



البنك الأهلي اليمني

National Bank Of Yemen

ADEN

REPUBLIC OF YEMEN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

**NATIONAL BANK OF YEMEN
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BALANCE SHEET
As at 31 December 2008

	Note	31 December 2008 YR ' 000	31 December 2007 YR ' 000
ASSETS			
Cash on hand and reserve balances with the Central Bank of Yemen	5	9,933,260	12,950,745
Due from banks	6	25,612,567	26,740,642
Treasury bills, net	7	46,280,049	33,423,127
Certificates of deposit with the Central Bank of Yemen	8	10,350,000	9,350,000
Loans and advances to customers, net of provision	9	8,409,302	8,914,584
Available for sale investments, net	10	205,826	144,604
Debit balances and other assets	11	1,739,911	1,661,402
Property, plant and equipment, net of accumulated depreciation	12	2,176,637	1,917,874
TOTAL ASSETS		<u>104,707,552</u>	<u>95,102,978</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	13	2,076,627	572,858
Customers' deposits	14	87,871,641	80,961,204
Credit balances and other liabilities	15	2,735,996	2,587,898
Income tax payable	16	824,041	1,260,109
TOTAL LIABILITIES		<u>93,508,305</u>	<u>85,382,069</u>
EQUITY			
Capital	17	8,500,000	7,500,000
Surplus on revaluation of property reserve	17	639,762	639,762
Reserves	17	2,013,676	1,559,832
Cumulative changes in the fair value reserve	17	45,809	21,315
TOTAL EQUITY		<u>11,199,247</u>	<u>9,720,909</u>
TOTAL LIABILITIES AND EQUITY		<u>104,707,552</u>	<u>95,102,978</u>
CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET	18	<u>19,666,131</u>	<u>36,125,309</u>

Independent Auditor's Report attached (page 1).

The attached notes 1 to 38 form an integral part of these financial statements.

Arwa Ali Suleiman Al-Koori
Manager Statistic & Research

Sami Abdul Hamid Mackawee
First Deputy General Manager

Abdul Rahman Mohammed AlKuhali
Chairman and General Manager

INCOME STATEMENT
For The Year Ended 31 December 2008

	<i>Note</i>	<i>2008</i> YR' 000	<i>2007</i> YR' 000
OPERATING INCOME			
Interest on loans and advances and due from banks	19	1,889,180	2,674,370
Interest on treasury bills		5,749,696	4,729,607
Interest on certificates of deposit with the Central Bank of Yemen		1,440,114	1,501,680
Total interest income		<u>9,078,990</u>	<u>8,905,657</u>
Cost of deposits	20	<u>(5,611,628)</u>	<u>(4,755,558)</u>
Net interest income		3,467,362	4,150,099
Commissions and fee income on banking services	21	805,114	724,567
Income on available for sale investments		13,452	2,359
(Loss)/ Gain on foreign currency transactions	22	(121,927)	71,936
Other operating income	23	<u>830,363</u>	<u>1,099,469</u>
NET OPERATING INCOME		<u>4,994,364</u>	<u>6,048,430</u>
OPERATING EXPENSES			
Commissions and fee expenses on banking services		68,635	77,296
General and administration expenses	24	1,526,855	1,200,402
Provisions	25	<u>969,471</u>	<u>1,105,420</u>
TOTAL OPERATING EXPENSES		<u>2,564,961</u>	<u>2,383,118</u>
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		2,429,403	3,665,312
Zakat paid	26	<u>(75,000)</u>	<u>(65,000)</u>
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		2,354,403	3,600,312
Provision for income tax	16	<u>(824,041)</u>	<u>(1,260,109)</u>
PROFIT FOR THE YEAR		<u>1,530,362</u>	<u>2,340,203</u>
Basic earnings per share	27	<u>YR 191</u>	<u>YR 360</u>

The attached notes 1 to 38 form an integral part of these financial statements.

NATIONAL BANK OF YEMEN

STATEMENT OF CHANGES IN EQUITY
For The Year Ended 31 December 2008

	Surplus On Revaluation Of Property		Statutory Reserve	General Reserve	Cumulative Changes in Fair Value		Retained Earnings	Total
	Capital	Reserve			Reserve	Reserve		
	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000
Balance at 31 December 2006	5,500,000	639,762	1,060,742	275,898	19,560	-	-	7,495,962
Net movement in fair value for the year	-	-	-	-	1,755	-	-	1,755
Profit for the year	-	-	-	-	-	2,340,203	-	2,340,203
Transfer to statutory reserve	-	-	351,030	-	-	(351,030)	-	-
Transfer to general reserve	-	-	-	351,030	-	(351,030)	-	-
Government's share in profit transferred to capital	1,521,132	-	-	-	-	(1,521,132)	-	-
Transfer from general reserve to capital	478,868	-	-	(478,868)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(117,011)	-	(117,011)
Balance at 31 December 2007	7,500,000	639,762	1,411,772	148,060	21,315	-	-	9,720,909
Net movement in fair value for the year	-	-	-	-	24,494	-	-	24,494
Profit for the year	-	-	-	-	-	1,530,362	-	1,530,362
Transfer to statutory reserve	-	-	229,554	-	-	(229,554)	-	-
Transfer to general reserve	-	-	-	229,554	-	(229,554)	-	-
Government's share in profit transferred to capital	994,736	-	-	-	-	(994,736)	-	-
Transfer from general reserve to capital	5,264	-	-	(5,264)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(76,518)	-	(76,518)
Balance at 31 December 2008	<u>8,500,000</u>	<u>639,762</u>	<u>1,641,326</u>	<u>372,350</u>	<u>45,809</u>	<u>-</u>	<u>-</u>	<u>11,199,247</u>

The Bank's Board of Directors, in its meeting held on 15 April 2007, resolved to increase the capital of the Bank to YR 10,000,000 thousands. H.E the Minister of Finance has approved this increase in the capital. The capital will be raised from the Government's share of profit at the end of each year, as the Bank's Board of Directors will decide until the amount of the capital reaches YR 10,000,000 thousands. As a result, the Board of Directors in its meeting held on 3 February 2009 has resolved to increase the capital of the Bank by YR 1,000,000 thousands by transferring of the Government share of profit for the year 2008 amounting to YR 994,736 thousands and the balance amount of YR 5,264 thousand from the general reserve. Details of the transfer to reserves are given in note no.17.

