

INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

AND INDEPENDENT AUDITOR'S REPORT

INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2009
AND INDEPENDENT AUDITOR'S REPORT**

TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in shareholders' equity	5
Statement of cash flows	6 - 7
Proposed appropriation account	8
Notes to the financial statements	9 - 40



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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen. 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 financial statements present fairly, in all material respects, the financial position of International Bank of Yemen as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards 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 Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books.


M. Zohdi Mejanni
Associated Accountant



Sana'a, April 25, 2010

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2009

ASSETS	Note	2009 YR 000's	2008 YR 000's
Cash on hand and reserve balances with			
Central Bank of Yemen	6	17,408,729	16,334,356
Due from banks	7	22,938,485	12,041,766
Treasury bills (net)	8	69,671,110	21,114,008
Treasury bills with repurchase obligation	9	9,616,973	7,575,987
Certificates of deposit with Central Bank of			
Yemen	10	-	49,200,000
Loans and advances (net)	11	23,444,548	32,125,779
Available for sale investments	14	96,142	20,404
Investment in subsidiaries	15	912,164	-
Debit balances and other assets (net)	16	1,604,442	2,255,412
Property and equipment (net)	18	<u>1,913,694</u>	<u>1,948,969</u>
TOTAL ASSETS		<u>147,606,287</u>	<u>142,616,681</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	19	2,961,794	3,494,758
Customers' deposits	20	129,792,066	126,290,563
Credit balances and other liabilities	21	2,826,598	3,133,982
Other provisions	22	1,442,092	929,165
Dividends payable		-	612,000
Total Liabilities		<u>137,022,550</u>	<u>134,460,468</u>
SHAREHOLDERS' EQUITY	23		
Paid-up capital	23/a	7,000,000	5,100,000
Legal reserve	22/b	1,099,546	1,099,546
Retained earnings		<u>2,484,191</u>	<u>1,956,667</u>
Total Shareholders' Equity		<u>10,583,737</u>	<u>8,156,213</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>147,606,287</u>	<u>142,616,681</u>
Contingent liabilities and commitments (net)	24	<u>43,809,541</u>	<u>48,683,262</u>

(The notes on pages 9 to 40 are an integral part of these financial statements)

Shaher Abdul Haq /
Vice Chairman

Ahmed Thabet Al Absi
General Manager

Muneer Ahmed Muzahem
Finance Manager

Independent auditor's report attached

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009**

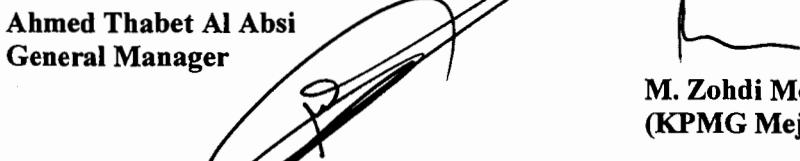
	<u>Note</u>	2009 YR 000's	2008 YR 000's
Interest income	25	14,712,962	15,418,528
Less: interest expense	26	(7,168,303)	(8,055,837)
Net interest income		7,544,659	7,362,691
Commissions' revenue and bank service charges	27	1,309,625	1,058,955
Less: commissions' expense and bank service charges		(107,983)	(85,277)
Gain of foreign currency transactions	28	359,675	261,331
Other operating income	29	<u>227,849</u>	<u>128,001</u>
Net operating income		9,333,825	8,725,701
Less: provisions	30	(3,078,049)	(2,126,366)
Less: general and administrative expenses and depreciation	31	(2,276,465)	(2,192,465)
Net profit of the year before income tax		3,979,311	4,406,870
Less: Income tax for the year		(1,551,787)	(1,432,735)
Net profit for the year after tax		2,427,524	2,974,135
Other comprehensive income		—	—
Total comprehensive income for the year		<u>2,427,524</u>	<u>2,974,135</u>
Earnings per share	32	<u>YR 34.70</u>	<u>YR 58.30</u>

(The notes on pages 9 to 40 are an integral part of these financial statements)

Shaher Abdul Haq /s
Vice Chairman



Ahmed Thabet Al Absi
General Manager



Muneer Ahmed Muzahem
Finance Manager



Independent auditor's report attached.



M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



INTERNATIONAL BANK OF YEMEN
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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

	Paid-up Capital YR 000s	Legal Reserve YR 000s	Retained Earnings YR 000s	Total YR 000s
Year 2009				
Balance as at January 1, 2009	<u>5,100,000</u>	<u>1,099,546</u>	<u>1,956,667</u>	<u>8,156,213</u>
Total comprehensive income for the year				
Net profit for the year	<u>-</u>	<u>-</u>	<u>2,427,524</u>	<u>2,427,524</u>
Other comprehensive income				
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>2,427,524</u>	<u>2,427,524</u>
Transactions with owners, recorded directly in shareholders' equity				
Transfer to capital	<u>1,900,000</u>	<u>-</u>	<u>(1,900,000)</u>	<u>-</u>
	<u>1,900,000</u>	<u>-</u>	<u>(1,900,000)</u>	<u>-</u>
Balance as at December 31, 2009	<u>7,000,000</u>	<u>1,099,546</u>	<u>2,484,191</u>	<u>10,583,737</u>
Year 2008				
Balance as at January 1, 2008	<u>3,400,000</u>	<u>653,426</u>	<u>1,740,652</u>	<u>5,794,078</u>
Total comprehensive income for the year				
Net profit for the year	<u>-</u>	<u>-</u>	<u>2,974,135</u>	<u>2,974,135</u>
Other comprehensive income				
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>2,974,135</u>	<u>2,974,135</u>
Transactions with owners, recorded directly in shareholders' equity				
Transfer to legal reserve	<u>-</u>	<u>446,120</u>	<u>(446,120)</u>	<u>-</u>
Transfer to capital	<u>1,700,000</u>	<u>-</u>	<u>(1,700,000)</u>	<u>-</u>
Dividends to shareholders	<u>-</u>	<u>-</u>	<u>(612,000)</u>	<u>(612,000)</u>
	<u>1,700,000</u>	<u>446,120</u>	<u>(2,758,120)</u>	<u>(612,000)</u>
Balance as at December 31, 2008	<u>5,100,000</u>	<u>1,099,546</u>	<u>1,956,667</u>	<u>8,156,213</u>

(The notes on pages 9 to 40 are an integral part of these financial statements)

Shaher Abdul Haq /
 Vice Chairman

Ahmed Thabet Al Absi
 General Manager

Muneer Ahmed Muzahem
 Finance Manager

Independent auditor's report attached.

