
	20,000,000	20,000,000
Unpaid amounts	<u>-</u>	<u>(5,236,250)</u>
Paid up capital at December 31	<u>20,000,000</u>	<u>14,763,750</u>

35. STATUTORY RESERVE

According to the Bank's Articles of Association and CBY instructions, 15% of the net profit for the year is transferred to statutory reserve till it equals two times paid-up capital.

The following is the balance as at the end of the year.

	2009 YR 000s	2008 YR 000s
Balance at the beginning of the year	10,421,577	4,387,926
Transfer from net profit	221,117	304,701
Share premium	<u>5,257,318</u>	<u>5,728,950</u>
Balance at the end of the year	<u>15,900,012</u>	<u>10,421,577</u>

The proceeds received from the rights issue are directly credited to share capital (nominal value of shares). When shares have been issued at a value higher than their nominal value, the net increase is presented as statutory reserve as required by Yemeni Companies Law No. 22 of 1997.

36. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2009		
	Gross commitments YR 000s	Margin held YR 000s	Net commitments YR 000s
L/Cs for Murabaha contracts	11,364,898	(77,553)	11,287,345
Letters of credit	24,901,915	(1,804,051)	23,097,864
Letters of guarantee	29,432,168	(3,019,267)	26,412,901
	<u>65,698,981</u>	<u>(4,900,871)</u>	<u>60,798,110</u>

	2008		
	Gross commitments YR 000s	Margin held YR 000s	Net commitments YR 000s
L/Cs for Murabaha contracts	6,940,174	(82,556)	6,857,618
Letters of credit	8,689,305	(1,001,003)	7,688,302
Letters of guarantee	30,848,109	(3,529,001)	27,319,108
	<u>46,477,588</u>	<u>(4,612,560)</u>	<u>41,865,028</u>

37. REVENUE OF MURABAHA AND ISTISNA'A FINANCING TRANSACTIONS

	2009 YR 000s	2008 YR 000s
Revenue of local Murabaha transactions	6,034,180	6,573,934
Revenue of foreign Murahaba transactions	-	200,862
Revenue of Istisna'a transactions	<u>770,625</u>	<u>1,026,540</u>
	<u>6,804,805</u>	<u>7,801,336</u>

38. REVENUE FROM OTHER JOINT INVESTMENTS

	2009 YR 000s	2008 YR 000s
Profits of investments in Mudaraba contracts	1,379,057	1,363,407
Profits of investments in Musharaka contracts	23,617	708,792
Profits of real estate investments	2,650,838	2,458,342
Profits of available-for-sale investments	1,116,192	763,144
Profits from sale of usufruct	-	7,746,676
Profits from other investments	<u>3,637,116</u>	<u>590,740</u>
	<u>8,806,820</u>	<u>13,631,101</u>

39. COMMISSIONS, REVENUE AND BANK SERVICE CHARGES

	2009 YR 000s	2008 YR 000s
Commissions on documentary credits	820,923	625,279
Commissions on letters of guarantee	268,605	309,086
Commissions on transfer of funds	113,690	108,307
Commissions on foreign investments	486,770	975,226
Checks collection commissions	25,432	19,981
Other fees and commissions	<u>151,904</u>	<u>242,852</u>
	<u>1,867,324</u>	<u>2,280,731</u>

40. GAINS OF FOREIGN CURRENCY TRANSACTIONS

	2009 YR 000s	2008 YR 000s
Gains from revaluation of balances in foreign currencies	6,065,192	162,859
Gains of dealing in foreign currencies	<u>1,796</u>	<u>34,862</u>
	<u>6,066,988</u>	<u>197,721</u>

41. OTHER OPERATING INCOME

	2009 YR000s	2008 YR 000s
	-	
Provisions reversed	1,091,763	20,929
Net revenue from Al Tadamon Trading Center	39,773	23,204
Others	<u>34,661</u>	<u>46,110</u>
	<u>1,166,197</u>	<u>90,243</u>