The attached notes 1 to 38 form an integral part of these financial statements.

NATIONAL BANK OF YEMEN
STATEMENT OF CASH FLOWS
For The Year Ended 31 December 2008

	2008 YR 000	2007 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before the Zakat and provision for Income tax	2,429,403	3,665,312
Adjustments for:		
Provision for losses on loans and advances and on contra accounts made during the year	938,852	1,083,975
Provision for losses on loans and advances and contra accounts written back during the year	(722,040)	(782,387)
Amount utilized during the year from provision for losses on loans and advances	(2,152)	(7,406)
Revaluation of balances of provision for losses on loans and advances and on contra accounts	2,541	4,864
Loss / (Income) from sale of property, plant and equipment	262	(5,290)
Income tax paid	(1,260,109)	(917,415)
Zakat paid	(75,000)	(65,000)
Depreciation of property, plant and equipment	81,456	67,832
Net operating profit before changes in assets and liabilities related to operating activities (1)	1,393,213	3,044,485
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	2,347,894	(1,877,906)
Treasury bills maturing after three months, net of unamortized discount	3,614,668	(4,145,848)
Due from banks maturing after three months	931,122	(2,106,043)
Loans and advances to customers before provision but after suspended interest	121,163	(1,990,275)
Debit balances and other assets	(78,509)	221,521
Net decrease / (increase) in assets (2)	6,936,338	(9,898,551)
Due to banks	1,503,769	473,260
Customers' deposits	6,910,437	9,295,001
Credit balances and other liabilities	315,016	(632,281)
Net increase in liabilities (3)	8,729,222	9,135,980
CASH FLOWS FROM/ (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(348,687)	(113,870)
Sale proceeds from sale of property, plant and equipment	8,206	5,290
Purchase of available for sale investments	(36,728)	(2,364)
Net cash flows (used in) investing activities (4)	(377,209)	(110,944)
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		
Government's share in the profit for the year	(994,736)	(1,521,132)
Increase in the capital	994,736	1,521,132
Employees' share in the profit for the year	(76,518)	(117,011)
Net cash flow (used in) financing activities (5)	(76,518)	(117,011)
Net increase in cash and cash equivalents (1+2+3+4+5)	16,605,046	2,053,959
Cash and cash equivalents at 1 January	63,940,438	61,886,479
Cash and cash equivalents at 31 December	80,545,484	63,940,438
Represented by:		
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	12,950,745
Due from banks	25,612,567	26,740,642
Treasury bills and certificates of deposit with the Central Bank of Yemen	56,630,049	42,773,127
Reserve balances with the Central Bank of Yemen	(8,878,540)	(11,226,434)
Treasury bills maturing after three months, net of unamortized discount	(531,180)	(4,145,848)
Due from banks maturing after three months	(2,220,672)	(3,151,794)
Cash and cash equivalents at 31 December	80,545,484	63,940,438

The attached notes 1 to 38 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2008

1 INCORPORATION AND ACTIVITIES

The National Bank of Yemen (the Bank) was incorporated in Aden in 1969. It is wholly owned by the Government of Yemen. The Bank undertakes all banking activities through its head office and 28 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, and one branch in each of Hodeidah and Taiz. The Bank is registered under commercial registration number 1748 and its Head Office is at Queen Arwa Street, and its postal address is P. O. Box 5, Crater, Aden, Republic of Yemen.

2 SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of Preparation of Financial Statements**

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

Statement of Compliance

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force as at 31 December 2008 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB in force as at 31 December 2008, the requirements of the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen including those covered by the Central Bank of Yemen circular no. 2 of 2002 regarding the format of the financial statements.

a) Standards and interpretations mandatorily applicable but not early adopted last year

For the preparation of these financial statements, the following new standards and interpretations became mandatorily applicable and were not early adopted last year:

- IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instrument: Disclosures "Reclassification of Financial Assets" (as revised in 2008), effective from 1 July 2008;
- IFRIC 12: Service Concession Arrangements, effective from 1 January 2008;
- IFRIC 13: Customer Loyalty Programmes, effective from 1 July 2008;
- IFRIC 14: IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective from 1 January 2008;
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation, effective from 1 October 2008.

b) Standards and interpretations issued but not yet effective:

For the avoidance of doubt, the following standards and interpretations, which were issued by the IASB before 31 December 2008 and are not yet in effect, have not been adopted early:

- IFRS 8: Operating Segments, effective from 1 January 2009;
- IAS 1: Presentation of Financial Statements (as revised in 2007), effective from 1 January 2009;
- IAS 23: Borrowing Costs (as revised in 2007), effective from 1 January 2009;
- IAS 27: Consolidated and Separate Financial Statements (as revised in 2008), effective from 1 July 2009;
- IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of financial statements (as revised in 2008), effective from 1 January 2009;
- IAS 39: Financial Instruments: Recognition and Measurement (as revised in 2008), effective from 1 July 2009;
- IFRS 1: First time adoption of IFRS and IAS 27: Consolidated and Separate Financial Statements (as revised in 2008), effective from 1 January 2009;
- IFRS 2: Share based payment (as revised in 2008), effective from 1 January 2009;
- IFRS 3: Business combinations (as revised in 2008), effective from 1 January 2009;
- IASB's annual improvements project (revisions to various standards issued in 2008);
- IFRIC 15: Agreements for Constructions of Real Estates, effective from 1 January 2009;
- IFRIC 17: Distribution of Non – Cash Assets to Owners, effective from 1 July 2009.

The Bank does not foresee that the application of these standards/interpretations will result in a significant impact on figures and disclosures on the reporting period they will be adopted.

