

التقرير السنوي
Annual
Report

2010

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بنك التضامن الإسلامي الدولي
Tadhamon International Islamic Bank
ثقة والتزام





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VISION:

To be the pioneers in the Yemeni banking sector through effective presence regionally and internationally to offer integrative Islamic services and activities.

MISSION:

Tadhamon international Islamic bank is a stock Yemeni company that offer banking and investing integrative services and activities locally and internationally through advanced means and work programs that abide by the Islamic banking standards and are run by a highly qualified professional staff that is committed to achieving the best profit for depositors and stockholders, offering quality services for customers and contributing effectively to social and economical development.

SOME OF OUR VALUES:

- Trust: credibility in dealing, fulfilling commitments, safety on money, and banking confidentiality.
- Commitment: abiding by Islamic legislations in dealings and behaviors, and non-stop developing for systems and laws of concern.
- Accountability: fulfilling and keeping all promises and rights for all employees, dealers, and stockholders based on the principals and values that governate the relationships between these bodies.
- Transparency: transparency in dealing and providing all needed information to all concerned bodies.
- Customers first: giving priority to customers and satisfying their present and future desires.
- Team spirit: working as a team with crystal-clear aims, specific specialties, integrative distributed roles, mutual understanding for these roles, and harmonious relationships.
- Quality: developing and offering products with tremendous accuracy, speed and professionalism.





Mr. Abdul - Ghabar Hayel Saeed
Chairman



Mr. Mohammad Abdu Saeed
Board Member



Mr. Shawki Ahmed Hayel
MD & Board Member



Mr. Abdul - Jalil Radman
Vice Chairman



Mr. Tawfeeq Adul - Raheem
Board Member



Mr. Mansour Mohammad Almusleh
Board Member
QIB REPRESENTATIVE



Mr. Mohammad Adullah Alsundar
Board Member



Mr. Yousef Alqoraimi
Board Member



Mr. Derhim Abdu Saeed
Board Member



Mr. Derhim Abdu Saeed
Board Member



Mr. Mahfood Ali Mohammad Saeed
Board Member



On the work of the Bank for the fiscal year 2010.

Chairman's Report



تقرير
هيئة الفتوى
والرقابة الشرعية

Praise be to Allah, and peace be upon our prophet Muhammad, his family, and companions

Attn : the Chairman

Members of the Board of Directors,
and Shareholders

Dear all,

Pursuant to 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 31/12/2010, which exhibits the results of bank's performance in the past year, we are pleased to present our yearly report as follows:

- 1 - The Shariah Supervision Board held a number of meetings involving the bank's concerned personnel and has reviewed the bank's activities, answered the inquiries posed, issued opinions "Fatawa" on the outstanding issues, and provided Shariah-wise instructions and guidance.
- 2 - the board has conducted an internal Shariah Audit and held several meetings in order to monitor the bank's adherence to shari'ah regulations in addition to providing explanations for questions raised by employees and customers of the bank.
- 3 - The board has reviewed 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 2010.
- 4- The Bank's management takes responsibility in executing and applying the decisions passed by Shariah Board and is required to keep the Board informed and updated about all transactions for which the Shariah Board should issue recommendations or decisions, and thus the Board's responsibility shall be limited to express an independent opinion based on its supervision of the bank operations.

Taking into account all aforementioned, and based on our reviews, the Board has noted the following:

- 1) - the overall banking transactions and investments operations which the bank has carried out were deemed as conforming with the principles of Islamic Shariah. Whereas, for those minor breaches, which have been found in some transactions, clear instructions have been given to make proper adjustments and corrections in line with Shariah rules.
- 2)- The distribution of profits and losses on investment accounts complies with the principles and rules adopted by Islamic Shariah.
- 3)- the returns received from dubious sources and transactions which might not comply with Islamic regulations have been recommended to be devoted for charitable purposes.

In conclusion, the Shariah Board extends its thankfulness to the Board of Directors, Executive management and employees in the bank for their cooperation, and appreciates their keenness to adhere to Islamic Shariah rules.

We supplicate to God to help and guide all of us.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TADHAMON INTERNATIONAL ISLAMIC BANK (Yemeni Joint Stock Company)

We have audited the consolidated financial statements of Tadhmon International Islamic Bank (Yemeni Joint Stock Company) (The Bank) and its subsidiaries (together referred to as the Group) which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, cash flow, changes in shareholders' equity and the statements of sources and uses of Qard Hasan Fund and the restricted investments for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, the Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen instructions and the Islamic Sharia'a principles. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, the Audit Standards of the Islamic Financial Institutions and the applicable laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 the auditors' 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for 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 consolidated 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 of 31 December 2010 and its consolidated financial performance, its consolidated cash flows, the changes in the shareholders' equity and the statements of sources and uses of Qard Hasan Fund and the restricted investments for the year then ended in accordance the International Financial Reporting Standards, the Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen instructions and the Islamic Sharia'a principles.

Report on Other Legal and Regulatory Matters

We received all the information required for the purposes of our audit. We also confirm that the group maintains proper accounting records and that the consolidated financial statements are in conformity with these records. We further report that during the course of our examination we have not become aware of any material violations of the Commercial Companies Law or its amendments, the group's Articles of Association that could have had significant adverse effects on the group's operations or its financial position for the year ended 31 December 2010.

Mohamed Taha Hamood & Co.

31 March 2011

Sana'a

CONSOLIDATION STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Notes	2010 YR000s	2009 YR000s (Restated)
Assets			
Cash in hand and reserve balances with Central Bank of Yemen	9	58,938,687	44,235,749
Due from banks and financial institutions	10	46,656,189	62,242,607
Murabaha financing transactions	11	75,043,433	69,317,854
Istisna'a financing transactions	13	8,209,034	6,799,132
Investment in mudaraba contracts	15	16,226,730	18,054,120
Investment in musharaka contracts	17	10,895,795	9,647,018
Ijarah Muntahia Bittamleek	19	532,999	639,626
Investment in real estate	20	109,808,719	85,724,788
Available for sale investments	21	39,523,123	32,073,990
Held-for-trading investments	22	1,501,320	282,408
Investment in associates	23	61,761	51,956
Qard hasan		16,173	525,358
Restricted investments		390,519	378,600
Debit balances and other assets	24	7,041,939	8,398,470
Fixed assets	26	4,998,075	5,598,282
Total assets		379,844,496	343,969,956
Liabilities, investment accounts and shareholders' equity			
Liabilities			
Current accounts and other deposits	27	82,615,807	68,957,863
Due to banks and financial institutions	28	37,680	41,390
Credit balances of Murabaha		821,763	2,288,912
Credit balances and other liabilities	29	3,519,856	1,714,136
Other provisions	31	1,199,184	1,577,852
Total liabilities		88,194,290	74,580,153
Unrestricted investments and saving accounts' holders	32	240,362,700	213,613,147
Restricted investments accounts		390,519	378,600
Shareholders' equity			
Share capital	34	20,000,000	20,000,000
Statutory reserve	35	15,900,069	15,900,012
General reserve	36	982,000	1,069,000
Other reserves	37	12,231,252	17,004,439
Retained earnings		1,735,135	1,406,716
Total equity attributable to equity holders of parent		50,848,456	55,380,167
Non-controlling interest		48,531	17,889
Total shareholders' equity		50,896,987	55,398,056
Total liabilities, investment accounts and shareholders' equity		379,844,496	343,969,956
Contingent liabilities and commitments	38	66,262,500	60,798,110