M. Zohdi Mejanni
 (KPMG Mejanni, Hazem Hassan & Co.)



INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Note</u>	<u>2009</u> <u>YR 000's</u>	<u>2008</u> <u>YR 000's</u>
<u>Cash flows from operating activities</u>			
Net profit for the year before income tax		3,979,311	4,406,870
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of property and equipment	18	238,028	209,525
Provisions provided during the year	30	3,078,049	2,126,366
Revaluation differences of provision in foreign currencies		47,017	4,048
Provisions reversed	29	(137,073)	(51,777)
Provisions used		(146,413)	(220,557)
Evaluation profit (loss) of available for sale investments		(738)	(524)
Net (profit) on sale of property and equipment		(117)	-
Operating profit before changes in assets and liabilities used in operating activities		7,058,064	6,473,951
<u>Net (increase) decrease in assets</u>			
Reserve balances with Central Bank of Yemen		(542,633)	448,654
Loans and advances		6,455,423	(11,579,790)
Treasury bills due after 3 months		(31,632,102)	3,127,729
Debit balances and other assets		548,125	1,261
<u>Net increase (decrease) in liabilities</u>			
Due to banks		(532,964)	1,967,415
Customers' deposits		3,501,503	11,376,082
Credit balances and other liabilities		(426,436)	57,078
Income tax paid		(1,432,735)	(780,475)
Net cash (used in) provided by operating activities		(17,003,755)	11,091,905
<u>Cash flows from investing activities:</u>			
Net payments to acquisition of property and equipment		(202,636)	(389,256)
(Increase) decrease in investments in subsidiaries		(912,164)	336,781
Decrease (increase) in time deposits – restricted	7	211,837	(315,492)
(Increase) in available for sale investments		(75,000)	-
Net cash (used in) investing activities		(977,963)	(367,967)

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INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

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

	<u>Note</u>	<u>2009</u> <u>YR 000's</u>	<u>2008</u> <u>YR 000's</u>
<u>Cash flows from financing activities:</u>			
Dividend paid to shareholders		(612,000)	-
Net cash (used in) financing activities		(612,000)	-
Net change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		(18,593,718)	10,723,938
Cash and cash equivalents at the end of the year		<u>78,572,531</u>	<u>67,848,593</u>
		<u>59,978,813</u>	<u>78,572,531</u>
<u>Cash and cash equivalents consist of:</u>			
Cash on hand and at ATM and cheques purchased		2,731,626	2,199,886
Due from banks		22,938,485	12,041,766
Treasury bills maturing within 3 months		24,795,384	7,870,384
Treasury bills with repurchase obligation maturing within 3 months		9,616,973	7,575,987
Certificates of deposit with Central Bank of Yemen maturing within 3 months		<u>-</u>	<u>49,200,000</u>
		<u>60,082,468</u>	<u>78,888,023</u>
Less: Time deposits – restricted	7	(103,655)	(315,492)
		<u>59,978,813</u>	<u>78,572,531</u>

(The notes on pages 9 to 40 are an integral part of these financial statements)

Shaher Abdul Haq
 Vice Chairman

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INTERNATIONAL BANK OF YEMEN
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PROPOSED APPROPRIATION ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 YR 000's	2008 YR 000's
Retained earnings at the beginning of the year	56,667	40,652
Add: net profit for the year	<u>2,427,524</u>	<u>2,974,135</u>
	<u>2,484,191</u>	<u>3,014,787</u>
Proposed to be appropriated as follows:		
15% legal reserve	364,129	446,120
Dividends to shareholders	1,050,000	612,000
Transfer to capital increase	1,000,000	1,900,000
Retained earnings	<u>70,062</u>	<u>56,667</u>
	<u>2,484,191</u>	<u>3,014,787</u>

INTERNATIONAL BANK OF YEMEN

(Yemeni Joint Stock Company)

Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

1. BACKGROUND INFORMATION

The International Bank of Yemen - Yemeni Joint Stock Company was incorporated in the Republic of Yemen on January 4, 1979 under the Republican Decree No. 4 of 1979. The Bank operates in the Republic of Yemen, through its head office and in Sana'a city and branches in Sana'a (Zubeiry St., Bal Al Yemen, Haddah, Sheraton, Airport, Al Farasha, Al Steen, Taiz St., University, and GfT), Hodeidah, Aden (Aden and Al-Mansora), Mukalla, Alquten, Ibb, Dhamar, Taiz and Seiyun (Seiyun and Seiyun Airport).

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

The financial statements are prepared on a going concern and the historical cost basis, except available-for-sale investments and financial instruments (financial assets and liabilities) held at fair value, and in accordance with International Financial Reporting Standards (IFRS) and instructions issued by the Central Bank of Yemen (CBY).

In deviation from International Financial Reporting Standards and to apply the provisions of local laws and regulations, the following is treated as follows:

- a. The adoption of minimum fixed percentages for loan provisions in accordance with CBY circular No. 6 of 1996 and No. 5 of 1998.
- b. The provision for general risks calculated on performing loans is presented as part of loans and advances provision and not part of shareholders' equity.
- c. The provision for contingent liabilities is presented as part of other provisions and not as part of shareholders' equity.

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

2.2 Functional and presentation currency

The financial statements are presented in Yemen Rials, which is the functional currency of the Bank, and all values are rounded to the nearest one thousand Yemeni Rail except when otherwise is indicated.

2.3 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.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

The estimates and associated assumptions are based on historical experience of the Bank and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about 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 financial statements are described in notes 4, 11, 21 and 22.

2.4 *Presentation of financial statements*

The Bank has applied revised IAS 1 Presentation of Financial Statements which becomes effective from 1 January 2009 and introduces the term “total comprehensive income,” which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income effectively combining both the income statement and all non-owner changes in equity in a single statement (this presentation has been applied in this financial statements as at December 31, 2009), or in an income statement and a separate statement of comprehensive income.

The revised presentation has no impact to the comparative information so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2.5 *Change in accounting policies*

In accordance with CBY instructions issued on January 9, 2010 related to the rules of preparation and presentation of the financial statements of banks and the evaluation basis used by banks, the Bank as at December 31, 2009 applies the following:

- Revised its policies of recognizing investments in subsidiaries from the equity method to the cost method as stated in Note no. 3.6.
- Revised its policies of recognizing valuation of available-for-sale investments as stated in Note no. 3.5

There is no material impact to the statement of comprehensive income figures due this change that requires changes to the presentation of comparative figures.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 *Foreign currencies transactions*

- The Bank maintains its records in Yemeni Rial, which is the Bank functional 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 statement of comprehensive income.
- The Bank does not deal in forward contracts to cover its needs for foreign currencies or foreign exchange contracts to cover the risks of settling its future liabilities in foreign currencies.

3.2 *Revenue recognition*

- Revenues are recognized on the accrual basis. However, in order to comply with the requirements of CBY circular No. 6 of 1996, the Bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest.
- Revenue of available for sale investments is recognized when its related dividends are distributed.
- Revenue of investments in subsidiaries is recognized at the separate financial statements when the Bank's right to receive the dividend is established.
- Commissions' revenue and the Bank service charges are recognized as the related services are performed.

3.3 *Treasury bills*

- Treasury bills are recorded at face value and the balance of unearned discount is recorded under credit balances and other liabilities.

Treasury bills are presented on the statement of financial position net of balance of unearned discount outstanding at the financial statements date.

- Treasury bills with repurchase obligation are presented in the financial statements at cost at the financial statements date. The related accrued interest is included in interest receivable.

3.4 *CBY certificates of deposits*

CBY certificates of deposit are presented at face value, with the related accrued interest outstanding at financial statements date included under debit balances and other assets.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

3.5 Valuation of available for sale investments

After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, available for sale investments are subsequently measured at fair value. 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 comprehensive income.

In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognized in the statement of comprehensive income as a provision for impairment of investments. Reversals in respect of equity investments classified as available for sale are treated as increase in fair value through statement of changes in equity. For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment. Reversal of impairment losses on debt instruments are reversed through the income statement, when the increase in fair value can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

3.6 Investment in subsidiaries

Investments in subsidiaries (at the separate financial statement) are recorded at the cost less any impairment in their values. Impairment losses are charged to the statements of comprehensive income.

Revenues of investment in subsidiaries are recognized when the Bank's right to receive the dividend is established.