42. PROVISIONS PROVIDED DURING THE YEAR

	Note	2009 YR 000s	2008 YR 000s
Murabaha transactions provision	12	-	319,666
Istisna'a transactions provision	14	-	691
Mudarba contracts provision	16	1,787,861	4,008,600
Musharka contracts investment provision	18	728,916	15,250
Qard Hasan provision		5,289	-
Provision for contingent liabilities	30	-	80,269
Provision for contingent claims	30	<u>451,930</u>	<u>757,845</u>
		<u>2,973,996</u>	<u>5,182,321</u>

43. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	<u>Note</u>	<u>2009</u> <u>YR 000s</u>	<u>2008</u> <u>YR 000s</u>
Salaries and wages		2,220,741	1,285,684
Depreciation of property and equipment	26	367,173	263,596
Advertisement		158,652	192,735
Rent		190,986	141,977
Transportation		151,487	97,433
Repair and maintenance		68,573	62,679
Stationary		63,491	58,668
Professional fees		92,139	103,051
Studies expenses		32,013	56,323
Subscriptions		264,244	52,247
Communications		58,628	51,727
Water and electricity		68,726	45,948
Cleaning and security expenses		58,879	45,737
Insurance		53,596	31,876
Taxes and duties		20,867	16,182
Car expenses		12,838	12,804
Hospitality expenses		8,818	9,904
Premises expenses		50,885	2,504
Donation		29,948	126
Information technology expenses		28,565	3,041
Others		<u>108,713</u>	<u>171,437</u>
		<u>4,109,962</u>	<u>2,705,679</u>

44. EARNINGS PER SHARE

	<u>2009</u>	<u>2008</u>
Net profit for the year (YR 000s)	1,474,114	2,031,340
Board of Directors' remuneration (proposed / approved) (YR 000s)	<u>-</u>	<u>(16,500)</u>
Shareholders' share in net profit (YR 000s)	1,474,114	2,014,840
Weighted average of number of shares (in thousands)	<u>17,382</u>	<u>13,127</u>
Earnings per share	<u>YR 84.8</u>	<u>YR 153.5</u>

45. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

	2009				
	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	19,432	4,494	9,426	10,884	44,236
Due from banks and financial institutions	37,728	18,554	5,961	-	62,243
Financing Murabaha transactions (net)	28,316	21,554	10,706	8,742	69,318
Financing Istisna' transactions (net)	358	2,631	2,542	1,268	6,799
Investments in Mudaraba contracts (net)	864	2,437	5,731	9,022	18,054
Investments in Musharka contracts (net)	-	1,522	4,022	4,103	9,647
Ijarah Muntahia Bittamleek	28	74	254	284	640
Investments in real estate	82,150	-	-	-	82,150
Available for sale investments	-	-	-	32,074	32,074
Held-for-trading investment	282	-	-	-	282
Investments in associates	-	-	-	52	52
Overdraft accounts	<u>283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283</u>
	<u>169,441</u>	<u>51,266</u>	<u>38,642</u>	<u>66,429</u>	<u>325,778</u>
b. Liabilities					
Current accounts and other deposits	17,397	29,694	9,098	12,769	68,958
Unrestricted investment & saving accounts	35,542	48,933	60,467	68,671	213,613
Due to banks and financial institutions	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41</u>
	<u>52,980</u>	<u>78,627</u>	<u>69,565</u>	<u>81,440</u>	<u>282,612</u>
Net gap	<u>116,461</u>	<u>(27,361)</u>	<u>(30,923)</u>	<u>(15,011)</u>	<u>43,166</u>