Abdul-Jabbar Hayel Saeed
Chairman

Shawki Ahmed Hayel Saeed
Managing Director

The attached notes 1 to 56 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31 DECEMBER 2010

	Notes	2010 YR000s	2009 YR000s
Revenue of Murabaha and Istisna'a financing transactions	39	7,781,000	6,804,805
Revenue from other joint investments	40	4,120,515	8,806,820
		<u>11,901,515</u>	<u>15,611,625</u>
Less:			
Return on unrestricted investments and saving accounts		(17,598,461)	(14,301,629)
		<u>(5,696,946)</u>	<u>1,309,996</u>
Commissions, revenue and bank service charges	41	1,865,067	1,867,324
Less: Commission expenses on bank service charges		(56,306)	(43,842)
Gains from foreign currency transactions	42	4,724,707	6,066,988
Losses of investment in associates		4,180,154	(26,189)
Unrealized (Loss) /gain on held for trading investments		(42,379)	89,174
Impairment of available for sale investments		(723,412)	(1,616,433)
Unrealized gain from investments in real estate		1,971,317	90,148
Other operating income	43	601,948	1,166,197
Operating profit		<u>6,824,150</u>	<u>8,903,363</u>
Less:			
Provisions	44	(1,778,995)	(2,973,996)
General and administration expenses and depreciation	45	(4,699,705)	(4,109,962)
Impairment of assets which titles have been transferred to the Bank		(16,840)	(93,737)
Depreciation of assets acquired for leasing		—	(245,990)
Net profit for the year		<u>328,610</u>	<u>1,479,678</u>
Attributable to:			
Equity holders of the parent		328,419	1,474,114
Non-controlling interest		191	5,564
Net profit for the year		<u>328,610</u>	<u>1,479,678</u>
Earnings per share	46	<u>YER 16.4</u>	<u>YER 84.80</u>

CONSOLIDATED COMPREHENSIVE STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 YR000s	2009 YR000s (Restated)
Net profit for the year		328,610	1,479,678
Net change of fair value :			
• Available for sale investments	37	(2,209,674)	(1,165,248)
• Investments in real estate	37	(2,902,783)	1,785,420
Total (Loss)/Profit for the year		<u>(4,783,817)</u>	<u>2,099,850</u>
Attributable to:			
Equity holders of the parent		(4,783,963)	2,094,286
Non-controlling interest		146	5,564
		<u>(4,783,817)</u>	<u>2,099,850</u>

The attached notes 1 to 56 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital	Statutory Reserve	General Reserve	Other Reserves	Retained Earnings	Equity Attributable to Equity Holders of Parent	Non-Controlling Interest	Total
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s
Balance at January 2009 (after restatement)	14,763,750	10,421,577	1,069,000	16,349,476	153,719	42,757,522	12,253	42,769,775
Cash payment to increase 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	---	---	---	(2,954,125)	---	(2,954,125)	---	(2,954,125)
Net movement in currency translation differences	---	---	---	34,791	---	34,791	---	34,791
Net profit for the year	---	---	---	---	1,474,114	1,474,114	5,636	1,479,750
Transfer to statutory reserve	---	221,117	---	---	(221,117)	---	---	---
Balance as at 31 December 2009	20,000,000	15,900,012	1,069,000	13,430,142	1,406,716	51,805,870	17,889	51,823,759
Effect of correction of error with retrospective application	---	---	---	3,574,297	---	3,574,297	---	3,574,297
Balance as at 31 December 2009 (after restatement)	20,000,000	15,900,012	1,069,000	17,004,439	1,406,716	55,380,167	17,889	55,398,056
Share premium	---	57	---	---	---	57	---	57
Net movement in fair value reserve	---	---	---	(5,112,381)	---	(5,112,381)	(45)	(5,112,426)
Net movement in currency translation differences	---	---	---	339,194	---	339,194	30,496	369,690
Net profit for the year	---	---	---	---	328,419	328,419	191	328,610
Transfer to statutory reserve	---	---	---	---	---	---	---	---
Transfer to general reserve	---	---	---	---	---	---	---	---
Dividends to shareholders	---	---	(87,000)	---	---	(87,000)	---	(87,000)
	20,000,000	15,900,069	982,000	12,231,252	1,735,135	50,848,456	48,531	50,896,987

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

Cash flows from operating activities:

Net profit for the year

Adjustments to reconcile net profit to cash flows from operating activities

Depreciation

Depreciation of assets acquired for leasing

Provisions

Provision for end of service compensation

Net losses / (gains) on sale of fixed assets

Losses from investment in associates

Unrealized gain on held-for-trading investment

Revaluation differences of held-for-trading investment

Impairment of available for sale investment

Unrealized gain from impairment of investment in real estate

Provisions used

Provisions reversed

Foreign currency translation of fixed assets

Foreign currency translation of investments in associates

Translation differences on foreign currency

Return of unrestricted investments and saving accounts

Operating profit before changes in assets and liabilities related to operating activities

(Increase) in reserve balances with CBY

Decrease in Qard Hasan

Decrease in debit balances and other assets

Decrease in credit balances and other liabilities

Income tax paid

Net cash flows provided by operating activities(1)

Cash flows from investing activities:

(Increase) in financing Murabah transactions

(Increase) in financing Istisna'a transactions

Decrease in investments in Mudaraba contracts

Decrease in Ijarah Muntahia Bittamleek

(Increase) in investment in Musharaka counteracts

Decrease in investment in real estate

(Increase) in held-for-trading investments

Increase in available for sale investments

Increase in investments in associates

Decrease in deposits with financial institutions

Net payment to purchase fixed assets

Net cash flows (used in) investing activities (2)