3.7 Valuation of assets whose titles have been transferred to the Bank as a repayment of loans

Assets whose titles have been transferred to the Bank are presented in the statement of financial position under debit balances and other assets at the values carried by the Bank, less any impairment in their values at the financial statements date. Impairment losses are charged to the statement of comprehensive income.

3.8 Provision of loans and advances and contingent liabilities

- In order to comply with CBY circular No. 6 of 1996 and No. 5 of 1998 relating to classification of assets and liabilities, provision is provided for specific loans, overdrafts and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. The provision is determined based on periodical comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is provided in accordance with the following rates:

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

<u>Performing loans and advance and contingent liabilities, including watchlist accounts</u>	1%
<u>Non-performing loans and advance and contingent liabilities:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

- Loans are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.
- Loans to customers and banks are presented on the financial statements net of provision and suspense interest.

3.9 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off financial statements under “contingent liabilities and commitments” as they do not represent actual assets or liabilities at financial statement date.

3.10 Cash and cash equivalent

For the purpose of preparing the cash flow statement, cash and cash equivalent consist of cash on hand, cash balances with CBY other than reserve balances, demand deposits with other banks and treasury bills and CBY certificates of deposit which are due within three months from the issuance date.

3.11 Impairment of assets

The Bank reviews the carrying amounts of the assets, according to their materiality, at each financial statements 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 income statement.

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

3.12 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:

	Estimated Useful lives
Buildings and constructions	5 - 40 years
Furniture and fixtures	5 - 10 years
Machinery and equipment	5 - 20 years
Computers	5 years
Motor vehicles	5 - 10 years

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009**

3.13 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.

3.14 Taxation

Corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

Due to the characteristics of the tax accounting in Yemen, application of International Accounting Standard on Income Taxes does not usually result in deferred tax liabilities. In the case that deferred tax assets have resulted from the application of this standard, these assets are not booked unless there is assurance that these assets will be realized in the near future.

3.15 Zakat due on shareholders

The Bank remits the Zakat due on the shareholders to the relevant governmental authority which decides on the allocation of the Zakat.

3.16 End of service benefits

The provisions of Social Insurance Law are applied to all employees of the Bank concerning end of service benefits.

3.17 Applicable new standards and interpretations issued but not yet adopted

For the avoidance of doubt, the following applicable new standards, amendments to standards and interpretations, which were issued by International Accounting Standards Board (IASB) before 31 December 2009 and are not yet in effect, have not been adopted early.

- Revised IFRS 3 Business Combination which were issued by IASB which becomes effective from 2010.
- Amended IAS 27 Consolidated and Separate Financial Statements, which becomes effective from annual periods beginning on or after July 1, 2009 requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.

The Bank management believe that the application of these standards will result in a significant impact when will be adopted in 2010.

- IFRS 9, Financial Instruments is first standard issued as part of a wider project or replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard can be adopted early prospectively, and prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2013.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

4. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

4.1 *Financial instruments*

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

Note (3) to the 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.

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

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 assets and non-financial liabilities.

	2009		2008	
	Carrying amount YR 000	Fair value YR 000	Carrying amount YR 000	Fair value YR 000
Financial assets				
Cash on hand and reserve balances with the CBY	17,408,729	17,408,729	16,334,356	16,334,356
Due from banks	22,938,485	22,938,485	12,041,766	12,041,766
Treasury bills (net)	69,671,110	69,671,110	21,114,008	21,114,008
Treasury bills with repurchase obligation	9,616,973	9,616,973	7,575,987	7,575,987
Certificates of deposit with CBY	-	-	49,200,000	49,200,000
Loans and advances (net)	23,444,548	23,444,548	32,125,779	32,125,779
Available for sale financial investments	96,142	96,142	20,404	20,404
Investment in subsidiaries	912,164	912,164	-	-
Financial liabilities				
Due to banks	2,961,794	2,961,794	3,494,758	3,494,758
Customers' deposits	129,792,066	129,792,066	126,290,563	126,290,563

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

(c) Fair value hierarchy

The Bank 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 96,142 thousand under the level 3 category. There were no investments qualifying for levels 1 and 2 fair value disclosures.

(d) 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.

4.2 *Risk management of financial instruments*

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. 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, exchange rate risk, operating risk and other risks.

(a) Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to fully or partially meet their obligations when they fall due. In order to comply with CBY circular No. 10 of 1997 regarding to the credit risk exposure, the Bank applies some procedures in order to properly manage its credit risk. The following are the major procedures applied by the Bank:

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

The table below shows the maximum exposure to credit risk for the components of the financial statements. 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 with CBY (excluding cash on hand and ATM)	14,770,107	14,179,137
Due from banks	22,938,485	12,041,766
Treasury bills (net)	69,671,110	21,114,008
Treasury bills with repurchase obligation	9,616,973	7,575,987
Certificates of deposit with CBY	-	49,200,000
Loans and advances (net)	23,444,548	32,125,779
Available-for-sale investments	96,142	20,404
Investments in subsidiaries	912,164	-
Debit balances and other assets (net)	<u>1,604,442</u>	<u>2,255,412</u>
	143,053,971	138,512,493
Contingent liabilities and commitments	<u>48,590,561</u>	<u>53,843,349</u>
Total credit risk exposure	<u>191,644,532</u>	<u>192,355,842</u>

The following is an analysis of the Bank's financial assets and contingent liabilities by industry sector, before and after taking into account collateral held of other credit enhancements (risk concentration for maximum exposure to credit risk by industry sector) is as follows:

	2009		2008	
	Gross Maximum Exposure YR 000	Net Maximum Exposure YR 000	Gross Maximum Exposure YR 000	Net Maximum Exposure YR 000
Government	99,201,568	-	93,405,318	-
Finance	17,891,249	3,655,000	10,725,984	2,161,520
General trade	9,480,398	7,026,387	16,948,932	14,321,887
Industry	4,843,217	3,589,579	5,217,601	4,409,205
Service	4,900,117	3,631,751	5,436,593	4,593,414
Individuals	4,220,816	3,128,283	4,522,653	3,821,930
Contractors	912,164	912,164	-	-
Others	<u>1,604,442</u>	<u>1,604,442</u>	<u>2,255,412</u>	<u>2,255,412</u>
	143,053,971	23,547,606	138,512,493	31,563,368
Contingent liabilities	<u>48,590,561</u>	<u>43,809,540</u>	<u>53,843,349</u>	<u>48,683,262</u>
	<u>191,644,532</u>	<u>67,357,146</u>	<u>192,355,842</u>	<u>80,246,630</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 35 shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 36 shows the distribution of financial instruments based on geographical locations at the financial statements date.

(b) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank'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	2,961,794	-	-	-	2,961,794
Customers' deposits	91,703,000	4,957,326	33,131,740	-	129,792,066
Income tax for the year	-	1,551,787	-	-	1,551,787
Total liabilities	94,664,794	6,509,113	33,131,740	-	134,305,647
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	3,494,758	-	-	-	3,494,758
Customers' deposits	65,864,819	37,661,214	22,764,530	-	126,290,563
Income tax for the year	-	1,432,735	-	-	1,432,735
Total liabilities	69,359,577	39,093,949	22,764,530	-	131,218,056

In addition to the above, Note no. 33 shows the maturity analysis of assets and liabilities and the net gap between them at the financial statements date.