	2008				
	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	14,195	11,260	10,170	2,972	38,597
Due from banks and financial institutions	48,282	-	6,306	-	54,588
Financing Murabaha transactions (net)	23,140	23,336	14,984	10,187	71,647
Financing Istisna' transactions (net)	1,453	3,009	2,458	1,337	8,257
Investments in Mudaraba contracts (net)	-	-	11,415	11,998	23,413
Investments in Musharka contracts (net)	-	213	2,167	4,777	7,157
Ijarah Muntahia Bittamleek	-	64	120	179	363
Investments in real estate	45,997	-	-	-	45,997
Available for sale investments	-	-	-	30,000	30,000
Investments in associates	-	-	-	18	18
Overdraft accounts	266	-	-	-	266
	<u>133,333</u>	<u>37,882</u>	<u>47,620</u>	<u>61,468</u>	<u>280,303</u>
b. Liabilities					
Current accounts and other deposits	24,967	21,704	15,408	9,179	71,258
Unrestricted investment & saving accounts	27,264	40,296	38,853	60,878	167,291
Due to banks and financial institutions	<u>3,141</u>	<u>678</u>	<u>-</u>	<u>-</u>	<u>3,819</u>
	<u>55,372</u>	<u>62,678</u>	<u>54,261</u>	<u>70,057</u>	<u>242,368</u>
Net gap	<u>77,961</u>	<u>(24,796)</u>	<u>(6,641)</u>	<u>(8,589)</u>	<u>37,935</u>

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

	2009						
	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & Others YR Million	Total YR Million
a. <u>Assets</u>							
Cash on hand & reserves balances with CBY	44,236	-	-	-	-	-	44,236
Due from banks and financial institutions	62,243	-	-	-	-	-	62,243
Financing Murabaha transactions (net)	-	21,777	36,807	8,354	1,329	1,051	69,318
Financing Istisna'a transactions (net)	-	6,482	-	-	-	317	6,799
Investments in Mudaraba contracts (net)	14,451	3,360	-	98	65	80	18,054
Investments in Musharka contracts (net)	3,419	-	-	5,746	482	-	9,647
Ijarah Muntahia Bittamleek	-	-	-	-	640	-	640
Investments in real estate	71,573	-	-	10,577	-	-	82,150
Available for sale investments	32,074	-	-	-	-	-	32,074
Held-for-trading investment	282	-	-	-	-	-	282
Investments in associates	52	-	-	-	-	-	52
b. <u>Liabilities</u>							
Current accounts and other deposits	156	18,520	16,005	845	1,547	31,885	68,958
Unrestricted investment accounts	-	3,443	7,549	-	19,760	182,861	213,613
Due to banks and financial institutions	41	-	-	-	-	-	41
c. <u>Contingent liabilities (net)</u>							
L/Gs	5,564	9,021	8,138	2,129	1,561	-	26,413
L/Cs	-	10,349	7,130	-	-	5,619	23,098
L/Cs for Murabaha contracts	-	4,766	3,721	-	-	2,800	11,287

	2008						Total YR Million
	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & Others YR Million	
a. Assets							
Cash on hand & reserves	38,597	-	-	-	-	-	38,597
balances with CBY							
Due from banks and	54,588	-	-	-	-	-	54,588
financial institutions							
Financing Murabaha	730	19,180	39,836	8,989	1,758	1,154	71,647
transactions (net)							
Financing Istisna'a	-	7,966	-	-	-	291	8,257
transactions (net)							
Investments in Mudaraba	13,904	1,297	-	8,137	15	60	23,413
contracts (net)							
Investments in Musharka	4,372	-	-	2,725	60	-	7,157
contracts (net)							
Ijarah Muntahia Bittamleek	-	-	-	-	363	-	363
Investments in real estate	36,092	-	-	9,905	-	-	45,997
Available for sale	30,000	-	-	-	-	-	30,000
investments							
Investments in	18	-	-	-	-	-	18
associates							
b. Liabilities							
Current accounts and	-	27,633	19,873	1,108	2,956	19,688	71,258
other deposits							
Unrestricted investment	800	1,486	9,774	-	17,359	137,872	167,291
accounts							
Due to banks and	3,819	-	-	-	-	-	3,819
financial institutions							
c. Contingent liabilities (net)							
L/Gs	3,357	11,265	6,866	1,653	4,178	-	27,319
L/Cs	2,754	3,101	1,833	-	-	-	7,688
L/Cs for Murabaha contracts	2,824	2,288	1,746	-	-	-	6,858