2010 YR000s	2009 YR000s (Restated)
328,610	1,479,678
461,919	367,173
---	245,990
1,778,995	2,973,996
146,366	321,411
1,854,311	(4,877)
(4,180,154)	26,189
42,379	(89,174)
(27,179)	(1,582)
2,207,463	1,616,433
2,902,753	3,484,149
(683,709)	(748,304)
(263,722)	(1,091,763)
(5,508)	807
---	(636)
369,690	34,863
17,598,461	14,301,629
22,521,675	22,915,982
(9,760,304)	(5,887,495)
509,185	(528,909)
1,337,826	(1,790,352)
332,778	665,490
---	(605,182)
14,941,160	14,769,534
(5,913,124)	3,094,683
(1,424,144)	1,475,656
1,38,813	3,570,857
367,881	(522,593)
(1,314,215)	(3,219,197)
27,467,351	(41,426,213)
(1,218,912)	(191,652)
(9,291,634)	(4,855,335)
(9,805)	(59,262)
5,115,796	(18,209,282)
(2,956,855)	(500,862)
(40,291,726)	(60,843,182)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 YR000s	2009 YR000s (Restated)
Cash from financing activities :		
Cash increase in paid-up capital	---	5,236,250
Increase in share premium	57	5,257,318
Increase in unrestricted investment and saving accounts	23,843,240	44,220,382
Increase in current account and other deposits	13,657,944	(2,300,622)
(Decrease) in due to banks and financial institution	---	(3,777,494)
Dividends paid from the due balance to the banks	(3,710)	(12,199,933)
Dividends paid to depositors	(17,674,577)	(1,165,506)
Dividends paid to shareholders and Board of Directors	(373)	---
Net cash flows provided by financing activities (3)	19,822,581	35,270,395
Net change in cash and cash equivalents(1+2+3)	(5,527,985)	(10,803,253)
Cash and cash equivalents at 1 January	49,476,289	60,279,542
Cash and cash equivalents at 31 December	43,948,304	49,476,289
Cash and cash equivalents consist of:		
Cash on hand and balances at CBY, other than reserve	31,135,129	19,820,750
Due from banks financial institution maturing within 3 month	12,813,175	29,655,539
	43,948,304	49,476,289

The attached notes 1 to 56 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN RESTRICTED INVESTMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Trade in Real state		Total	
	2010 YR000S	2009 YR000S	2010 YR000S	2009 YR000S
Investments at 31 December	390,519	378,600	390,519	378,600
Number of units at 31 December	1	1	1	1

The attached notes 1 to 56 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF SOURCE AND USES OF QARD HASAN FUND
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 YR000s	2009 YR00s
Opening balance:		
Outstanding utilized loans	530,665	1,756
Add: Sources of Qard Hassan		
Transfer from customers' current accounts	21,480	530,348
Less: uses of Qard Hasan		
Payment to customer' current account	(530,665)	(1,439)
Ending balance		
Outstanding utilized loans	21,480	530,665
Less: Qard Hassan fund provision		
	16,173	525,358

The following shows the transactions of Qard hasan provisi

	2010 YR000s	2009 YR000s
Balance as at January 1	5,307	18
Provided during the year	—	5,289
Balance as at December 31	5,307	5,307

The attached notes 1 to 56 form an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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:

Subsidiaries name	Percentage of equity	
	2010	2009
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%

2 PREPARATION BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and all subsidiaries financial statements are prepared and presented in accordance with Accounting Standards for Islamic Financial Institutions and also in accordance with International Financial Reporting Standards, and instructions issued by CBY

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

The consolidated financial statements are prepared accordance to the historical cost basis, except available-for-sale investments, investments in real estate and financial instruments (financial assets and liabilities) held at fair value.

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.

3.2 Consolidate financial statements

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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.

The consolidated financial statements 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Valuation of Murabaha and Istisna'a financing transactions

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:

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

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.

Debts relating to financing Murabaha and Istisna'a transactions, whether short or long term, are presented on the statement of financial position 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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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%
<u>Non-performing debts</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

At the end of each year, the Mudaraba and Musharaka capital is reduced by losses incurred which are charged to the income statement.

Investments in Mudaraba and Musharaka contracts are presented on the statement of financial position 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

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 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.

3.8 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.

3.9 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 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.

3.11 Valuation of assets for which titles have been transferred to the Bank

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Fixed assets

Fixed assets are 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

3.13 Impairment of assets

The Bank reviews the carrying amounts of the assets, according to its materiality, at the financial statement 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.

3.14 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.

3.15 End of service benefit

End of service benefit for uninsured Bank employees is calculated at 9% of last gross salary for each complete month of service. The accrued benefit is included in other provisions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Taxation

For the Group operations inside Yemen, the taxes are calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

For the Group operations outside Yemen, taxes are calculated based on tax laws and regulations in other countries in which the Group operates.

Provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

3.17 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.

3.18 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 current accounts with other banks due within three months.

3.19 Revenue recognition

a. Murabaha and Istisna'a Financing transactions

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.

b. Investments in Mudaraba and Musharaka contracts

Profits on investments in Mudaraba and Musharaka contracts, which initiate and terminate during the financial year, are recorded in the statement of income.

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. Commissions' revenues and bank service

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. 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.

e. Available for sale investments

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

f. Ijarah and Ijarah Muntahia Bittamleek

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

3.20 Prohibited revenues

Revenues prohibited by Islamic Sharia'a 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.

3.21 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.

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.

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.

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'A BOARD

The Bank's activities are subject to the supervision of the Sharia'a 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

6 ZAKAT

Zakat is computed according to the directions of the Sharia'a 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

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.

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.

	2010		2009	
	Carrying amount YR00	Fair Value YR000s	Carrying amount YR00	Fair Value YR000s
Financial assets				
Cash in hand and reserve balance with the CBY	58,938,687	58,938,687	44,235,749	44,235,749
Due from banks and financial institutions	46,656,687	46,656,687	62,242,605	62,242,605
Murabaha financing transactions	75,043,433	75,043,433	69,317,854	69,317,854
Istisna'a financing transactions	8,209,034	8,209,034	6,799,123	6,799,123
Investment in murabaha contracts	16,226,730	16,226,730	18,054,120	18,054,120
Investment in musharaka contracts	10,895,795	10,895,795	9,647,018	9,647,018
Ijarah Muntahia bittamleek	1,512,916	1,512,916	639,626	639,626
Investment in real estate available for Sale	110,199,238	110,199,238	85,724,788	85,724,788
Investments	39,523,123	39,523,123	32,073,990	32,073,990
Held-for-trading investment	1,501,320	1,501,320	282,408	282,408
Investment in associates	61,761	61,761	51,956	51,956
Restricted investment	390,519	390,519	378,600	378,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

7 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS(CONTINUED)

Financial liabilities

Current accounts and other deposits	82,615,807	82,615,807	68,957,863	68,957,863
Due to banks	37,680	37,680	41,390	41,390
Unrestricted investment and saving accounts	240,753,219	240,753,219	213,613,147	213,613,147

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 YR000s:606,970 (2009:YR000s:2,127,468) under the level 1 category, YR000s:33,693,466 (2009:YR000s:14,678,881) under the level 2 category and YR000s:7,858,991 (2009:YR000s:15,267,641) under the level 3 of the fair value hierarchy.