(c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of some of the financial instruments. The Bank performs a number of procedures to limit the effect of such risk to the minimal level as follows:

- Correlating interest rates on borrowing with interest rates on lending.
- Considering the discount rates for different currencies when determining interest rates.
- Monitoring the matching of maturity dates of financial assets and liabilities.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	2009						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	17,408,729	17,408,729	-	-
Due from banks	19,818,359	-	-	-	3,120,126	22,938,485	-	0.25
Treasury bills (net)	24,795,384	15,976,395	28,899,331	-	-	69,671,110	13.22	-
Treasury bills with repurchase obligation	9,616,973	-	-	-	-	9,616,973	12.95	-
Loans and advances (net)	9,534,550	6,356,366	7,402,766	-	150,866	23,444,548	19.00	9.00
Available-for-sale investments	-	-	-	-	96,142	96,142	-	-
Investment in subsidiaries	-	-	-	-	912,164	912,164	-	-
Debit balances and other assets (net)	-	-	-	-	1,604,442	1,604,442	-	-
Property and equipment (net)	-	-	-	-	1,913,694	1,913,694	-	-
 Total Assets	<u>63,765,266</u>	<u>22,332,761</u>	<u>36,302,097</u>	<u>-</u>	<u>25,206,163</u>	<u>147,606,287</u>		
Liabilities and Shareholders' Equity								
Due to banks	2,961,794	-	-	-	-	2,961,794	12.00	3.00
Customers' deposits	31,233,260	4,957,326	33,131,740	-	60,469,740	129,792,066	12.00	2.50
Credit balances and other liabilities	-	-	-	-	2,826,598	2,826,598		
Other provisions	-	-	-	-	1,442,092	1,442,092		
Shareholders' equity	-	-	-	-	10,583,737	10,583,737		
 Total Liabilities and Shareholders' Equity	<u>34,195,054</u>	<u>4,957,326</u>	<u>33,131,740</u>	<u>-</u>	<u>75,322,167</u>	<u>147,606,287</u>		
Interest rate sensitivity gap	<u>29,570,212</u>	<u>17,375,435</u>	<u>3,170,357</u>	<u>-</u>	<u>(50,116,004)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>29,570,212</u>	<u>46,945,647</u>	<u>50,116,004</u>	<u>50,116,004</u>	<u>-</u>	<u>-</u>		

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2008						Average interest rates		
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Currency %	Local Currency %	Foreign Currency %
Assets									
Cash on hand and reserve balances with CBY	-	-	-	-	16,334,356	16,334,356	-	-	3.2
Due from banks	8,395,116	-	-	-	3,646,650	12,041,766	-	-	-
Treasury bills (net)	7,870,384	4,453,103	8,790,521	-	-	21,114,008	15.09	-	-
Treasury bills with repurchase obligation	7,575,987	-	-	-	-	7,575,987	15.01	-	-
Certificates of deposit with CBY	49,200,000	-	-	-	-	49,200,000	14.80	-	-
Loans and advances (net)	14,109,218	9,823,412	8,050,185	-	142,964	32,125,779	18.50	-	8.0
Available-for-sale investments	-	-	-	-	20,404	20,404	-	-	-
Debit balances and other assets (net)	-	-	-	-	2,255,412	2,255,412	-	-	-
Property and equipment (net)	-	-	-	-	1,948,969	1,948,969	-	-	-
Total Assets	87,150,705	14,276,515	16,840,706	-	24,348,755	142,616,681			
Liabilities and Shareholders' Equity									
Due to banks	3,494,758	-	-	-	-	3,494,758	13.00	-	3.0
Customers' deposits	18,800,247	37,661,491	16,501,263	-	53,327,562	126,290,563	13.00	-	2.5
Credit balances and other liabilities	-	-	-	-	3,133,982	3,133,982	-	-	-
Other provisions	-	-	-	-	929,165	929,165	-	-	-
Dividends payable	-	-	-	-	612,000	612,000	-	-	-
Shareholders' equity	-	-	-	-	8,156,213	8,156,213	-	-	-
Total Liabilities and Shareholders' Equity	22,295,005	37,661,491	16,501,263	-	66,158,922	142,616,681			
Interest rate sensitivity gap	64,855,700	(23,384,976)	339,443	-	(41,810,167)	-	-	-	-
Cumulative interest rate sensitivity gap	64,855,700	41,470,724	41,810,167	41,810,167	-	-	-	-	-

Note no. 34 shows the average interest rates on assets and liabilities applied during this year compared with last year.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

(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 the 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 the CBY circular No. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing rates on the dates of sale.

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	Emirates Dirhams YR 000s	
					Total YR 000s	
Assets	72,733,694	3,372,992	1,334,947	757,367	66,197	78,265,197
Liabilities	(75,446,941)	(3,416,555)	(1,484,415)	(776,421)	(43,561)	(81,167,893)
Net currency position	(2,713,247)	(43,563)	(149,468)	(19,054)	22,636	(2,902,696)

	2008					
	US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Emirates Dirhams YR 000s	
					Total YR 000s	
Assets	43,042,809	1,822,101	885,389	340,870	7,757	46,098,926
Liabilities	(42,761,175)	(1,847,059)	(882,670)	(335,379)	(4,551)	(45,830,834)
Net currency position	281,634	(24,958)	2,719	5,491	3,206	268,092

Note 37 to the financial statements indicates the significant foreign currencies' positions at the financial statement date compared with 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, infrastructure, personnel and other risks having an operational risk impact. The Bank 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.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

(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 use 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.

5. CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with capital requirements issued by CBY, the rules and ratio established by the Basel Committee on banking supervision and that the Bank maintains strong credit ratings and excellently capital ratios. The capital adequacy are monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the CBY for supervisory purposes. The required information is filed with the CBY on a quarterly basis, in order to comply with the requirement of CBY circular no. (2) of 1997.

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%. In addition, the Bank is required to maintain a minimum ratio of total capital to the customer deposits at or above 5%.

The capital adequacy ratio calculated in accordance with the guidelines of CBY compares between the Bank core and supplementary capital with risk weighted total assets and liabilities at the financial statements date, is as follows:

	2009 YR 000s	2008 YR 000s
Core capital	10,487,595	8,135,809
Supplementary capital	511,091	769,604
Total capital	10,998,686	8,905,413
<u>Risk-weighted assets and contingent liabilities and commitments:</u>		
Total assets	25,554,544	38,480,209
Contingent liabilities and commitments	27,284,091	33,360,482
Total risk-weighted assets and contingent liabilities and commitments	52,838,635	71,840,691
Capital adequacy ratio	<u>20.8%</u>	<u>12.4%</u>

The core capital consists of paid-up capital, reserves 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.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

6. CASH ON HAND AND RESERVE BALANCES WITH CENTRAL BANK OF YEMEN

	2009 YR 000's	2008 YR 000's
Cash on hand and at ATM – local currency	1,322,129	1,180,817
Cash on hand and at ATM – foreign currency	<u>1,316,493</u>	<u>974,402</u>
	<u>2,638,622</u>	<u>2,155,219</u>
Mandatory reserve at CBY – local currency	5,282,850	6,090,054
Mandatory reserve at CBY – foreign currency	<u>9,394,253</u>	<u>8,044,416</u>
	<u>14,677,103</u>	<u>14,134,470</u>
Cheques purchased	<u>93,004</u>	<u>44,667</u>
	<u>17,408,729</u>	<u>16,334,356</u>

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% (interest bearing) to 7% (non-interest bearing). The percentage of reserve balances on foreign currency customer accounts remained unchanged at 20% (non-interest bearing).