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

	2009					
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
a. Assets						
Cash on hand & reserve						
balances with CBY	44,236	-	-	-	-	44,236
Due from banks and						
financial institutions	8,072	6,241	7,120	37,303	3,507	62,243
Financing Murabaha						
transactions (net)	69,318	-	-	-	-	69,318
Financing Istisna'						
transactions (net)	6,799	-	-	-	-	6,799
Investments in Mudaraba						
contracts (net)	3,470	-	535	10,108	3,941	18,054
Investments in Musharka						
contracts (net)	1,554	415	1,249	6,429	-	9,647
Ijarah Muntahia Bittamleek	640	-	-	-	-	640
Investments in real						
estate	10,576	-	2,114	69,267	193	82,150
Available for sale						
investments	2,110	576	3,401	19,224	6,763	32,074
Held-for-maturity						
investments	-	-	-	282	-	282
Investments in associates	-	-	-	52	-	52
b. Liabilities						
Current accounts and other						
deposits	68,958	-	-	-	-	68,958
Unrestricted investment &						
saving accounts	212,784	-	-	829	-	213,613
Due to banks and financial						
institutions	-	-	-	41	-	41
c. Contingent liabilities (net)						
L/Gs	21,842	-	1,103	3,468	-	26,413
L/Cs	-	5,771	7,127	8,300	1,900	23,098
L/Cs for Murabaha contracts	-	441	2,517	7,687	642	11,287

2008						
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
a. Assets						
Cash on hand & reserve	38,597	-	-	-	-	38,597
balances with CBY						
Due from banks and	13,395	14,215	5,324	21,530	124	54,588
financial institutions						
Financing Murabaha	70,926	-	-	721	-	71,647
transactions (net)						
Financing Istisna'	8,257	-	-	-	-	8,257
transactions (net)						
Investments in Mudaraba	1,358	-	989	11,510	9,556	23,413
contracts (net)						
Investments in Musharka	59	404	1,495	5,199	-	7,157
contracts (net)						
Ijarah Muntahia Bittamleek	363	-	-	-	-	363
Investments in real	8,271	-	-	37,540	186	45,997
estate						
Available for sale	3,586	740	714	20,818	4,142	30,000
investments						
Investments in subsidiaries	18	-	-	-	-	18
and associates						
b. Liabilities						
Current accounts and other	71,258	-	-	-	-	71,258
deposits						
Unrestricted investment &	166,491	-	-	800	-	167,291
saving accounts						
Due to banks and financial	-	-	447	3,372	-	3,819
institutions						
c. Contingent liabilities (net)						
L/Gs	19,069	-	-	8,250	-	27,319
L/Cs	-	1,305	2,236	3,156	991	7,688
L/Cs for Murabaha contracts	-	1,561	1,739	3,087	471	6,858

48. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

To comply with CBY circular No. 6 of 1998, the Bank 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 respectively. The following schedule reflects the Bank's significant foreign currencies positions at the balance sheet date.

	2009		2008	
	Surplus (deficit) YR 000s	% of capital & reserves	Surplus (deficit) YR 000s	% of capital & reserves
US Dollar	1,196,631	3.2%	(2,614,550)	(10.0%)
Saudi Rial	5,043,926	13.6%	3,881,543	14.8%
Euro	1,868,151	5.1%	1,463,984	5.6%
Sterling Pound	407,528	1.1%	998,436	3.8%
UAE Dirham	2,261,010	6.1%	2,698,386	10.3%
Bahrain Dinar	<u>6,079,109</u>	<u>16.4%</u>	<u>627,138</u>	<u>2.4%</u>
	<u>16,856,355</u>	<u>45.5%</u>	<u>7,054,937</u>	<u>26.9%</u>

49. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if the party has the ability to control or exercise significant influence over the Bank in making financial or operating decisions.

Related parties are represented in the members of the Board of Directors, executive management, and the companies which are owned by the shareholders and members of the Board of Directors.

The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular no. 4 of 1999 which limits credit transactions with related parties.