Moreover, the fair value for held-for-trading investments comprise of YR000s:1,501,320 (2009:YR000s:282,408) under the level 1 category. There were no investments qualifying for levels 2 and 3 fair value disclosures.

7.2 Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.

7.3 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS(CONTINUED)

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 financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	2010 YR000s	2009 YR000s
Cash in hand reserve balances CBY (excluding cash on hand and ATM)	42,247,649	32,487,345
Due from banks and financial institutions	46,656,189	62,242,605
Murabaha financing transactions	75,043,433	69,317,854
Istisna'a financing transactions	8,209,034	6,799,132
Investment in mudarabah contracts	16,226,730	18,954,120
Investment in musharaka contracts	10,895,795	9,647,018
Ijarah Muntahia Bittamleek	532,999	639,626
Investment in real estate	110,199,238	85,724,788
Held-for-trading investments	1,501,320	282,408
Available for sale investment	39,523,123	32,073,990
Investments in associates	61,761	51,956
Restricted investments	390,519	378,600
Debit balances and other assets	7,041,939	8,398,470
	358,529,729	326,079,912
Contingent liabilities and commitments	74,652,252	65,698,981
Total credit exposure	433,181,981	391,796,893

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS(CONTINUED)

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 remaining contractual maturities:

	Less than 3 Month YR000s	From 3 to 6 months YR000s	From 6 Month to 1 year YR000s	Over1 Year YR 000s	2010 Total YR000s
Liabilities					
Due to banks and Financial institutions	37,680	---	---	---	37,680
Current accounts and Other deposits	26,148,412	32,257,841	11,927,540	12,282,014	82,615,807
Unrestricted investments and saving account's Holders	49,401,057	65,774,290	65,865,380	59,321,973	240,362,700
Restricted investments	---	---	390,519	---	390,519
Total liabilities	75,587,149	98,032,131	78,183,439	71,603,987	323,406,706

	Less than 3 Month YR000s	From3to 6 months YR000s	From6 Month to 1YR000s	Over1 Year YR 000s	2009 Total YR000s
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 investments and saving account's Holders	35,542,152	48,933,333	60,466,603	68,671,053	213,613,147
Restricted investments	---	---	378,600	---	378,600
Total liabilities	52,980,234	78,627,819	69,943,002	81,439,002	282,991,000

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

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 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

	US dollar YR000s	EURO YR000s	Saudi Rial YR000s	Sterling Pound YR000s	UAE Dirham YR000s	Bahrain Dinar YR000s
Assets	150,619,166	6,259,733	29,591,927	3,680,522	32,709,322	6,637,192
Liabilities	133,890,179	4,588,592	20,976,391	309,433	125,800	---
Net currency Position	16,728,987	1,671,141	8,615,536	3,371,089	32,583,522	6,637,192

	YEN Japanese YR000s	Dinar Kuwaiti YR000s	Frank Swissair YR000s	Sudan Pound YR000s	2010 Total YR000s
Assets	81,000	1,688,070	5,247	8,125,234	239,710,195
Liabilities	40,108	---	34,894	---	159,965,398
Net currency Position	40,892	1,688,070	(29,647)	8,125,234	79,744,797

	US dollar YR000s	EURO YR000s	Saudi Rial YR000s	Sterling Pound YR000s	UAE Dirham YR000s	Bahrain Dinar YR000s	2009 Total YR000s
Assets	1,111,368,875	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	1,001,196,631	1,868,151	5,043,926	407,528	2,261,010	6,079,109	16,856,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS (CONTINUED)

8 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.

9 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 advice 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.

10 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 maximize 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:

	2010 YR million	2009 YR million
Core capital	38,369	38,273
Supplementary capital	2,010	1,452
Total capital	40,379	39,725
Risk-weighted assets and liabilities:		
Total asset	224,199	207,163
Contingent liabilities and commitment	40,965	26,595
Total risk-weighted assets and liabilities	265,164	233,758
Capital adequacy ratio	%15.20	17.0%

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

9 CASH IN HAND AND RESERVE BALANCES WITH CENTRAL BANK

	2010 YR000s	2009 YR000s
Cash on hand and ATM machines –local currency	4,842,127	4,037,44
Cash on hand and ATM machines –foreign currency	11,848,912	7,7107,932
	16,691,039	11,748,404
Reserve balances at CBY –Local currency	9,213,806	9,650,489
Reserve balances at CBY- foreign currency	33,033,842	22,836,856
	42,247,648	32,487,345
	58,938,687	44,235,749

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

	2010 YR000s	2009 YR000s
A) Central bank of Yemen		
Central account –local currency	13,063,454	7,057,375
Current account –foreign currency	1,380,636	1,014,971
	14,444,090	8,072,720
B) Foreign banks		
Current account	12,813,175	29,655,539
Deposits with Islamic financial institutions	19,398,924	245,514,720
	32,212,099	54,170,259
	46,656,189	62,242,605

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

11 MURABAHA FINANCING TRANSACTIONS

	Note	2010 YR000s	2009 YR000s
Financing Murabaha transaction		79,743,247	73,293,795
Less: Mourabaha transactions Provisions	12	(1,479,709)	(1,292,164)
Less : Deferred revenues		(3,220,105)	(2,683,777)
		75,043,433	69,371,854

Non-performing financing Murabaha transaction amounted to YR 1,228,558 thousand at 31 December 2010(2009: YR1,446,226 thousand). At the breakup of above amount is as follows:

	2010 YR000s	2009 YR000s
Substandard debts	524,068	720,683
Doubtful debts	135,965	128,488
Bad debts	568,525	597,055
	1,228,558	1,446,226