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

- i) The adoption of minimum fixed percentages for losses on non performing loans and advances in accordance with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998; and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Statement of Compliance (Continued)

- ii) The inclusion of the general provision for risk calculated on the performing loans and advances in the general provision for loans and advances rather than equity.

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2008.

2.2 Significant Accounting Estimates

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

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

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

Management Estimates

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

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

2.3 Summary of Principal Accounting Policies

The Bank has applied the following accounting policies, consistently, in dealing with significant items of the financial statements:

Trade and Settlement Date Accounting

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

Foreign Currencies

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

Revenue Recognition

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.3 Summary of Principal Accounting Policies (Continued)**Cash and Cash Equivalents

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

Due from Banks and other Money Market Placements

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

Treasury Bills

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

Certificates of Deposits

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

Provision for Losses on Loans and Contingent Liabilities

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

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

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

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

Investments

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

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

i) *Available for sale investments:*

After initial recognition, investments, which are classified as "available for sale", are re-measured at fair value. Fair value changes are included in equity in the period in which they arise, except for changes in impairment losses and in the case of monetary items foreign exchange gains and losses. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

ii) *Held to maturity investments:*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.3 Summary of Principal Accounting Policies (Continued)**Property, Plant and Equipment, Net of Accumulated Depreciation

Property comprising land and buildings are recorded at their revalued amounts. Other plant and equipment are recorded at cost on the date of purchase. Cost includes the purchase price and related expenses.

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

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

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

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

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

Social Security Provision

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

Contingent Liabilities and Commitments

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

Acceptances

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

Financial Assets at Fair Value through Income Statement

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

Income Tax

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

Zakat

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

Related Party Transactions

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

Fiduciary Assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.3 Summary of Principal Accounting Policies (Continued)**Impairment of Assets

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

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

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

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

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

Offsetting the Financial Assets and Liabilities

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

3 FINANCIAL INSTRUMENTS

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

Fair value of financial instruments

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

4 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.

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

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 meet their obligations when they fall due.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**Credit Risk (Continued)**

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

	31 December 2008 YR'000	31 December 2007 YR'000
Assets:		
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	8,899,867	11,240,202
Due from Bank	25,612,567	26,740,642
Treasury bills	46,280,049	33,423,127
Certificates of deposit with Central Bank of Yemen	10,350,000	9,350,000
Loans and advances to customers, net of provision	8,409,302	8,914,584
Available for sale investments, net	205,286	144,604
Debit balances and other assets	1,739,911	1,661,402
Total assets	<u>101,496,982</u>	<u>91,474,561</u>
Contra accounts and other commitments	<u>25,749,246</u>	<u>44,655,854</u>
Total credit risk exposure	<u>127,246,228</u>	<u>136,130,415</u>

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

Liquidity Risk

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

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

<u>As at 31 December 2008</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
LIABILITIES	YR'000	YR'000	YR'000	YR'000	YR'000
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Income tax payable	-	824,041	-	-	824,041
Total liabilities	<u>60,028,378</u>	<u>12,998,435</u>	<u>17,618,272</u>	<u>127,224</u>	<u>90,772,309</u>
<u>As at 31 December 2007</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
LIABILITIES	YR'000	YR'000	YR'000	YR'000	YR'000
Due to banks	572,858	-	-	-	572,858
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	80,961,204
Income tax payable	-	1,260,109	-	-	1,260,109
Total liabilities	<u>50,181,363</u>	<u>10,746,648</u>	<u>20,399,413</u>	<u>1,466,747</u>	<u>82,794,171</u>

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

Interest Rate Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**Interest Rate Risk (Continued)**

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

<u>As at 31 December 2008</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	9,933,260
Due from banks	18,567,022	769,090	289,120	1,162,462	4,824,873	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	-	46,280,049
Certificates of deposit with Central Bank of Yemen	10,350,000	-	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	-	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	205,826
Debit balances and other assets	243,665	1,925	723	2,909	1,490,689	1,739,911
Property, plant and equipment	-	-	-	-	2,176,637	2,176,637
Total assets	77,213,656	1,292,765	3,318,755	4,251,091	18,631,285	104,707,552
LIABILITIES AND EQUITY						
Due to banks	1,500,000	-	-	-	576,627	2,076,627
Customers' deposits	35,255,688	10,929,628	15,726,324	-	25,960,001	87,871,641
Credit balances and other liabilities	498,883	154,659	222,534	-	1,859,920	2,735,996
Income tax payable	-	-	-	-	824,041	824,041
Equity	-	-	-	-	11,199,247	11,199,247
Total liabilities and equity	37,254,571	11,084,287	15,948,858	-	40,419,836	104,707,552
Interest rate sensitivity gap	39,959,085	(9,791,522)	(12,630,103)	4,251,091	(21,788,551)	-
Cumulative interest rate sensitivity gap	39,959,085	30,167,563	17,537,460	21,788,551	-	-
<u>As at 31 December 2007</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	4,779,268	-	-	-	8,171,477	12,950,745
Due from banks	16,213,741	2,673,410	398,580	-	7,454,911	26,740,642
Treasury bills, net	29,277,279	-	4,145,848	-	-	33,423,127
Certificates of deposit with Central Bank of Yemen	9,350,000	-	-	-	-	9,350,000
Loans and advances to customers, net of provision	2,269,069	1,470,377	2,045,873	3,129,265	-	8,914,584
Available for sale Investments, net	-	-	-	-	144,604	144,604
Debit balances and other assets	340,363	14,792	1,849	925	1,303,473	1,661,402
Property, plant and equipment	-	-	-	-	1,917,874	1,917,874
Total assets	62,229,720	4,158,579	6,592,150	3,130,190	18,992,339	95,102,978
LIABILITIES AND EQUITY						
Due to banks	-	-	-	-	572,858	572,858
Customers' deposits	29,734,897	8,777,278	16,705,107	-	25,743,922	80,961,204
Credit balances and other liabilities	521,058	70,413	112,662	-	1,883,765	2,587,898
Income tax payable	-	-	-	-	1,260,109	1,260,109
Equity	-	-	-	-	9,720,909	9,720,909
Total liabilities and equity	30,255,955	8,847,691	16,817,769	-	39,181,563	95,102,978
Interest rate sensitivity gap	31,973,765	(4,689,112)	(10,225,619)	3,130,190	(20,189,224)	-
Cumulative interest rate sensitivity gap	31,973,765	27,284,653	17,059,034	20,189,224	-	-