The following are the balances of these transactions on the balance sheet date:

	2009	2008
	YR Million	YR Million
Direct and indirect financing	34,708	39,491
Current and saving accounts	22,158	24,758
Investments in associates	52	18
Revenue and commission received	1,982	1,813
Compensation	39	24

50. TAX STATUS

- a. Corporate tax and salary tax has been cleared until the year 2006 and tax was paid in accordance with the Tax Authority assessment (form no. "5" final). However, the Bank has a dispute with the Tax Authority related to benefits that the banks should receive based on the tax exemptions related to financing projects licensed in accordance with the Investment Law. The Bank has received an assessment of YR 440,935 thousand as tax differences for the year 2005 and 2006 and the Bank has objected to this assessment at the courts. The Bank management believes that no additional taxes have to be paid.
- b. The Bank has submitted the tax declaration for the year 2007 and paid the amount due within the legal deadline. The Bank management received form no. (3) from the Tax Authority as tax amendment for 2007 tax declaration submitted by the Bank (after deducting the tax paid) of YR 749,161 thousand for corporate tax and YR 27,066 thousand for salary tax. The Bank has appealed this assessment within the legal time frame and also objected to the amendments made by the Tax Authority regarding the application of the exemption on income earned on facilities granted to projects licensed under the Investment Law

The Bank management believes that this additional assessment is baseless and that the Bank will not have to pay any additional tax.

- c. The Bank has submitted the tax declaration for the year 2008 and paid the amount due within the legal deadline. The Tax Authority is currently conducting its review for the said year and no assessment has been received by the Bank yet for the year 2008.

51. ZAKAT

- a. The Bank submits its Zakat declaration annually and remits the amount due based on the declaration.
- b. The Bank has paid the Zakat up to the end of 2008 according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

52. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform with this year financial statement classification for more appropriate presentation.

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by Board of Directors on May 12, 2010 and a Board resolution proposing the approval of the financial statements by the General Assembly of the shareholders was issued.

The statement of financial position and income statements of the Parent Company are presented below:

1. STATEMENT OF FINANCIAL POSITION **AS AT DECEMBER 31, 2009**

	2009	2008
	YR 000s	(Restated) YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	44,235,170	37,877,673
Due from banks and financial institutions	60,836,954	54,587,694
Financing Murabaha transactions (net)	69,317,854	71,647,259
Financing Istisna'a transactions (net)	6,799,132	8,256,607
Investments in Mudaraba contracts (net)	18,101,761	23,412,838
Investments in Musharaka contracts (net)	9,681,496	7,156,755
Ijarah Muntahia Bittamleek	639,626	363,023
Investments in real estate	85,904,182	45,997,304
Available for sale investments	30,912,547	29,061,489
Investments in subsidiaries and associates	2,314,551	2,208,614
Qard Hasan (net)	525,358	1,738
Restricted investments	378,600	365,995
Debit balances and other assets (net)	6,449,762	5,799,755
Property and equipment (net)	<u>5,377,549</u>	<u>5,436,803</u>
Total assets	<u>341,474,542</u>	<u>292,173,547</u>

Liabilities, investment accounts and shareholders' equity**Liabilities**

Current accounts and other deposits	69,033,837	71,386,234
Due to banks and financial institutions	41,390	3,818,884
Credit balances of Murabaha	2,288,912	1,858,373
Credit balances and other liabilities	4,475,384	1,939,386
Other provisions	1,577,852	1,771,357
Dividends payable	-	1,165,506
Total liabilities	<u>77,417,375</u>	<u>81,939,740</u>

Unrestricted investments and saving accounts' holders

213,613,147 167,291,069

Restricted investments accounts

378,600 365,995

Shareholders' equity

Paid-up capital	20,000,000	14,763,750
Statutory reserve	15,651,817	10,394,499
General reserve	1,069,000	1,069,000
Other reserves	13,435,794	16,349,219
(Deficit) retained earnings	(91,191)	275
Total equity attributable to equity holders of parent	<u>50,065,420</u>	<u>42,576,743</u>

Total liabilities, investment accounts and shareholders' equity

341,474,542 292,173,547

Contingent liabilities and commitments (net)