7. DUE FROM BANKS

	2009 YR 000's	2008 YR 000's
Central Bank of Yemen		
Current accounts – local currency	4,655,068	869,793
Current accounts – foreign currency	<u>488,310</u>	<u>466,393</u>
	<u>5,143,378</u>	<u>1,336,186</u>
Foreign banks		
Current accounts	10,017,333	2,310,464
Time deposits	<u>7,777,774</u>	<u>8,395,116</u>
	<u>22,938,485</u>	<u>12,041,766</u>

- Time deposits – foreign banks at December 31, 2009 included YR 103,655 Thousand which equivalent to US\$ 500 Thousand restricted at the foreign bank (YR 315,492 Thousand at December 31, 2008).
- Time deposits with foreign banks carry variable interest rate while current accounts with CBY and foreign banks do not carry any interest.

8. TREASURY BILLS (NET)

	2009 YR 000's	2008 YR 000's
Treasury bills maturing within 90 days	25,327,510	8,012,600
Treasury bills maturing within 180 days	16,400,000	4,571,960
Treasury bills maturing within 360 days	<u>30,648,180</u>	<u>9,257,560</u>
	<u>72,375,690</u>	<u>21,842,120</u>
Less: Unearned discount balance	<u>(2,704,580)</u>	<u>(728,112)</u>
	<u>69,671,110</u>	<u>21,114,008</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

9. TREASURY BILLS WITH REPURCHASE OBLIGATION

	2009 YR 000's	2008 YR 000's
Treasury bills with repurchase obligation maturing within 90 days	<u>9,616,973</u>	<u>7,575,987</u>

10. CERTIFICATES OF DEPOSIT WITH CENTRAL BANK OF YEMEN

	2009 YR 000's	2008 YR 000's
CBY certificates of deposit maturing within 90 days	<u>-</u>	<u>49,200,000</u>

11. LOANS AND ADVANCES (NET)

a. Loans and advances by type

	Note	2009 YR 000's	2008 YR 000's
Overdraft		29,439,650	35,322,020
Loans to customers		7,941,688	8,813,462
L/Cs finance		210,881	92,525
Staff loans		<u>24,264</u>	<u>23,776</u>
		<u>37,616,483</u>	<u>44,251,783</u>
Less:			
Loans and advances provision	12	(13,221,493)	(10,995,685)
Uncollected interest	13	<u>(950,442)</u>	<u>(1,130,319)</u>
		<u>23,444,548</u>	<u>32,125,779</u>

Non-performing loans and advances amounted to YR 16,376,260 Thousand at December 31, 2009 after deducting uncollected interest and balances secured by cash deposits (YR 14,913,731 Thousand at December 31, 2008). The break up of the above amount is as follows:

	2009 YR 000's	2008 YR 000's
Substandard loans and advances	1,835,592	3,101,987
Doubtful loans and advances	3,155,124	2,638,208
Bad loans and advances	<u>11,385,544</u>	<u>9,173,536</u>
	<u>16,376,260</u>	<u>14,913,731</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

b. Loans and advances by sector

	2009				
	Overdraft YR 000s	Loans to customers YR 000s	L/C finance YR 000s	Staff loans YR 000s	Total YR 000s
Trade	10,426,586	4,573,625	210,881	-	15,211,092
Industry	6,682,973	1,087,938	-	-	7,770,911
Services	5,811,213	2,050,994	-	-	7,862,207
Individuals and others	<u>6,518,878</u>	<u>229,131</u>	<u>-</u>	<u>24,264</u>	<u>6,772,273</u>
Total	<u>29,439,650</u>	<u>7,941,688</u>	<u>210,881</u>	<u>24,264</u>	<u>37,616,483</u>
	2008				
	Overdraft YR 000s	Loans to customers YR 000s	L/C finance YR 000s	Staff loans YR 000s	Total YR 000s
Trade	18,850,507	4,435,008	92,525	-	23,378,040
Industry	5,662,903	1,505,329	-	-	7,168,232
Services	5,899,704	1,568,276	-	-	7,467,980
Individuals and others	<u>4,908,906</u>	<u>1,304,849</u>	<u>-</u>	<u>23,776</u>	<u>6,237,531</u>
Total	<u>35,322,020</u>	<u>8,813,462</u>	<u>92,525</u>	<u>23,776</u>	<u>44,251,783</u>

The amounts above are shown gross figures before subtracting the provision for loans and advances and uncollected interest.

12. PROVISION FOR LOANS AND ADVANCES (PERFORMING AND NON-PERFORMING)

a. Provision for loans and advances by type

	Note	2009		
		Specific YR 000's	General YR 000's	Total YR 000's
Provision balance at Jan. 1, 2009		10,826,028	169,657	10,995,685
Less: provision used during the year		(146,413)	-	(146,413)
Revaluation differences of provision in foreign currencies		47,017	-	47,017
Transferred from general to specific provision		28,852	(28,852)	-
Add: provision provided during the year	30	<u>2,325,204</u>	<u>-</u>	<u>2,325,204</u>
Provision balances at Dec. 31, 2009		<u>13,080,688</u>	<u>140,805</u>	<u>13,221,493</u>

	Note	2008		
		Specific YR 000's	General YR 000's	Total YR 000's
Provision balance at Jan. 1, 2008		9,296,660	101,899	9,398,559
Less: provision used during the year		(140,312)	-	(140,312)
Revaluation differences of provision in foreign currencies		4,048	-	4,048
Add: provision provided during the year	30	<u>1,665,632</u>	<u>67,758</u>	<u>1,733,390</u>
Provision balances at Dec. 31, 2008		<u>10,826,028</u>	<u>169,657</u>	<u>10,995,685</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

b. Provision for loans and advances by sector

		2009		
	Note	Corporate lending YR 000's	Consumer lending YR 000's	Total YR 000's
Provision balance at Jan. 1, 2009		8,576,634	2,419,051	10,995,685
Less: provision used during the year		(114,202)	(32,211)	(146,413)
Revaluation differences of provision in foreign currencies		36,673	10,344	47,017
Add: provision provided during the year	30	<u>1,813,659</u>	<u>511,545</u>	<u>2,325,204</u>
Provision balances at Dec. 31, 2009		<u>10,312,764</u>	<u>2,908,729</u>	<u>13,221,493</u>
		2008		
	Note	Corporate lending YR 000's	Consumer lending YR 000's	Total YR 000's
Provision balance at Jan. 1, 2008		7,330,876	2,067,683	9,398,559
Less: provision used during the year		(109,443)	(30,869)	(140,312)
Revaluation differences of provision in foreign currencies		3,157	891	4,048
Add: provision provided during the year	30	<u>1,352,044</u>	<u>381,346</u>	<u>1,733,390</u>
Provision balances at Dec. 31, 2008		<u>8,576,634</u>	<u>2,419,051</u>	<u>10,995,685</u>

13. UNCOLLECTED INTEREST

	2009 YR 000s	2008 YR 000s
Balance at first of January	1,130,319	1,128,333
Uncollected interest written off or collected during the year	(190,415)	-
Revaluation differences of uncollected interest in foreign currencies	<u>10,538</u>	<u>1,986</u>
Balance at end of December	<u>950,442</u>	<u>1,130,319</u>

Uncollected interest is interest on non-performing loans and advances, which is recognized as revenue only when collected in accordance with CBY regulations.

