

البنك الأهلي اليمني  
**National Bank Of Yemen**  
Trust & Experience



**Annual Report  
2008**

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**B** NBY LONG TERM FOREIGN CURRENCY RATING  
**BB** NBY FINANCIAL STRENGTH RATINGS



**Best Bank in  
Yemen 2007**



**Best Bank in  
Yemen 2006**

البنك الأهلي اليمني  
National Bank Of Yemen



**New  
Achievement**



NATIONAL BANK OF YEMEN

البنك الأهلي اليمني





His Excellency  
**ALI ABDULLAH SALEH**  
President of The Republic



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## Financial and Statistic highlights

ASSETS	2004	2005	2006	2007	2008
<b>Balance sheet</b>					
Total assets	57,627	64,579	83,268	95,103	104,708
Owner`s equity	3,321	3,841	7,092	8,915	8,409
Customers` deposits	51,284	56,709	71,666	80,961	89,948
Loans and advances (net)	30,870	32,345	38,155	42,773	56,630
Local investments	4,631	5,876	7,496	9,721	11,199
Due from banks	13,760	15,545	24,013	26,741	25,613
Items outside budget	11,311	14,860	23,683	36,125	19,666
<b>Statement of income</b>					
Net interest income	2,047	2,653	3,470	4,150	3,467
Operating income	591	626	1,243	1,898	1,527
Profit before taxation	1,353	2,014	2,621	3,600	2,354
Net profit for the year	880	1,309	1,704	2,340	1,530
<b>Indicators</b>					
Earning per share	21.4%	48.8%	30.2%	37.3%	-34.6%
Return on average assets %	1.5%	2.0%	2.0%	2.5%	1.5%
Return on average owners` equity %	22.8%	27.6%	28.3%	30.5%	15.5%
Liquidity %	46%	50%	39%	43%	56%
Capital adequacy %	85%	80%	81%	74%	80%
US \$ rates	185.84Y.R	195.08Y.R	198.51Y.R	199.51Y.R	200.08Y.R
Earnings	419Y.R	485Y.R	359Y.R	360Y.R	191Y.R
Number of branches	27	27	27	28	28
Number of employees	597	585	629	613	637

## Board of Directors



**Mr. Abdulrahman M. Al-Kuhali**  
Chairman and General Manager  
Chairman Yemen Financial  
Services Company  
Member of the Board Directors of  
Central Bank of Yemen



**Mr. Sami A. Hamid Mackawee**  
Member of the Board  
First Deputy General Manager



**Mr. Abdulla A. Saleh**  
Representative/ Ministry of  
Finance



**Mr. Muqbil S. Al-qawseie**  
Representative/ Central Bank of  
Yemen



**Mr. Hussein Mackawee**  
Representative/ Ministry of  
Industry & Trade



**Mr. Dr. Samir A. Razack Taleb**  
Representative/ Ministry  
of planning & International  
Cooperation



## Board of Directors



## Executive Management of the Bank



### Standing From The Right

<b>Arwa Ali Suleiman Al-Koori</b>	Manager, Statistic & Research
<b>Dr. Ahmed Bin Sunker</b>	Manager, Human Resources & Administration
<b>Ashraf Samy H. Hanafy</b>	Manager, Banking & Credit Dept.
<b>Shawkat A. Md. Jan</b>	Manager, Internal Audit & Compliance
<b>Ziad A. Basunaid</b>	Head-IT Division

### Sitting From The Right

<b>Arwa Saleh Saif</b>	Acting Manager, Legal Dept.
<b>Sakina A Mohamed.</b>	Manager, Foreign Relations Dept.
<b>Omer A. Abdulgbar</b>	Manager, Studies Dept. & Training Center
<b>Alawi A. Munassar</b>	Manager Branches Dept.
<b>Esam Ahmed Al-Saqqaf</b>	Manager, Central Accounts



Mr. Abdulrahman M. Al-Kuhali  
Chairman and General Manager

## Chairman's Message

Abdul Rahman Mohamed Al Kohali  
Chairman and General Manager

**On** behalf of Board of directors of National Bank of Yemen it is my pleasure to present to you the Annual Report of Board of Directors for the year 2008 and display together the most important economic and financial events witnessed by the world on two fronts: internationally and nationally and earmark the distinguished achievements achieved by the bank in appreciation to effort of its staff during the year.

In 2008 the global economy faced drawbacks due to global financial crisis resulting from subprime mortgages in USA leading to losses and crash in financial markets despites governments bailout plans for important banking fields targeted to infest more liquidity in financial system for these nations to save financial and banking institutions from failure and to encourage them renew lending and revive the confidence among depositors and investors.