In addition to the above, note no. 30 shows the average interest rates on assets and liabilities applied during the year ended 31 December 2008 and the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**Exchange Rate Risk**

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

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

<u>As at 31 December 2008</u>	<i>United States Dollar</i>	<i>Pound Sterling</i>	<i>Euro</i>	<i>Saudi Riyal</i>	<i>Other currencies</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
Assets	27,037,811	1,815,963	1,353,282	1,779,675	120,116	32,106,847
Liabilities	<u>(26,606,038)</u>	<u>(1,536,384)</u>	<u>(1,368,234)</u>	<u>(1,538,943)</u>	<u>(95,470)</u>	<u>(31,145,069)</u>
Net currency position	<u>431,773</u>	<u>279,579</u>	<u>(14,952)</u>	<u>240,732</u>	<u>24,646</u>	<u>961,778</u>
<u>As at 31 December 2007</u>	<i>United States Dollar</i>	<i>Pound Sterling</i>	<i>Euro</i>	<i>Saudi Riyal</i>	<i>Other currencies</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
Assets	28,285,131	2,034,353	2,699,212	1,473,800	137,956	34,630,452
Liabilities	<u>(27,522,604)</u>	<u>(1,738,606)</u>	<u>(2,402,699)</u>	<u>(1,188,063)</u>	<u>(111,866)</u>	<u>(32,963,838)</u>
Net currency position	<u>762,527</u>	<u>295,747</u>	<u>296,513</u>	<u>285,737</u>	<u>26,090</u>	<u>1,666,614</u>

Capital Management

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**Capital Management (Continued)**

The capital adequacy is calculated as follows:

	31 December 2008 YR' million	31 December 2007 YR' million
Tier 1 capital		
Capital	8,500	7,500
Statutory reserve	1,641	1,411
General reserve	372	148
Total Tier 1 capital	<u>10,513</u>	<u>9,059</u>
Tier 2 capital		
Property revaluation reserve	640	640
Fair value reserve	46	21
Total Tier 2 capital	<u>686</u>	<u>661</u>
Investment in any local banks or financial companies	(62)	(62)
General provision balance as at year end	87	132
Total qualifying capital	<u>11,224</u>	<u>9,790</u>
Risk weighted assets:		
On balance sheet	14,276	14,024
Off balance sheet	4,625	7,218
Total risk - weighted assets	<u>18,901</u>	<u>21,242</u>
Capital adequacy ratios		
Tier 1 capital	56%	43%
Total capital	59%	46%

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

	31 December 2008 YR'000	31 December 2007 YR'000
Cash on hand:		
In local currency	510,086	864,470
In foreign currencies	523,307	846,073
Cheques purchased, net	21,327	13,768
Total cash on hand	<u>1,054,720</u>	<u>1,724,311</u>
Reserve balances with the Central Bank of Yemen:		
In local currency	3,908,953	4,779,268
In foreign currencies	4,969,587	6,447,166
Total reserve balances with the Central Bank of Yemen	<u>8,878,540</u>	<u>11,226,434</u>
Total cash on hand and reserve balances with the Central Bank of Yemen	<u>9,933,260</u>	<u>12,950,745</u>

In accordance with the Yemeni Banks Law No. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at stipulated percentages on local currency and foreign currencies of its demand, time and other deposits. In accordance with the Central Bank of Yemen circular no. 1 of 2008, with effect from 1 April 2008, the percentage on local currency was reduced from 10% to 7%. The rate of foreign currencies of 20% remains unchanged. In addition, no interest is being paid on these deposits (2007: local currency - 13% and foreign currencies - nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

6 DUE FROM BANKS

	31 December 2008 YR'000	31 December 2007 YR'000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with the Central Bank of Yemen:		
In local currency	3,314,510	5,833,799
In foreign currencies	794,160	886,127
Total due from the Central Bank of Yemen	<u>4,108,670</u>	<u>6,719,926</u>
Current accounts with other local banks	1,974	1,974
Islamic investment deposits with two local banks	400,000	-
Total due from the Central Bank of Yemen and other local banks	<u>4,510,644</u>	<u>6,721,900</u>
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	4,816,558	3,520,168
Provision for outstanding reconciling items	(20,272)	(22,775)
Time deposits	16,305,637	16,521,349
Total due from foreign banks and other financial institutions	<u>21,101,923</u>	<u>20,018,742</u>
Total due from banks	<u><u>25,612,567</u></u>	<u><u>26,740,642</u></u>

Current accounts and time deposits with foreign banks carry variable interest rates while current accounts with the Central Bank of Yemen and local banks do not carry any interest. Islamic investment deposits with local banks represents two deposits of YR 200,000 thousands each, one for a period from 2 June 2008 to 2 June 2009 and another deposit for a period from 9 June 2008 to 9 June 2009

7 TREASURY BILLS, NET

	31 December 2008 YR'000	31 December 2007 YR'000
Treasury bills due within:		
49 days	101,902	-
62 days	2,150,474	-
84 days	-	102,129
90 days	38,411,030	29,750,402
182 days	537,410	-
364 days	6,343,870	4,633,160
Total nominal value of treasury bills	<u>47,544,686</u>	<u>34,485,691</u>
Unamortized discount due within:		
49 days	(1,519)	-
62 days	(43,308)	-
84 days	-	(1,785)
90 days	(707,312)	(573,466)
182 days	(27,747)	-
364 days	(484,751)	(487,313)
Net book value of treasury bills	<u><u>46,280,049</u></u>	<u><u>33,423,127</u></u>

The treasury bills and repurchased treasury bills carry interest rates ranging from 13.97% to 15.92% (31 December 2007: 15.70% to 15.92%). In accordance with the instructions of the Central Bank of Yemen, treasury bills, which mature within a period not exceeding three months, are considered as part of cash and cash equivalent assets.