14. AVAILABLE FOR SALE INVESTMENTS

	2009 YR 000's	2008 YR 000's
Yemeni Co. for Financial Services	21,142	20,404
Yemen Qatar Insurance Co. (under incorporation)	<u>75,000</u>	<u>-</u>
	<u>96,142</u>	<u>20,404</u>

All available for sale investments are local investments (unquoted). 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 are not determinable, these investments were carried at cost.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

15. INVESTMENTS IN SUBSIDIARIES

	2009 YR 000's	Shareholding Percentage %	2008 YR 000's	Shareholding Percentage %
Ocean Breeze for Investment Co. (under incorporation)	<u>912,164</u>	80%	-	-

16. DEBIT BALANCES AND OTHER ASSETS (NET)

	Note	2009 YR 000's	2008 YR 000's
Accrued interest		230,738	869,825
Cash margin		391,020	-
Prepaid expenses		104,131	193,261
Assets which have been transferred to the Bank' ownership	3.7	648,288	615,901
Other debit balances		<u>804,097</u>	<u>1,047,412</u>
		2,178,274	2,726,399
Less: provision for doubtful debts	17	(573,832)	(470,987)
		<u>1,604,442</u>	<u>2,255,412</u>

17. PROVISION FOR DOUBTFUL DEBTS

	Note	2009 YR 000's	2008 YR 000's
Balance at first of January		470,987	528,628
Add: Provision provided during the year	30	102,845	-
Less: Provision used during the year		-	(5,864)
Less: Reversed provision	29	-	(51,777)
Balance at end of December		<u>573,832</u>	<u>470,987</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

18. PROPERTY AND EQUIPMENT (NET)

	2009						
	Land YR 000's	Buildings and Constructions YR 000's	Furniture and Fixtures YR 000's	Equipment & Machinery YR 000's	Motor Vehicles YR 000's	Computers YR 000's	Total YR 000's
<u>Cost</u>							
Balance at beginning of the year	69,914	1,234,496	291,110	706,656	140,690	662,906	3,105,772
Additions during the year	-	40,053	33,554	86,200	-	89,102	248,909
Disposals during the year	(3,000)	(10,857)	(14,646)	(20,267)	-	(8,758)	(57,528)
Balance at the end of the year	<u>66,914</u>	<u>1,263,692</u>	<u>310,018</u>	<u>772,589</u>	<u>140,690</u>	<u>743,250</u>	<u>3,297,153</u>
<u>Accumulated depreciation</u>							
Balance at beginning of the year	-	216,290	123,994	366,815	77,621	372,083	1,156,803
Depreciation	-	39,363	30,821	76,050	20,151	71,643	238,028
Disposals	-	(273)	(4,992)	(6,107)	-	-	(11,372)
Balance at the end of the year	-	<u>255,380</u>	<u>149,823</u>	<u>436,758</u>	<u>97,772</u>	<u>443,726</u>	<u>1,383,459</u>
<u>Net book value</u>							
December 31, 2009	<u>66,914</u>	<u>1,008,312</u>	<u>160,195</u>	<u>335,831</u>	<u>42,918</u>	<u>299,524</u>	<u>1,913,694</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2008						
	Land YR 000's	Buildings and Constructions YR 000's	Furniture and Fixtures YR 000's	Equipment & Machinery YR 000's	Motor Vehicles YR 000's	Computers YR 000's	Total YR 000's
Cost							
Balance at beginning of the year	107,521	1,160,843	200,114	604,271	140,690	560,952	2,774,391
Additions during the year	66,875	73,653	90,996	102,385	-	101,954	435,863
Disposals during the year	(104,482)	-	-	-	-	-	(104,482)
Balance at the end of the year	<u>69,914</u>	<u>1,234,496</u>	<u>291,110</u>	<u>706,656</u>	<u>140,690</u>	<u>662,906</u>	<u>3,105,772</u>
Accumulated depreciation							
Balance at beginning of the year	-	180,676	100,956	291,198	58,557	315,891	947,278
Depreciation	-	35,614	23,038	75,617	19,064	56,192	209,525
Disposals	-	-	-	-	-	-	-
Balance at the end of the year	<u>-</u>	<u>216,290</u>	<u>123,994</u>	<u>366,815</u>	<u>77,621</u>	<u>372,083</u>	<u>1,156,803</u>
Net book value							
December 31, 2008	<u>69,914</u>	<u>1,018,206</u>	<u>167,116</u>	<u>339,841</u>	<u>63,069</u>	<u>290,823</u>	<u>1,948,969</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

19. DUE TO BANKS

	2009 YR 000's	2008 YR 000's
Current account – foreign currency	2,919,385	1,861,717
Current account – local currency	7,374	223,428
Time deposits – foreign currency	35,035	609,293
Short-term loans (L/Cs finance)	-	800,320
	<u>2,961,794</u>	<u>3,494,758</u>

Current account and time deposits which are due to banks carry variable interest rate while short-term loans (L/C, finance) carry fixed interest rate.

20. CUSTOMERS' DEPOSITS

a. Customers' deposits by type

	2009 YR 000's	2008 YR 000's
Current accounts	55,443,757	46,596,169
Time and demand deposits	59,363,617	64,843,401
Saving accounts	9,086,681	8,119,600
Margins of LCs, LGs and other	5,025,983	5,432,080
Other deposits	872,028	1,299,313
	<u>129,792,066</u>	<u>126,290,563</u>

b. Customers' deposits by sector

	2009 YR 000's	2008 YR 000's
Public and mixed sectors	31,542,848	7,476,674
Individual	26,117,422	23,569,388
Corporation	46,693,214	41,723,919
Others	25,438,582	53,520,582
	<u>129,792,066</u>	<u>126,290,563</u>

21. CREDIT BALANCES AND OTHER LIABILITIES

	2009 YR 000's	2008 YR 000's
Corporate tax for the year	1,551,787	1,432,735
Interest payable	790,192	869,037
Accrued expenses	113,707	397,799
Income received in advance	91,739	53,968
Other credit balances	279,173	380,443
	<u>2,826,598</u>	<u>3,133,982</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

22. OTHER PROVISIONS

Description	Note	2009		
		Provision for contingent liabilities YR 000s	Provision for contingent claims YR 000s	Total YR 000s
Balance at first of Jan. 2009		679,165	250,000	929,165
Provided during the year from income statement	30	-	650,000	650,000
Reversed provision	29	(137,073)	-	(137,073)
Balance at the end of Dec. 2009		<u>542,092</u>	<u>900,000</u>	<u>1,442,092</u>
2008				
Description	Note	Provision for contingent liabilities YR 000s	Provision for contingent claims YR 000s	Total YR 000s
Balance at first of Jan. 2008		496,806	113,764	610,570
Provided during the year from income statement	30	182,359	210,617	392,976
Used during the year		-	(74,381)	(74,381)
Balance at the end of Dec. 2008		<u>679,165</u>	<u>250,000</u>	<u>929,165</u>

23. SHAREHOLDERS' EQUITY

a. Authorized and paid capital

- Issued and paid-up capital of the Bank is YR 7 billion as at December 31, 2009 (according to the Bank Extraordinary General Assembly Meeting on May 20, 2009) divided into 70 million shares with nominal value of YR 100 per share (YR 5.1 billion as at December 31, 2008).

The Bank is taking the necessary procedures to record the increase in the commercial register and Articles of Association.

b. Statutory reserves

According to provisions of the Law, 15% of the annual net profit, based on the approved annual financial statements, is transferred to the statutory reserve until it equals twice the paid-up capital.