12 MURABAHA TRANSACTIONS PROVISION

	Specific YR000s	General YR000s	2010 Total YR000s	Specific YR000s	General YR000s	2009 Total YR000s
Balance at 1 January	648,471	643,693	1,292,164	1,341,717	715,725	2,057,442
Provided during the year	80,507	107,353	187,860	---	---	---
Provision used	(315)	---	(315)	(150)	---	(150)
Provision reversed	---	---	---	(693,096)	(72,032)	(765,128)
Balance at 31 December	728,663	751,046	1,479,709	648,471	643,693	1,292,164

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

17 INVESTMENTS IN MUSHARAKA CONTRACTS

	Note	2010 YR000s	2009 YR000s
Investment in Musharaka contracts-foreign		9,068,019	8,878,363
Investment in Musharaka contracts-local		2,694,420	1,569,861
		11,762,439	10,448,224
Less: Musharaka investment provision	18	(866,644)	(801,206)
		10,895,795	9,647,018

Non-performing Musharaka contracts which are classified as bad debts, amount to YR842,782 thousand at 31 December 2010 (2009: YR710,914thousand)

18 INVESTMENTS IN MUSHARAKA CONTRACTS PROVISION

	Specific YR000s	General YR000s	Total YR000s	General YR000s	Specific YR000s	Total YR000s
Balance at 1 January	710,914	90,292	801,206	-----	72,290	72,290
Provided during the year	506,299	-----	506,299	710,914	18,002	728,916
Transferred to general	66,430	(66,430)	-----	-----	-----	-----
Provisions used during the year	(128,264)	-----	(128,264)	-----	-----	-----
Provisions not required	(312,597)	-----	(312,597)	-----	-----	-----
Balance at 31 December	842,782	23,862	866,644	710,914	90,292	801,206

19 IJARAH MUNTALIA BITTAMLEEK

	2010 YR000s	2009 YR000s
Total cost	534,253	900,880
Less: accumulated depreciation	(1,254)	(261,259)
Net book value	532,999	639,626

The balance as at 31/12/2010 represents the cost of 180 cars leased to various entities according to Ijarah Muntalia Bittamleek contracts that end in 2013. The balance as at 31/12/2009 represents the cost of 180 cars leased to various entities according to Ijarah Muntalia Bittamleek contracts that end in 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

20 INVESTMENTS IN REAL ESTATE

	2010 YR000s	2009 YR000s
Investment in real estate – local	12,394,303	10,576,415
Investment in real – foreign	82,513,338	57,254,394
	94,907,641	67,830,809
Change in fair value (unrealized gain)	14,901,078	17,803,831
Unrealized gain from investment in real estate	-----	90,148
	109,808,719	85,724,788

Investments in real estate – foreign is registered in the name of related parties who provided written assignment in favor of the Bank.

The Bank is currently completing the necessary legal procedures to register the properties in its own name.

21 AVAILABLE FOR SALE INVESTMENTS

	Quoted YR000s	Unquoted YR000s	2010 Total YR000s
Available-sale investment –local	-----	2,800,008	2,800,008
Available-sale investment – foreign	3,278,224	36,121,833	39,400,057
	3,278,224	38,921,841	42,200,065
(Unrealized Losses)	(7,111)	88,758	81,647
Less: change in fair a value(unrealized loss)	(423,403)	(2,335,186)	(2,758,589)
	2,847,710	36,675,413	39,523,123
	Quoted YR000s	Unquoted YR000s	2009 Total YR000s
Available-sale investment –local	-----	2,110,679	2,110,679
Available-sale investment – foreign	2,181,852	28,615,900	30,797,752
	2,181,852	30,726,579	32,908,431
Less: change in fair a value(unrealized loss)	(54,384)	(7,896,026)	(834,441)
	2,127,468	29,946,522	32,073,990

Available-for-sale investments (unquoted) as at 31 December 2010 included YR000s:8,346,784 (2009: YR000s:15,267,641) which are carried at cost 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

22 HELD-FOR-TRADING INVESTMENTS

	2010 YR000s	2009 YR000s
Opening Balance at 1 January	282,408	---
Purchases during the year (cost)	2,059,924	191,652
Unrealized fair value	(868,191)	89,174
Foreign exchange difference	27,179	1,582
	<u>1,501,320</u>	<u>282,408</u>

23 INVESTMENT IN ASSOCIATES

	2010		2009	
	YR000's	Percentage of equity	YR000s	Percentage of equity
Islamien Co. For Payments Ltd. (Yemen)	18,883	44%	18,883	44%
Less: Impairment in value	(18,883)		(18,883)	
	<u>-</u>		<u>-</u>	
Tadhamon Group Holding Ltd. (United Arab Emirates)	51,956	35%	59,262	35%
Add: Group share in the net assets of the associate	9,805		(7,306)	
	<u>61,761</u>		<u>51,956</u>	
	<u>61,761</u>		<u>51,956</u>	

All the associate companies are unquoted in a stock market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

24 DEBIT BALANCES AND OTHER ASSETS

	Note	2010 YR000s	2009 YR000s
Debtors of Lagoon Land		---	1,180,335
Overdraft accounts		255,915	282,695
Advances to employees		75,232	99,860
Prepaid expenses		61,320	38,539
Debtors of Ijarah Muntahia be Tamleek		---	727,304
Project in progress		1,667,931	958,959
Stationary inventory		89,499	51,834
Equipment in stores		27,567	38,226
Assets which titles have been transferred to the bank		2,799,391	2,518,325
Other debit balances		2,270,870	2,689,475
		<u>7,247,725</u>	<u>8,585,552</u>
Less: provision for doubtful debts	(25)	(205,786)	(187,089)
		<u>7,041,939</u>	<u>8,398,470</u>

25 PROVISION FOR DOUBTFUL DEBTS

	Note	2010 YR000s	2009 YR000s
Opening balance at 1 January		187,082	276,844
		18,704	---
provisions reversed	(41)	---	(89,762)
Balance at 31 December		<u>205,786</u>	<u>187,082</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

26 FIXED ASSETS

	Land YR000s	Buildings YR000s	Equipment YR000s	Vehicles YR000s	Furniture And Fixtures YR000s	Computers YR000s	Total YR000s
Cost							
At 1 January 2010	2,497,247	2,055,296	771,735	377,761	287,245	826,148	6,815,432
Additions	816,343	418,473	190,637	100,756	46,444	128,862	1,701,515
Disposal	(1,786,116)	---	(33,485)	(102,006)	(6,286)	(28,300)	(1,956,193)
At 31 December 2010	1,527,474	2,473,769	929,834	377,208	332,033	929,202	6,569,520
Depreciation							
At 1 January 2010	---	83,049	396,523	145,836	114,419	477,323	1,217,150
Charge for the year	---	54,010	105,841	87,499	66,215	148,354	461,919
Relate to disposal	---	---	(29,057)	(57,220)	(4,645)	(19,961)	(110,883)
At 31 December 2010	---	137,059	473,633	176,231	178,159	606,363	1,571,445
Net carrying amount:							
At 31 December 2010	1,527,474	2,336,710	456,201	200,977	153,874	322,839	4,998,075
At 31 December 2009	2,458,370	1,974,715	349,401	231,750	299,658	284,388	5,598,282