8 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	31 December 2008 YR'000	31 December 2007 YR'000
Certificates of deposit – 91 days	<u>10,350,000</u>	<u>9,350,000</u>

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of three months and carry interest rates of 13.06% to 15.89% (31 December 2007: 15.88% to 15.90%). In accordance with the instructions of the Central Bank of Yemen, such certificates of deposit are considered as part of cash and cash equivalent assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

9 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

	31 December 2008 YR'000	31 December 2007 YR'000
Loans and advances to customers in the private sector:		
Overdraft facilities	5,654,601	6,568,294
Short term loans	5,112,777	4,241,227
Total loans and advances to customers in the private sector	10,767,378	10,809,521
Provision for losses on non performing loans and advances (note 9-a)	(2,189,068)	(1,804,949)
Suspended interest (note 9-b)	(169,008)	(89,988)
Total provision for losses on non performing loans and advances and suspended interest	(2,358,076)	(1,894,937)
Net loans and advances to customers	8,409,302	8,914,584

Gross non-performing loans and advances as at 31 December 2008 amounted to YR 2,789,807 thousand (31 December 2007: YR 2,715,490 thousand). The breakup of the above amount is as follows:

	31 December 2008 YR'000	31 December 2007 YR'000
Substandard debts	469,331	694,150
Doubtful debts	336,241	602,038
Bad debts	1,984,235	1,419,302
Total gross non performing loans and advances	2,789,807	2,715,490

9-a Provision for Losses on Non-Performing Loans and Advances

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

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

	-----31 December 2008-----			-----31 December 2007-----		
	<i>Specific</i> YR'000	<i>General</i> YR'000	<i>Total</i> YR'000	<i>Specific</i> YR'000	<i>General</i> YR'000	<i>Total</i> YR'000
Balance at 1 January	1,673,333	131,616	1,804,949	1,573,179	63,857	1,637,036
Revaluation of opening balances in foreign currencies	1,922	159	2,081	3,590	250	3,840
Amount utilized during the year.	(2,152)	-	(2,152)	(7,406)	-	(7,406)
Adjusted opening balances	1,673,103	131,775	1,804,878	1,569,363	64,107	1,633,470
Amounts recovered of loans previously written off (note 23)	(409,893)	(61,866)	(471,759)	(731,251)	(12,005)	(743,256)
Provision for the year (note 25)	838,443	17,506	855,949	835,221	79,514	914,735
Charged to the income statement	428,550	(44,360)	384,190	103,970	67,509	171,479
Balance at end of year	2,101,653	87,415	2,189,068	1,673,333	131,616	1,804,949

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2007: 2%).

The Bank has, during the year, written-off fully provided loans and advances amounting to YR 2,152 thousands (2007: YR 7,406 thousands) against impairment provisions where all possible actions for recoveries have been exhausted and the Bank's management believes the possibility of recoveries is remote. The Bank's management, however, continues to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the income statement.

9-b Suspended Interest

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

9 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION (CONTINUED)9-b Suspended Interest

	31 December 2008 YR'000	31 December 2007 YR'000
Balance at 1 January	89,988	53,381
Exchange differences for the year	373	(277)
Amounts written-off during the year	(917)	-
Recovered during the year	(5,900)	-
Suspended during the year	85,464	36,884
Balance at end of year	<u>169,008</u>	<u>89,988</u>

10 AVAILABLE FOR SALE INVESTMENTS, NET

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

	Ownership Percentage %	No. of shares of US\$ 50 each	31 December 2008 YR '000	31 December 2007 YR '000
Unquoted investments in shares of UBAF Group:				
UBAF - Curacao - A Shares of US \$ 1 each	0.788	29,944	17,982	17,982
UBAF - Curacao - B Shares of US \$ 1 each	0.782	4,693	2,818	2,818
UBAF - Curacao - C Shares of US \$ 1 each	1.221	10,565	6,344	6,344
Total investment in shares in UBAF Group		<u>45,202</u>	<u>27,144</u>	<u>27,144</u>
Other unquoted investments:				
ALUBAF Arab International Bank (BSC) – Bahrain (note 10-a)	0.344		61,073	2,067
Arab Financial Services Company - Bahrain (note 10-b)	0.167		21,388	21,487
Yemen Financial Services Company - Yemen (note 10-c)	10.000		62,165	61,917
Yemen Mobile Company for Telecommunication - Yemen (note 10-d)	0.139		61,200	61,200
Total other unquoted investments			<u>205,826</u>	<u>146,671</u>
Total available for sale investments			232,970	173,815
Provision for impairment (note 10-e)			<u>(27,144)</u>	<u>(29,211)</u>
Net book value of investments available for sale			<u>205,826</u>	<u>144,604</u>

10-a Al UBAF Arab International Bank (BSC) - Bahrain

During the year the Al UBAF Arab International Bank (BSC) – Bahrain has increased their share capital from USD 50,000 thousand to USD 100,000 and hence the Bank has increased its investment from USD 172 thousands to USD 344 thousands. The number of shares have increased to 6,880 (31 December 2007: 3,440). The fair value of the full investment in Al UBAF Arab International Bank (BSC) - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2007) which amounted to US\$ 44.36 per share.

10-b Arab Financial Services Company - Bahrain

The fair value of the investment in Arab Financial Services Company - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2007) which amounted to US\$ 10.69 per share (2007: US\$ 10.77 per share).