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

24. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2009		
	Gross commitment YR 000s	Margin held YR 000s	Net commitments YR 000s
Letters of credit	7,866,872	(1,171,693)	6,695,179
Letters of guarantee	39,376,055	(3,356,633)	36,019,422
Others	1,347,634	(252,694)	1,094,940
	<u>48,590,561</u>	<u>(4,781,020)</u>	<u>43,809,541</u>
	2008		
	Gross commitment YR 000s	Margin held YR 000s	Net commitments YR 000s
Letters of credit	11,428,711	(1,934,752)	9,493,959
Letters of guarantee	42,414,638	(3,225,335)	39,189,303
	<u>53,843,349</u>	<u>(5,160,087)</u>	<u>48,683,262</u>

25. INTEREST INCOME

	2009 <u>YR 000's</u>	2008 <u>YR 000's</u>
<u>Interest on loans and advances to customers</u>		
Interest earned on overdrafts	3,040,435	2,870,923
Interest earned on loans	<u>763,334</u>	<u>885,156</u>
	<u>3,803,769</u>	<u>3,756,079</u>
<u>Interest on due from banks</u>		
Interest from foreign banks	94,460	255,217
Interest from local banks	<u>33</u>	<u>229,030</u>
	<u>94,493</u>	<u>484,247</u>
<u>Interest on treasury bills and certificates of deposits</u>		
Interest on treasury bills	9,843,468	5,885,002
Interest on CBY certificates of deposits	<u>971,232</u>	<u>5,293,200</u>
	<u>10,814,700</u>	<u>11,178,202</u>
	<u>14,712,962</u>	<u>15,418,528</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

26. INTEREST EXPENSE

	2009 YR 000's	2008 YR 000's
<u>Interest on customers' deposits</u>		
Interest on time and demand deposits	6,356,409	7,206,023
Interest on saving accounts	729,546	756,181
Other interest	<u>22,842</u>	<u>16,797</u>
	<u>7,108,797</u>	<u>7,979,001</u>
<u>Interest on balances due to banks</u>		
Interest paid to foreign banks	<u>59,506</u>	<u>76,836</u>
	<u>7,168,303</u>	<u>8,055,837</u>

27. COMMISSIONS' REVENUE AND BANK SERVICE CHARGES

	2009 YR 000's	2008 YR 000's
Commissions on letter of credits	119,499	183,100
Commissions on letters of guarantee	341,199	364,305
Commissions on transfer of funds	346,268	290,622
Commissions on visa card	131,498	97,949
Brokerage fees	203,861	-
Other banking commissions	<u>167,300</u>	<u>122,979</u>
	<u>1,309,625</u>	<u>1,058,955</u>

28. GAIN OF FOREIGN CURRENCY TRANSACTIONS

	2009 YR 000's	2008 YR 000's
Gain from dealing in foreign currencies	462,924	276,085
(Losses) from translation of foreign currencies	<u>(103,249)</u>	<u>(14,754)</u>
	<u>359,675</u>	<u>261,331</u>

29. OTHER OPERATING INCOME

	Note	2009 YR 000's	2008 YR 000's
Reversed provisions	16,22	137,073	51,777
Rental		87,447	72,544
Others		<u>3,329</u>	<u>3,680</u>
		<u>227,849</u>	<u>128,001</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

30. PROVISIONS PROVIDED DURING THE YEAR

	<u>Note</u>	2009 YR 000's	2008 YR 000's
Provision for loans and advances			
(performing and non-performing)	12	2,325,204	1,733,390
Provision for doubtful debts	17	102,845	-
Provision for contingent liabilities	22	-	182,359
Provision for contingent claims	22	<u>650,000</u>	<u>210,617</u>
		<u>3,078,049</u>	<u>2,126,366</u>

31. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	<u>Note</u>	2009 YR 000's	2008 YR 000's
Wages and salaries		930,178	818,046
Depreciation of property and equipment	18	238,028	209,525
Contract services		89,047	133,668
Subscriptions		115,400	16,393
Maintenance		113,594	82,162
Marketing		167,761	43,902
Rent		98,230	80,761
Stationary and printing supplies		80,510	41,010
Communications		74,811	38,664
Advertisement and publication		69,323	86,353
Water and electricity		46,660	35,071
Board of Directors' allowances		32,731	23,076
Training expenses		23,392	20,151
Transportation		16,548	21,687
Consultancy and professional fees		12,988	21,534
Insurance		12,183	13,208
Zakat expenses		10,505	255,000
Donation		7,740	124,214
Other expenses		<u>136,836</u>	<u>128,040</u>
		<u>2,276,465</u>	<u>2,192,465</u>

32. EARNINGS PER SHARE

	2009	2008
Net profit for the year (YR thousand)	<u>2,427,524</u>	<u>2,974,135</u>
Weighted average of number of shares by thousand	<u>70,000</u>	<u>51,000</u>
Earnings per share (YR)	<u>34.7</u>	<u>58.3</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

33. MATURITIES OF ASSETS AND LIABILITIES

Description	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	17,409	-	-	-	17,409
Due from banks	22,938	-	-	-	22,938
Treasury bills (net)	24,795	15,977	28,899	-	69,671
Treasury bills with repurchase obligation	9,617	-	-	-	9,617
Loans and advances (net)	9,535	6,356	7,554	-	23,445
Available-for sale investments	-	-	-	96	96
Investment in subsidiaries	-	-	-	912	912
	<u>84,294</u>	<u>22,333</u>	<u>36,453</u>	<u>1,008</u>	<u>144,088</u>
b. Liabilities					
Due to banks	2,962	-	-	-	2,962
Customers' deposits	91,703	4,957	33,132	-	129,792
	<u>94,665</u>	<u>4,957</u>	<u>33,132</u>	<u>-</u>	<u>132,754</u>
Net gap	(<u>10,371</u>)	<u>17,376</u>	<u>3,321</u>	<u>1,008</u>	<u>11,334</u>
Description	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	16,334	-	-	-	16,334
Due from banks	12,042	-	-	-	12,042
Treasury bills (net)	7,870	4,453	8,791	-	21,114
Treasury bills with repurchase obligation	7,576	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	49,200
Loans and advances (net)	14,109	9,823	8,194	-	32,126
Available-for sale investments	-	-	-	20	20
	<u>107,131</u>	<u>14,276</u>	<u>16,985</u>	<u>20</u>	<u>138,412</u>
b. Liabilities					
Due to banks	3,495	-	-	-	3,495
Customers' deposits	65,865	37,661	22,765	-	126,291
	<u>69,360</u>	<u>37,661</u>	<u>22,765</u>	<u>-</u>	<u>129,786</u>
Net gap	<u>37,771</u>	(<u>23,385</u>)	(<u>5,780</u>)	<u>20</u>	<u>8,626</u>

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

34. AVERAGE INTEREST RATES APPLIED DURING THE YEAR

Average interest rates on assets and liabilities during the year compared with the last year were as follows:

<u>Description</u>	<u>2009</u>			
	<u>Yemeni Rial %</u>	<u>US Dollar %</u>	<u>EURO %</u>	<u>Saudi Rial %</u>
<u>Assets</u>				
Due to banks – time deposits	-	0.25	0.50	0.40
Loans to customers	19.00	10.00	-	-
Overdrafts	19.00	8.00	8.00	-
Treasury bills	13.22	-	-	-
Treasury bills with repurchase obligation	12.95	-	-	-
CBY certificates of deposit	14.80	-	-	-
<u>Liabilities</u>				
Customers' - time deposits	12.00	3.00	2.00	-
Saving accounts	12.00	2.00	-	-
Banks - time deposits	12.00	3.00	-	-
<u>2008</u>				
<u>Description</u>	<u>Yemeni Rial %</u>	<u>US Dollar %</u>	<u>EURO %</u>	<u>Saudi Rial %</u>
<u>Assets</u>				
Due to banks – time deposits	-	3.09	3.97	2.61
Loans to customers	18.00	10.00	-	-
Overdrafts	19.00	8.00	8.00	-
Treasury bills	15.09	-	-	-
Treasury bills with repurchase obligation	15.01	-	-	-
CBY certificates of deposit	14.80	-	-	-
<u>Liabilities</u>				
Customers' - time deposits	13.00	3.00	2.00	-
Saving accounts	13.00	2.00	-	-
Banks - time deposits	13.00	3.00	-	-