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

27 CURRENT ACCOUNTS AND OTHER DEPOSITS

	2010 YR000s	2009 YR000s
Current accounts	73,062,201	62,807,145
Cash deposits	8,388,926	4,901,299
Other deposits	1,164,680	1,249,419
	82,615,807	68,957,863

28 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2010 YR000s	2009 YR000s
Foreign banks – current account	37,680	41,390

29 CREDIT BALANCES AND OTHER LIABILITIES

Note	2010 YR000s	2009 YR000s
Income tax for the year	5,793	---
Accrued expenses	103,800	91,616
Creditor and sundry credit balances	3,365,408	922,638
Installments of Ijarah Muntahia Bittamleek	38,422	698,718
Prohibited revenues by Islamic Sharia'a	(30)	1,164
	3,519,856	1,714,136

30 PROHIBITED REVENUES BY ISLAMIC SHARIA'A

	2010 YR000s	2009 YR000s
Opening balance at 1 January	1,164	89,627
Net revenues during the year	5,334	38,136
Total of revenue	6,498	127,763
Less: Donations	(65)	(126,599)
Balance at 31 December	6,433	1,164

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

31 OTHER PROVISIONS

	Balance at beginning of the year	Provided during the year	Used during the year	Provision reversed	Balance At 31 December 2010
	YR000s	YR000s	YR000s	YR000s	YR000s
Provision for contingent liabilities	512,026	158,675	(315)	---	670,386
Provision for end of service benefits	165,826	146,366	(121,047)	---	191,145
Provision for other liabilities	900,000	---	(562,347)	---	337,653
	<u>1,577,852</u>	<u>305,041</u>	<u>(683,709)</u>	<u>---</u>	<u>1,199,184</u>

	Balance at beginning of the year	Provided during the year	Used during the year	Provision reversed	Balance At 31 December 2010
	YR000s	YR000s	YR000s	YR000s	YR000s
Provision for contingent liabilities	730,718	---	---	(218,692)	512,026
Provision for end of service benefits	140,639	321,411	(296,224)	---	165,826
Provision for other liabilities	900,000	451,930	(451,930)	---	900,000
	<u>1,771,357</u>	<u>773,341</u>	<u>(748,154)</u>	<u>(218,692)</u>	<u>1,577,852</u>

32 UNRESTRICTED INVESTMENTS AND SAVING ACCOUNTS' HOLDERS

	2010 YR000s	2009 YR000s
Saving accounts - local currency	36,871,311	34,595,008
Saving accounts - foreign currency	50,730,839	40,209,338
	<u>87,602,150</u>	<u>74,804,346</u>
Deposits for more than one year - local currency	64,081,491	82,864,982
Deposits for more than one year - foreign currency	71,080,598	41,642,190
	<u>135,162,089</u>	<u>124,507,172</u>
Return for unrestricted investments and saving account	17,598,461	14,301,629
	<u>240,362,700</u>	<u>213,613,147</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

33 RETURN OF UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS HOLDERS

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 the 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:

	2010		2009	
	Local currency %	Foreign currency %	Local currency %	Foreign currency %
Ongoing deposits	14.50	5.20	12.006	5.006
Saving accounts	8.52	2.92	7.060	3.128

34 SHARE CAPITAL

The authorized, issued and fully paid-up capital is YR20 billion represented in 20 million shares of nominal value of YR1,000 each.

	2010 YR000s	2009 YR000s
Paid up capital at December 31	<u>20,000,000</u>	<u>20,000,000</u>

35 STATUTORY RESERVE

According to the Bank's Articles of Association and CBY instructions, 15% of the net profit for the year is to be transferred annually to statutory reserve till it equals two times the paid-up capital. However, in view of the loss incurred for the year no transfer was made to this reserve. The distribution of this reserve is restricted to the requirements as specified in the Commercial Companies Law.

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

	2010 YR000s	2009 YR000s
Balance at 1 January	15,900,012	10,421,577
Transfer from net profit	---	221,117
Share premium	57	5,257,318
Balance at 31 December	<u>15,900,069</u>	<u>15,900,012</u>

The proceeds received from the rights issue are directly credited to the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

36 GENERAL RESERVE

The transfer and distribution of the general reserve is subject to the recommendation of the Board of Directors and the approval of shareholders in the Annual General Meeting (AGM). Due to the loss for the year no transfer was made to this reserve.

37 OTHER RESERVES

	Balance at beginning of the year YR000s	Provided during the year YR000s	Balance At 31 December 2010 YR000s
Available for sale investments	(834,441)	(2,209,628)	(3,044,069)
Investment in real estate	17,803,831	(2,902,753)	14,901,078
Investment in a subsidiary	35,049	339,194	374,243
	<u>17,004,439</u>	<u>(4,773,187)</u>	<u>12,231,252</u>

38 CONTINGENT LIABILITIES AND COMMITMENTS

	2010		
	Cross Commitment YR000s	Margin Held YR000s	Net Commitment YR000s
L/Cs for Murabaha contracts	8,717,320	(15,454)	8,701,866
Letters of credit	31,408,427	(4,850,111)	26,558,316
Letters of guarantee	34,526,505	(3,524,187)	31,002,318
	<u>74,652,252</u>	<u>(8,389,752)</u>	<u>66,262,500</u>

	2009		
	Cross Commitment YR000s	Margin Held YR000s	Net Commitment YR000s
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>60,789,110</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

39 REVENUE OF MURABAHA AND ISTISNA'A FINANCING TRANSACTIONS

	2010 YR000s	2009 YR000s
Revenue of local Murabaha transactions	6,687,181	6,034,180
Revenue of Istisna'a transactions	1,093,819	770,625
	<u>7,781,000</u>	<u>6,804,805</u>

40 REVENUE FROM OTHER JOINT INVESTMENTS

	2010 YR000s	2009 YR000s
Profits from investments in Murabaha contracts	94,375	1,379,057
Profits from investments in Mausharaka contracts	93,920	23,617
Profits from real estate investments	124,064	2,650,838
Profits from available-for-sales investments	—	1,116,192
Profits from other investments	3,808,156	3,637,116
	<u>4,120,515</u>	<u>8,806,820</u>