10-c Yemen Financial Services Company - Yemen

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

10-d Yemen Mobile Company for Telecommunication - Yemen

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

10 AVAILABLE FOR SALE INVESTMENTS, NET (CONTINUED)10-e Provision for Impairment

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

11 DEBIT BALANCES AND OTHER ASSETS

	31 December 2008 YR'000	31 December 2007 YR'000
Prepaid expenses and other debit balances	10,940	4,149
Interest receivable	249,222	357,929
Capital costs of new branches under construction	199,093	256,855
Real estate properties acquired from customers, net of provision	162,674	123,604
Al Amal Bank for Microfinance -Yemen	10,000	10,000
Al Tadhamon Microfinance - Yemen	1,000	1,000
Customer acceptances	1,057,029	867,485
Sundry debit balances, net of provision	49,953	40,380
Total debit balances and other assets	1,739,911	1,661,402

The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2007: YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

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

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

12 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

	Freehold land and buildings YR'000	Leasehold improvements YR'000	Furniture & equipment YR'000	Motor vehicles YR'000	Swift & computers YR'000	Total YR'000
Cost or valuation:						
At 31 December 2007	1,687,358	64,962	291,257	110,054	173,661	2,327,292
Additions during the year	228,144	11,167	50,403	11,462	47,511	348,687
Disposal during the year	(8,421)	-	(507)	-	-	(8,928)
At 31 December 2008	1,907,081	76,129	341,153	121,516	221,172	2,667,051
Accumulated depreciation:						
At 31 December 2007	65,117	27,277	136,774	55,020	125,230	409,418
Charge for the year	12,839	6,755	26,082	17,592	18,188	81,456
On disposal for the year	(454)	-	(6)	-	-	(460)
At 31 December 2008	77,502	34,032	162,850	72,612	143,418	490,414
Book value:						
At 31 December 2008	1,829,579	42,097	178,303	48,904	77,754	2,176,637
At 31 December 2007	1,622,241	37,685	154,483	55,034	48,431	1,917,874

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

13 DUE TO BANKS

	<i>31 December 2008 YR'000</i>	<i>31 December 2007 YR'000</i>
Current and demand accounts:		
Local banks	1,501,408	10,026
Foreign banks	575,219	562,832
	<u>2,076,627</u>	<u>572,858</u>
Total due to banks		

14 CUSTOMERS' DEPOSITS

	<i>31 December 2008 YR'000</i>	<i>31 December 2007 YR'000</i>
Current accounts	16,951,276	18,492,575
Savings accounts	26,456,386	25,198,933
Term deposits	37,961,229	28,156,993
Other deposit margins	419,636	582,159
Cash deposits for documentary letters of credit, guarantees and others	6,083,114	8,530,544
	<u>87,871,641</u>	<u>80,961,204</u>
Total customers' deposits		

15 CREDIT BALANCES AND OTHER LIABILITIES

	<i>31 December 2008 YR'000</i>	<i>31 December 2007 YR'000</i>
Accrued interest payable	876,076	704,133
Unclaimed balances (note 15-a)	193,442	197,038
Provision for employees' leave pay	59,541	43,213
Provision for off-balance sheet items (note 15-b)	114,485	281,403
Employees' share in profit	90,613	117,287
Other provision	28,000	-
Provision for contingent liabilities (note 34)	58,201	58,107
Customer acceptances	1,057,029	867,485
Sundry credit balances	258,609	319,232
	<u>2,735,996</u>	<u>2,587,898</u>
Total credit balances and other liabilities		

15-a Unclaimed Balances

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

15-b Provision for Off-Balance Sheet Items

	<i>31 December 2008 YR'000</i>	<i>31 December 2007 YR'000</i>
Balance at 1 January	281,403	150,270
Revaluation of opening balance in foreign currencies	460	1,024
Provision charged during the year (note 25)	82,903	169,240
Provision written back during the year (note 23)	(250,281)	(39,131)
	<u>114,485</u>	<u>281,403</u>
Balance at end of the year		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

16 INCOME TAX PAYABLE

	<i>31 December 2008 YR'000</i>	<i>31 December 2007 YR'000</i>
<i>Amounts due to the Tax Authority</i>		
Balance at 1 January	1,260,109	917,415
Charged for the year in the income statement (note 16-a)	824,041	1,260,109
Total amounts due to the Tax Authority	2,084,150	2,177,524
Amount paid during the year	(1,260,109)	(917,415)
Total income tax payable	824,041	1,260,109

16-a Charge for the Year

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

16-b Prior Year Tax Assessments

The Bank received on 7 May 2008 the final tax clearance for the income tax liability for the financial year ended 31 December 2007.

17 EQUITY**17-a Authorized Capital**

The authorized share capital amounting YR 10,000 million (2007: YR 10,000 million) consists of 10,000 thousand shares of YR 1,000 par value each (2007: of 10,000 thousand shares of YR 1,000 par value each).

17-b Declared and Paid Up Capital

The declared and paid up share capital amounting YR 8,500 million (2007: YR 7,500 million) consists of 8,500 thousand shares of YR 1,000 par value each (2007: 7,500 thousand shares of YR 1,000 par value each).

17-c Profit Distribution

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

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

17-d Surplus On Revaluation Of Property Reserve

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

17-e Cumulative Changes in Fair Value Reserve

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

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET (CONTINUED)

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

<u>As at 31 December 2008</u>	<i>Gross commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
Documentary letters of credit	12,494,585	4,571,414	7,923,171
Letters of guarantee - customers	5,924,769	1,491,482	4,433,287
Letters of guarantee - correspondent banks	7,241,521	-	7,241,521
Credit cards	66,627	16,957	49,670
Cheques purchased	21,744	3,262	18,482
Total contra accounts and other commitments	25,749,246	6,083,115	19,666,131
<u>As at 31 December 2007</u>	<i>Gross commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
Documentary letters of credit	29,527,323	7,151,094	22,376,229
Letters of guarantee - customers	5,554,043	1,361,825	4,192,218
Letters of guarantee - correspondent banks	9,489,936	-	9,489,936
Credit cards	65,439	14,759	50,680
Cheques purchased	19,113	2,867	16,246
Total contra accounts and other commitments	44,655,854	8,530,545	36,125,309