60,798,110 41,865,028

2. INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 YR 000s	2008 YR 000s
Revenue of Murabaha and Istisna'a financing transactions	6,804,805	7,801,336
Revenue from other joint investments	<u>6,278,988</u>	<u>13,374,028</u>
	13,083,793	21,175,364
Less:		
Return on unrestricted investment and saving accounts	(14,301,629)	(12,199,933)
	(1,217,836)	8,975,431
Commissions, revenue and bank service charges	1,867,325	2,280,731
Less: Commissions expenses on bank service charges	(43,842)	(38,908)
Gains from foreign currency transactions	6,066,988	197,741
Losses of investments in associates	(26,189)	-
Impairment of available for sale investments	(1,616,433)	(1,058,360)
Unrealized gain on (impairment of) investments in real estate	90,148	(90,148)
Other operating income	<u>1,148,056</u>	<u>65,100</u>
Operating profit	6,268,217	10,331,587
Less:		
Provisions	(2,973,996)	(5,182,321)
General and administrative expenses and depreciation	(3,045,960)	(2,604,182)
Impairment of assets which titles have been transferred to the Bank's ownership	(93,737)	-
Depreciation of assets acquired for leasing	<u>(245,990)</u>	<u>(89,084)</u>
Net (loss) profit before tax	(91,466)	2,456,000
Income tax for the year	<u>-</u>	<u>(605,182)</u>

Branches Bank

Head Office (Head Quarter)

Address Al-Zuhairi St., Al-Saeed Trading Bldg.
Tel. +967 1 203270
Fax +967 1 203271

Sana'a Branch

Address Sana'a - Al-Zuhairi St.
Tel. +967 1 203270
Fax +967 1 210350

Hadah Branch

Address Hadah St., Sana'a
Tel. +967 1 510218
Fax +967 1 510223

Taiz St. Branch

Address Sana'a, Taiz St.
Tel. +967 1 600723
Fax +967 1 600718

Al- Hasaba Branch

Address Sana'a, Al - Hasaba - Al Kaida St.
Tel. +967 1 229035
Fax +967 1 229031

Hayel Branch

Address Sana'a, Al - Rebat St.
Tel. +967 1 535831
Fax +967 1 535834

Beit Baous Branch

Address Beit Baous
Tel. +967 1 682112
Fax +967 1 682113

Dhamar Branch

Address General St.
Tel. +967 6 421490
Fax +967 6 421496

Ibb Branch

Address Al-Odain St.
Tel. +967 4 407553
Fax +967 4 401243

Taiz Branch

Address Jamal St., Deluxe Hotel
Tel. +967 4 252817
Fax +967 4 252811

Hodeidah Al-Ashraf Branch

Address Hauodh Al-Ashraf - Taiz
Tel. +967 4 230330
Fax +967 4 230376

26 September Office

Address Al- Tahreer St. Taiz
Tel. +967 4 258315
Fax +967 4 258313

Aden Branch

Address Al-Munalla
Tel. +967 2 240536
Fax +967 2 240631

Sheikh Othman Branch

Address Aden, Saila
Tel. +967 2 380781
Fax +967 2 380784

Aden Mall

Address Aden, Crater
Tel. +967 2 264131
Fax +967 2 264130

Hodeidah Branch

Address Port St.
Tel. +967 3 208844
Fax +967 3 208877

Harad Office

Address
Tel. +967 5 245813
Fax +967 5 245818

Al Mukalla Branch

Address Al Mukalla-Labour Area
Tel. +967 5 304741
Fax +967 5 304740

Bowaish Office

Address AL- Mukalla - Bowaish
Tel. +967 5 327050
Fax +967 5 327051

Shihar Branch

Address Hunain St., Omar Bin Maslem Bldg.
Tel. +967 5 332826
Fax +967 5 332021

Sayoon Branch

Address Sayoon-Arport St.
Tel. +967 5 405604
Fax +967 5 405241

Tareem Branch

Address AL Toby St.
Tel. +967 5 413777
Fax +967 5 413775

Al-Qaten-Branch

Address AL-Qaten - General St.
Tel. +967 5 304741
Fax +967 5 304740

Ataq- Branch

Address General St.
Tel. +967 5 204585
Fax +967 5 204586

Amran Branch

Address General St.
Tel. +967 7 613090
Fax +967 7 613094

Web Site : www.tiib.com
E-mail: info@tiib.com