41 COMMISSIONS, REVENUE AND BANK SERVICE CHARGES

	2010 YR000s	2009 YR000s
Commissions on documentary credits	870,298	820,923
Commissions on letters of guarantee	332,634	268,605
Commissions on transfer of funds	100,579	113,690
Commissions on foreign investments	129,798	486,770
Cheques collection commission	30,235	25,432
Other fees and commissions	401,523	151,904
	<u>1,865,067</u>	<u>1,867,324</u>

42 GAINS FROM FOREIGN CURRENCY TRANSACTIONS

	2010 YR000s	2009 YR000s
Gains from revaluation of balances in foreign currency	4,441,022	6,065,142
Gains of dealing in foreign currencies	283,685	1,796
	<u>4,724,707</u>	<u>6,066,938</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

43 OTHER OPERATING INCOME

	2010 YR000s	2009 YR000s
Provisions reversed	263,721	1,091,763
Net revenue from Tadhmon Trading Center	56,810	39,773
Others	281,417	34,661
	<u>601,948</u>	<u>1,166,197</u>

44 PROVISIONS

	2010 YR000s	2009 YR000s
Murabaha transactions provision	187,860	---
Istisna'a transactions provision	14,242	---
Mudarba contracts investment provision	886,603	1,787,861
Musharka contracts investment provision	506,299	728,916
Qard hasan provision	---	5,289
Provision for contingent liabilities	158,675	---
Provision for other liabilities	25,319	451,930
	<u>1,778,995</u>	<u>2,973,996</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

45 GENERAL AND ADMINISTRATION EXPENSES AND DEPRECIATION

	2010 YR000s	2009 YR000s
Salaries and wages	2,379,041	2,220,741
Deprecation	436,485	367,173
Advertisement	173,424	158,652
Rent	220,444	190,986
Transportation	160,765	151,487
Repairs and maintenance	70,321	68,573
Stationary	67,919	63,491
Professional fees	31,268	92,139
Studies expenses	31,722	32,013
Subscriptions	317,018	264,244
Communications	49,230	58,628
Water and electricity	111,018	68,726
Cleaning and security expenses	65,257	58,879
Insurance	102,034	53,596
Taxes and duties	20,871	20,867
Car expenses	20,350	12,838
Hospitality expenses	5,293	8,818
Premises expenses	---	50,885
Donations	60,876	29,948
Information technology expenses	76	28,565
Other expenses	376,293	108,713
	<u>4,699,705</u>	<u>4,109,962</u>

46 EARNINGS PER SHARE

	2010	2009
Net profit for the year (YR000s)	328,610	1,474,114
Weighted average of number of shares (in thousands)	20,000	17,382
Earnings per share	<u>YR16,4</u>	<u>YR 84,8</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

45 GENERAL AND ADMINISTRATION EXPENSES AND DEPRECIATION

	2010 YR000s	2009 YR000s
Salaries and wages	2,379,041	2,220,741
Depreciation	436,485	367,173
Advertisement	173,424	158,652
Rent	220,444	190,986
Transportation	160,765	151,487
Repairs and maintenance	70,321	68,573
Stationary	67,919	63,491
Professional fees	31,268	92,139
Studies expenses	31,722	32,013
Subscriptions	317,018	264,244
Communications	49,230	58,628
Water and electricity	111,018	68,726
Cleaning and security expenses	65,257	58,879
Insurance	102,034	53,596
Taxes and duties	20,871	20,867
Car expenses	20,350	12,838
Hospitality expenses	5,293	8,818
Premises expenses	—	50,885
Donations	60,876	29,948
Information technology expenses	76	28,565
Other expenses	376,293	108,713
	<u>4,699,705</u>	<u>4,109,962</u>

46 EARNINGS PER SHARE

	2010	2009
Net profit for the year (YR000s)	328,610	1,474,114
Weighted average of number of shares (in thousands)	20,000	17,382
Earnings per share	<u>YR16,4</u>	<u>YR 84,8</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

47 MATURITIES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

a. Assets

Cash in hand and reserve balances with CBY
Due from banks and financial institutions
Murabah financing transactions
Financing istisana'a transactions
Investment in mudaraba contracts
Investment in musharka contracts
Ijarah Muntahaia Bitanleek
Investment in real estate
Available for sale investments
Held-for -trading investments
Investment in associates
Overdraft accounts

b. Liabilities

Current accounts and other deposits
Unrestricted investment and saving accounts
Due to bank and financial institutions

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 on year YR Million	2009 Total YR Million
19,435	4,494	9,426	10,884	44,234
37,728	18,554	5,961	—	62,243
28,316	21,554	10,706	8,742	69,318
358	2,631	2,542	1,268	6,799
864	2,437	5731	9,022	18,054
—	1,522	4,022	4,103	9,647
28	74	254	284	640
82,150	—	—	—	82,150
—	—	—	32,074	32,074
282	—	—	—	282
—	—	—	52	52
283	—	—	—	283
<u>169,441</u>	<u>51,266</u>	<u>38,642</u>	<u>66,429</u>	<u>325,778</u>
17,397	29,694	9,098	12,769	68,958
35,542	48,933	60,467	68,671	213,613
41	—	—	—	41
<u>52,980</u>	<u>78,627</u>	<u>69,565</u>	<u>81,440</u>	<u>282,612</u>
<u>116,461</u>	<u>(27,361)</u>	<u>(30,923)</u>	<u>(15,011)</u>	<u>43,166</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

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

	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & others YR million	2010 Total YR Million
a. Assets							
Cash in hand and reserve balances with CBY	58,939	—	—	—	—	—	58,939
Due from banks and financial institutions	46,656	—	—	—	—	—	46,656
Marabaha financing transactions	—	17,562	43,182	9,885	2,547	1,867	75,043
Itisana's financing transactions	—	7,636	—	—	—	573	8,209
Investment in mudaraba contracts	11,116	4,734	311	—	15	50	16,226
Investments in musharaka contracts (Jarrah Muntahia Bitanleek)	9,269	—	1,551	—	—	75	10,895
Investment in real estate	99,238	—	—	10,571	—	—	109,809
Available for sale investments	39,428	—	—	—	—	—	39,428
Held-for-trading investments	—	—	533	—	—	—	533
Investment in associates	62	—	—	—	—	—	62
b. Liabilities							
Current accounts and other deposits	—	22,632	25,616	—	2,928	31,507	82,683
Unrestricted investments and saving accounts	—	6,220	12,447	—	28,963	193,123	240,753
Due to banks and financial institutions	38	—	—	—	—	—	38
c. Contingent liabilities							
L/GS	6,653	11,025	12,937	2,893	1,756	—	35,264
L/GS	—	—	35,647	32,126	—	—	67,773
L/GS	—	—	10,368	6,536	—	—	16,904
L/GS from marabaha contracts	38	—	—	—	—	—	38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