19 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	<i>2008 YR'000</i>	<i>2007 YR'000</i>
Interest on loans and advances to customer and banks:		
Loans and advances to customers	1,155,697	963,341
Commercial papers discounted	-	752
Other facilities	10,992	5,952
Total interest on loans and advances to customers and banks	1,166,689	970,045
Interest on accounts with foreign banks:		
Current accounts	56,208	110,807
Call accounts	1,205	1,041
Deposits	518,450	1,051,061
Total interest on accounts with foreign banks	575,863	1,162,909
Interest on accounts with local banks:		
Reserves balances with the Central Bank of Yemen	146,628	541,416
Total interest on accounts with banks	722,491	1,704,325
Total interest on loans and advances and due from banks	1,889,180	2,674,370

20 COST OF DEPOSITS

	<i>2008 YR'000</i>	<i>2007 YR'000</i>
Interest on current and saving accounts	2,004,892	1,867,915
Interest on time deposits	3,606,736	2,887,643
Total cost of deposits	5,611,628	4,755,558

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

21 COMMISSIONS AND FEE INCOME ON BANKING SERVICES

	2008 YR '000	2007 YR '000
Commissions on:		
Documentary letters of credits	158,548	168,880
Letters of guarantee	190,515	205,383
Transfer of funds	33,852	31,466
Acceptances	13,304	8,510
Cheques	353,542	260,505
Fees on:		
Banking services	8,196	8,184
Other services	47,157	41,639
	<u>805,114</u>	<u>724,567</u>

22 (LOSS) / GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2008 YR '000	2007 YR '000
Revaluation differences on foreign currency transactions	(199,186)	31,281
Gain on foreign exchange trading transactions	77,259	40,655
	<u>(121,927)</u>	<u>71,936</u>

23 OTHER OPERATING INCOME

	2008 YR '000	2007 YR '000
Provision for losses on loans no longer required (note 9-a)	471,759	743,256
Provision for off-balance sheet items no longer required (note 15-b)	250,281	39,131
Provision for other assets no longer required	40,000	2,111
Provision for contingent liabilities no longer required	-	301,000
Provision for available for sale investments no longer required (note 10 - e)	2,067	-
Provision for outstanding reconciling item no longer required (BCCI- under liquidation)	2,395	2,637
Sundry income	63,861	11,334
	<u>830,363</u>	<u>1,099,469</u>

24 GENERAL AND ADMINISTRATION EXPENSES

	2008 YR '000	2007 YR '000
Salaries, wages and related costs	946,527	720,335
Depreciation of property, plants and equipment (note 12)	81,456	67,832
Rent	34,844	35,010
Electricity and water	37,369	32,342
Repairs and maintenance	31,523	29,512
Telephone, telex and postage	26,615	25,333
Transportation and allowances	34,806	31,262
Promotions and publications	40,804	22,407
Computer maintenance	192	11,697
Training	17,514	24,863
Taxes and government fees	74,735	1,649
Donations	14,001	9,648
Stationery and printing supplies	25,065	21,142
Consultancy fees for programme for development and improvement of the Bank	61,420	87,758
Other general and administration expenses	99,984	79,612
	<u>1,526,855</u>	<u>1,200,402</u>

The number of employees with the Bank as on 31 December 2008 was 637 (31 December 2007: 613 employees).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

25 PROVISIONS

	2008 YR '000	2007 YR '000
Provision for losses on loans and advances (note 9 -a)	855,949	914,735
Provision for off-balance sheet items (note 15 - b)	82,903	169,240
Other provisions	30,619	21,445
	<u>969,471</u>	<u>1,105,420</u>
Total provisions		

26 ZAKAT PAID

	2008 YR '000	2007 YR '000
Zakat paid	<u>75,000</u>	<u>65,000</u>

27 BASIC EARNINGS PER SHARE

	2008 YR '000	2007 YR '000
Profit for the year	<u>1,530,362</u>	<u>2,340,203</u>
Weighted average number of shares	<u>8,000,000</u>	<u>YR 6,500,000</u>
Basic earnings per share	<u>YR 191</u>	<u>YR 360</u>

28 RELATED PARTY TRANSACTIONS

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

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

	31 December 2008 YR '000	31 December 2007 YR '000
Board members and parties related to them:		
Loans and advances, gross	19,722	15,517
Customers' deposits	12,761	19,124
	2008 YR '000	2007 YR '000
Interest income for the year	653	902
Interest expense for the year	691	709

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

29 MATURITIES OF ASSETS AND LIABILITIES

<u>As at 31 December 2008</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS					
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	-	-	-	9,933,260
Due from banks	23,391,895	769,090	289,120	1,162,462	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	10,350,000	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	8,409,302
Available for sale Investments, net	-	-	-	205,826	205,826
Total assets	<u>91,728,124</u>	<u>1,290,840</u>	<u>3,318,032</u>	<u>4,454,008</u>	<u>100,791,004</u>
LIABILITIES					
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Total liabilities	<u>60,028,378</u>	<u>12,174,394</u>	<u>17,618,272</u>	<u>127,224</u>	<u>89,948,268</u>
Net Gap	<u>31,699,746</u>	<u>(10,883,554)</u>	<u>(14,300,240)</u>	<u>4,326,784</u>	<u>10,842,736</u>
<u>As at 31 December 2007</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS					
Cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	-	-	-	12,950,745
Due from banks	23,588,848	2,673,410	398,580	79,804	26,740,642
Treasury bills, net	29,277,279	-	4,145,848	-	33,423,127
Certificates of deposit with the Central Bank of Yemen	9,350,000	-	-	-	9,350,000
Loans and advances to customers, net of provision	2,269,069	1,470,377	2,045,873	3,129,265	8,914,584
Available for sale Investments, net	-	-	-	144,604	144,604
Total assets	<u>77,435,941</u>	<u>4,143,787</u>	<u>6,590,301</u>	<u>3,353,673</u>	<u>91,523,702</u>
LIABILITIES					
Due to banks	572,858	-	-	-	572,858
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	80,961,204
Total liabilities	<u>50,181,363</u>	<u>9,486,539</u>	<u>20,399,413</u>	<u>1,466,747</u>	<u>81,534,062</u>
Net Gap	<u>27,254,578</u>	<u>(5,342,752)</u>	<u>(13,809,112)</u>	<u>1,886,926</u>	<u>9,989,640</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIESAs at 31 December 2008