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	2009					
	Financial YR Million	Trade YR Million	Manufac- turing YR Million	Services YR Million	Individuals & Others YR Million	Total YR Million
ASSETS						
Cash on hand and reserve balances with CBY	17,409	-	-	-	-	17,409
Due from banks	22,938	-	-	-	-	22,938
Treasury bills (net)	69,671	-	-	-	-	69,671
Treasury bills with repurchase obligation	9,617	-	-	-	-	9,617
Loans and advances (net)	-	9,480	4,844	4,900	4,221	23,445
Available-for-sale Investments	96	-	-	-	-	96
Investments in subsidiaries	912	-	-	-	-	912
LIABILITIES						
Due to banks	2,962	-	-	-	-	2,962
Margin and other deposits	-	37,843	40,340	24,751	26,858	129,792
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	5,576	1,119	-	-	6,695
Letters of guarantee	-	30,936	-	5,083	-	36,019
Other	1,095	-	-	-	-	1,095
2008						
	Financial YR Million	Trade YR Million	Manufac- turing YR Million	Services YR Million	Individuals & Others YR Million	Total YR Million
ASSETS						
Cash on hand and reserve balances with CBY	16,334	-	-	-	-	16,334
Due from banks	12,042	-	-	-	-	12,042
Treasury bills (net)	21,114	-	-	-	-	21,114
Treasury bills with repurchase obligation	7,576	-	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	-	49,200
Loans and advances (net)	-	16,949	5,218	5,436	4,523	32,126
Available-for-sale Investments	20	-	-	-	-	20
LIABILITIES						
Due to banks	3,495	-	-	-	-	3,495
Margin and other deposits	-	42,204	20,553	24,541	38,993	126,291
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	7,780	-	-	1,714	9,494
Letters of guarantee	-	29,977	-	-	9,212	39,189

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	2009					
	Republic of Yemen YR Million	America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
ASSETS						
Cash on hand and reserve balances with CBY	17,409	-	-	-	-	17,409
Due from banks	5,143	8,213	4,556	5,026	-	22,938
Treasury bills (net)	69,671	-	-	-	-	69,671
Treasury bills with repurchase obligation	9,617	-	-	-	-	9,617
Loans and advances (net)	23,445	-	-	-	-	23,445
Available-for-sale investments	96	-	-	-	-	96
Investments in subsidiaries	912	912	-	-	-	912
LIABILITIES						
Due to banks	91	2,809	-	62	-	2,962
Customers' deposits	129,792	-	-	-	-	129,792
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	653	605	1,208	4,229	-	6,695
Letters of guarantee	36,019	-	-	-	-	36,019
Other	1,095	-	-	-	-	1,095
	2008					
	Republic of Yemen YR Million	America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
ASSETS						
Cash on hand and reserve balances with CBY	16,334	-	-	-	-	16,334
Due from banks	8	4,591	1,861	5,367	215	12,042
Treasury bills (net)	21,114	-	-	-	-	21,114
Treasury bills with repurchase obligation	7,576	-	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	-	49,200
Loans and advances (net)	32,126	-	-	-	-	32,126
Available-for-sale investments	20	-	-	-	-	20
LIABILITIES						
Due to banks	833	-	1,862	800	-	3,495
Customers' deposits	126,291	-	-	-	-	126,291
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	2,594	3,314	3,586	-	9,494
Letters of guarantee	39,189	-	-	-	-	39,189

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

37. 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 total capital and reserves respectively. The following schedule shows the Bank's significant foreign currency positions at the financial statements date:

	2009		2008	
	Surplus (deficit) YR 000's	% of capital & reserves	Surplus (deficit) YR 000's	% of capital & reserves
US Dollar	(2,713,247)	(33.5%)	281,634	4.5%
Euro	(43,563)	(0.5%)	(24,958)	(0.4%)
Saudi Rial	(149,468)	(1.8%)	2,719	-
Sterling Pound	(19,054)	(0.2%)	5,491	0.1%
UAE Dirham	<u>22,636</u>	<u>0.3%</u>	<u>3,206</u>	<u>-</u>
Net (deficit) surplus	<u>(2,902,696)</u>	<u>(35.7%)</u>	<u>268,092</u>	<u>4.2%</u>

38. 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 operating and financial decisions.

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 and requires that the Bank should apply the same terms and conditions that are applied with unrelated parties.

The nature of the Bank's activities requires dealing with some of its shareholders, members of the Board of Directors and companies owned by them. These transactions consist of obtaining loans and advances, issuing letters of credit and letters of guarantee and other various transactions conducted as part of the normal Bank activities.

The following are the nature and balances of these transactions at the financial statements date:

	2009 YR Million	2008 YR Million
Loans and advances	6,540	6,863
Current accounts and time deposits	5,371	3,018
Indirect facilities (net)	5,286	4,490
Investment in subsidiaries	912	-
Executive management salaries	33	23
Board of Directors' allowances	33	23
Commissions and interest received	427	482
Interest paid	191	104

INTERNATIONAL BANK OF YEMEN
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

39. TAX STATUS

- Difference between accounting and tax profit for the year 2009 represents addition amount of YR 454,367 thousand as a result of adjusting accounting profit with provided provisions during the year, rental income and 50% of revenues from loans and advances to companies established according to Investment Law No. 22 of 2002, on the basis of tax rate of 35%.
- Corporate and salary tax has been cleared up to 2006.
- The Bank has submitted the tax declaration for the year 2007 and paid the amount due within the legal deadline. The Bank management received during the year 2009 form no. (3) from the Tax Authority as tax amendment for 2007 tax declaration submitted by the Bank with an increase in 2007 tax (after deducting the tax paid) of YR 1,991,002 thousand for profit tax and YR 39,528 thousand for salary tax. The Bank has appealed this assessment within the legal time frame. On April 20, 2010, the Bank reached an agreement with the Tax Group to pay YR 304 million, and the Bank made necessary provision for this amount.
- The Bank has submitted the tax declaration for the year 2008 and paid 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.

40. ZAKAT

- The Bank has paid the Zakat up to the end of 2007.
- The Bank management received a claim from Zakat Department for the year 2008 amounting to YR 516 million and this case is now at the courts and the Bank has appealed this assessment at the Zakat Department. The Bank management believes that this assessment is baseless and that the Bank will not have to pay any additional Zakat because the Bank made sufficient provisions based on the Zakat declaration for the year 2008 which have not been paid until now.

41. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform with this year financial statement classification for more appropriate presentation. The reclassifications, which do not impact the previously reported net profit or shareholders' equity, are as follows:

- Reclassification of interest on loans and advances and due from banks of YR 4,240,326 thousand and also interest on treasury bills and certificates of deposit of YR 11,178,202 thousand to interest income of YR 15,418,528 thousand.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by Board of Directors on April 15, 2010 and a Board resolution proposing the approval of the financial statements by the General Assembly of the shareholders was issued.