48 DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS (CONTINUED)

	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & others YR Million	2009 Total YR Million
a. Assets							
Cash in hand and reserve balances with CBY	44,236	—	—	—	—	—	44,236
Due from banks and financial institutions	62,243	—	—	—	—	—	62,243
Marabaha financing transactions	—	21,777	36,807	8,354	1,329	1,051	69,318
Itisana's financing transactions	—	2,482	—	—	—	317	6,799
Investment in mudaraba contracts	14,451	3,360	—	98	65	80	18,054
Investment in musharaka contracts (Jarrah Muntahia Bitanleek)	3,419	—	—	5,746	482	—	9,647
Investment in real estate	71,573	—	—	10,577	—	—	82,150
Available for sale investments	32,074	—	—	—	—	—	32,074
Held-for-trading investments	282	—	—	—	—	—	282
Investment in associates	52	—	—	—	—	—	52
b. Liabilities							
Current accounts and other deposits	156	18,320	16,805	845	1,547	31,885	68,958
Unrestricted investments and saving accounts	—	3,443	7,549	—	19,760	172,861	213,613
Due to bank and financial institutions	41	—	—	—	—	—	41
c. Contingent liabilities							
L/GS	5,564	9,021	8,138	2,129	1,561	—	26,413
L/GS	—	10,349	7,130	—	—	5,619	23,098
L/GS from marabaha contracts	—	4,766	3,721	—	—	2,800	11,287

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Republic of Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	2010 Total YR Million
a Assets						
Cash in hand and reserve balances with CBY	58,939	---	---	---	---	58,939
Due from banks and financial institutions	12,637	1,324	3,670	28,972	53	46,656
Murabaha financing transactions	75,043	---	---	---	---	75,043
Istisana'a financing transactions	8,209	---	---	---	---	8,209
Investment in mudaraba contracts	---	57	721	12,508	2,940	16,226
Investment in musharka contracts	1,626	359	733	8,178	---	10,896
Ijarah Muntahaia Bimamleek	533	---	---	---	---	533
Investment in real estate	10,571	---	1,822	95,153	2,263	109,809
Available for sale investments	---	224	1,911	28,031	9,357	39,523
Held-for-trading investments	---	---	---	1,501	---	1,501
Investment in associates	---	---	---	62	---	62
b Liabilities						
Current accounts and other deposits	82,616	---	---	---	---	82,616
Unrestricted investments and saving accounts	240,753	---	---	---	---	240,753
Due to bank and financial institutions	---	---	---	38	---	38
c Contingent liabilities						
L/GS	21,842	---	1,103	3,468	1,561	26,413
L/GS	---	5,771	7,127	8,300	1,900	23,098
L/GS from murabaha contracts	---	441	2,517	7,687	642	11,287

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

49 DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS(CONTINUED)

	Republic Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	2009 Total YR Million
a Assets						
Cash in hand and reserve balances with CBY	44,236	---	---	---	---	44,236
Due from banks and financial institutions	8,072	6,120	7,120	37,303	3,807	62,243
Murabaha financing transactions	69,318	---	---	---	---	69,318
Istisana'a financing transactions	6,799	---	---	---	---	6,799
Investment in mudaraba contracts	3,470	---	535	10,108	3,941	18,054
Investments in musharka contracts	1,554	415	1,249	6,429	---	9,647
Ijarah Muntahaia Bimamleek	640	---	---	---	---	640
Investment 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-trading investment	---	---	---	282	---	282
Investment in associates	---	---	---	52	---	52
b Liabilities						
Current accounts and other deposits	68,958	---	---	---	---	68,958
Unrestricted investments and saving accounts	212,784	---	---	829	---	213,613
Due to banks and financial institutions	---	---	---	41	---	41
c Contingent liabilities						
L/GS	21,842	---	1,103	3,468	1,561	26,413
L/GS	---	5,771	7,127	8,300	1,900	23,098
L/GS from murabaha contracts	---	441	2,517	7,687	642	11,287

NOTES CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

50 SIGNIFICANT FOREIGN CURRENCY 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.

	2010		2009	
	Surplus YR000s	% of capital & reserves	Surplus YR000s	% of capital & reserves
US Dollar	16,729	%45	1,196,631	%3,2
Euro	1,671	%4,53	1,868,151	%5,1
Saudi Rial	8,616	%23,4	5,043,926	%13,6
Sterling Pound	3,371	%9,14	407,528	%1,1
UAE Dirham	32,583	%88,35	2,261,010	%6,1
Bahrain Dinar	6,637	%18	6,079,169	%16,4
Yen-Japan	40	%0,11	---	---
Dinar-Jordan	312	%0,85	---	---
Dinar-Kuwait	1,688	%4,58	---	---
Frank-Swiss	(39)	(%0,08)	---	---
Pounds Sudan	8,125	%22	---	---
Total	79,745	%216,22	16,856,355	%45,5

51 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

	Related Parties	Top Managements	2010 YR000s	2009 YR000s
Direct and indirect financing	66,407	---	66,407	34,708
Current and saving accounts	56,588	---	56,588	22,158
Investment in associates	52	---	52	52
Revenue and commission received	1,688	---	1,688	1,982
Remuneration	---	64	64	39

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

52 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 YR000:440,935 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 YR000:749,161 for corporate tax and YR 000:27,066 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 2009 and paid the amount due within the legal deadline. The Tax Authority is currently conducting its review and no assessment has been received.

53 Significant accounting judgments and estimates

The preparation of financial statements 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

54 ZAKAT

The Bank submits its Zakat declaration annually and remits the amount due based on the declaration. The Bank has paid the Zakat up to the end of 2009, according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

55 CORRECTION OF ERROR WITH RETROSPECTIVE APPLICATION

During 2010, it has been discovered that land in the investments in real estate's were incorrectly recorded in 2009.

As required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the respective changes have been adjusted in the accounts for the current year and the comparative amounts of 2009 have been restated to correct this error. The effect of the restatement on these statements of financial position is summarized below.

25.1 Effect on statement of financial position

	2009 YR000s
Description	(Restated)
Increase in investment in real estate	3,574,297
Increase in loss for the year	3,574,297

56 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by Board of Directors and a Board resolution for proposing the approval of the financial statements by the General Assembly of the shareholders was passed.