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

As at 31 December 2007

	<i>Yemeni Riyal %</i>	<i>US Dollar %</i>	<i>Saudi Riyal %</i>	<i>Sterling Pound %</i>	<i>Euro %</i>
ASSETS					
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:					
Current accounts	-	3.94	-	3.42	3.77
Time deposits	-	4.86	3.41	6.10	3.85
Treasury bills	15.88	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	15.88	-	-	-	-
Loans and advances to customers, net of provision	17.00	7.50	-	-	-
LIABILITIES					
Customers' deposits	13.00	3.06	1.65	2.19	1.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

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

As at 31 December 2008

	<i>Manufacturing</i> YR'000	<i>Agriculture</i> YR'000	<i>Trade</i> YR'000	<i>Services</i> YR'000	<i>Financing</i> YR'000	<i>Personal</i> YR'000	<i>Total</i> YR'000
ASSETS							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	-	9,933,260
Due from banks	-	-	-	-	25,612,567	-	25,612,567
Treasury bills, net	-	-	-	-	46,280,049	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	10,350,000	-	10,350,000
Loans and advances to customers, net of provision	730,332	-	4,450,826	22,623	35,479	3,170,042	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	-	205,826
Total assets	730,332	-	4,450,826	22,623	92,417,181	3,170,042	100,791,004
LIABILITIES							
Due to banks	-	-	-	-	2,076,625	-	2,076,625
Customers' deposits	755,770	145,156	9,907,497	4,098,002	635,080	72,330,136	87,871,641
Total liabilities	755,770	145,156	9,907,497	4,098,002	2,711,705	72,330,136	89,948,266
Contra accounts and other commitments	1,335,594	76,630	18,137,768	935,209	1,954,530	3,309,515	25,749,246

As at 31 December 2007

	<i>Manufacturing</i> YR'000	<i>Agriculture</i> YR'000	<i>Trade</i> YR'000	<i>Services</i> YR'000	<i>Financing</i> YR'000	<i>Personal</i> YR'000	<i>Total</i> YR'000
ASSETS							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	12,950,745	-	12,950,745
Due from banks	-	-	-	-	26,740,642	-	26,740,642
Treasury bills, net	-	-	-	-	33,423,127	-	33,423,127
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	9,350,000	-	9,350,000
Loans and advances to customers, net of provision	42,725	-	6,556,716	105,854	49,546	2,159,743	8,914,584
Available for sale Investments, net	-	-	-	-	144,604	-	144,604
Total assets	42,725	-	6,556,716	105,854	82,658,664	2,159,743	91,523,702
LIABILITIES							
Due to banks	-	-	-	-	572,858	-	572,858
Customers' deposits	1,780,145	126,630	9,337,496	2,279,290	1,268,061	66,169,582	80,961,204
Total liabilities	1,780,145	126,630	9,337,496	2,279,290	1,840,919	66,169,582	81,534,062
Contra accounts and other commitments	14,878,784	-	23,045,638	198,939	1,900,813	4,631,681	44,655,854

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Year Ended 31 December 2008

32 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONSAs at 31 December 2008

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

As at 31 December 2007

	<i>Republic of Yemen YR'000</i>	<i>United States of America YR'000</i>	<i>Europe YR'000</i>	<i>Asia YR'000</i>	<i>Africa YR'000</i>	<i>Total YR'000</i>
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	-	-	-	-	12,950,745
Due from banks	6,721,900	3,707,555	13,152,401	3,098,103	60,683	26,740,642
Treasury bills, net	33,423,127	-	-	-	-	33,423,127
Certificates of deposit with Central Bank of Yemen	9,350,000	-	-	-	-	9,350,000
Loans and advances to customers, net of provision	8,914,584	-	-	-	-	8,914,584
Available for sale Investments, net	123,117	-	-	21,487	-	144,604
Total assets	71,483,473	3,707,555	13,152,401	3,119,590	60,683	91,523,702
LIABILITIES						
Due to banks	10,026	-	-	562,832	-	572,858
Customers' deposits	80,961,204	-	-	-	-	80,961,204
Total liabilities	80,971,230	-	-	562,832	-	81,534,062

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For The Year Ended 31 December 2008

33 TRUST ACTIVITIES

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

34 CONTINGENT ASSETS AND LIABILITIES

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

35 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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

	-----31 December 2008-----		-----31 December 2007-----	
	%	YR '000	%	YR '000
United States Dollar	3.86	431,773	7.84	762,527
Pound Sterling	2.50	279,579	3.04	295,747
Euro	(0.13)	(14,952)	3.05	296,513
Saudi Riyal	2.15	240,732	2.94	285,737
Swiss Franc	0.11	12,884	0.15	14,569
Japan Yen	0.06	7,057	0.04	3,787
United Arab Emirates Dirham	0.04	4,689	0.08	7,719
Other	0.00	16	0.00	15
Aggregate foreign currency positions	<u>8.59</u>	<u>961,778</u>	<u>17.14</u>	<u>1,666,614</u>

The US Dollar exchange rate as at 31 December 2008 was 200.08 YR/USD (31 December 2007: 199.51 YR/USD).

36 CAPITAL COMMITMENTS

Capital commitments at 31 December 2008 amounted to YR 540 million (31 December 2007: YR 72 million).

37 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT OF THE BANK

The Bank has signed, on 20 December 2006, a contract with one of the international consulting firms for the development and improvement of the Bank. The program consists of two parts; the first is for the rendering of consulting services in administration, operations and banking fields and the second on the procurement, installation and running of advanced IT equipment and programs that would enhance the efficiency, competitiveness and maximize the profitability of the Bank. The total duration of the programme is 17 months. During 2007, the first part of the program has commenced. The Bank will finance the cost of both parts of this program from its own financial resources.

38 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.