Thus the world economy depicted in 2008 as result of global financial crisis various crucial incidents the most outstanding: instability in rate of exchange due to fluctuations accounted in money markets; lowering of interest rate by central banks of the world in unprecedented manner to avoid occurrence of worst recession as experienced globally during Great Depression; bankruptcy of various financial and banking institutions; crash of money markets; and failure of governments bailout plans to pacify the terrified markets; fall in price of crude oil to US\$ 40.00 and below as result of weakened and declined growth in the global demands in view of global economic recession as consequence of global financial crisis the economies of big nations entered into stage of deflation and economic recession which would result in decline in global economic growth un foreseeable. The World Bank forecasted significant retreat in global economic growth in the coming year to level of 0.9% compare to global growth this year approximated to 2.5%., also the International

Monetary Fund in its report of global economic forecast is not different, the world has entered into great recession and is confronted with great shock as in 1930, was the year when the great depression occurred.

On the national front the impact of global financial crisis on Yemeni economy, in general would be; decrease flow of income in the budget as result fall in price of crude oil which the nation depends 75% proximately for its budget, and which had taken into consideration as main resource in estimation of the budget for 2009, which reflected domestic economic development negative reflection on main resource resulting in decline in income from export of oil which is considered main resource for expenditure, hence great attention was paid on implementing infrastructure projects such as roads, electricity, water, education, health eradicate poverty and reduce unemployment with great impetus.

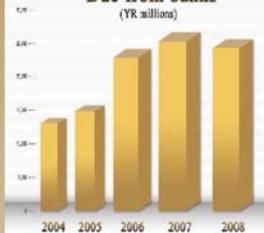
The other expected impact on Yemeni economy due to the global crisis is decline oil products and its effect on neighbouring economies, would have effect on the immigrants transfers and flow of investment on the balance of payment

On other front the government during the year 2008, implemented numerous of its programs, policies and procedures encountering mainly economic challenge, and continued with the tasks of reforming policies, judiciary and administration and restructuring organization structure fighting corruption and encourage transparency in government procedures.

The most outstanding result achieved by the government within the framework of implementation of election program of His Excellency the President of the Republic of Yemen were connected with the confirmation of independence of the judiciary, investment environment enhancing economic and investment performances and fighting corruption in term of elements of independent and transparent organization and the development of general auction and bidding system, reinforcement of total independence in decision making without interference of the government, in addition to, reinforcement of reforms for investment environments and various concessions granted to investments.

As in respect of the banking sector, the impact of global financial crisis on Yemeni banks would be negligible, as result the strict compliance standards for providing credit facilities and other procedures which the Central Bank of Yemen undertakes to achieve stability and absorption of extra liquidity from the market, these ensure avoidance

Due from banks



of credit risk and non performing loans and short fall of liquidity, which enabled it to be safe not faltered directly into this crisis.

During the year 2008, the Central Bank of Yemen completed receipt of institution capital as guarantee against deposits which would reinforce the trust of customers with banking sector which with aim to protect small depositors and regain their trust in the ability of the banking sector in Yemen; and provide protection against their deposits, and solicit more customers and deposits.

The year 2008 witnessed a distinguished stability of Yemeni Riyal against US Dollar, and inflation seceded to a considerable level which enabled the Central Bank to cut the interest rate from 13% to 12% on Riyal deposit at the beginning of 2009, this would help in lowering rate of lending and financing generally; which would enable to bridge the big gap between the rate of interest on deposits in Riyal and rate of interest on U S Dollar which has reached less than half percentage.

As for the developments of monetary and banking sectors in respect of banks in Yemen, the money supply has increased from YR 1,485 billion at end of November 2007 to YR 1,819 billion at end of November 2008 with an increase of about YR 334 billion at ratio of 22.5 %. The net external assets of the banking sector increase YR 1,855 billion at the end of November 2008 compare to YR 1,719 billion at the end of November 2007 an increase of YR 136 billion at ratio of 7.9%. The external asset of the Central Bank of Yemen at the end of November amounted to US Dollar 8,216 million covering 12 months of imports compare to US Dollar 7,709 million covering 14 month of imports at end of November 2007. In addition to, the gross conciliated balance sheet of commercial and Islamic banks, at the end of November 2008, increased to YR 1,502 billion compared to YR 1,229 billion at the end of November 2007 the increase ratio amounted to 22.2%.

The financial and monetary policies adapted by the Government and Central Bank of Yemen were successful. During the year 2008 the international rating institute Capital Intelligence raised the sovereign rating of long term obligations to B and confirmed the rise in the economic strength of the country despite the global financial tremor engulfed the world presently.

As for National Bank of Yemen during the year it had preserved the best quality of assets, reinforce the base of owner's equity, enhance the capital adequacy to ratio incomparable to prior ratios, adapted conservative policies, strict standard on allowance of facilities, providing full

provisions, compliance to standards required by Central Bank of Yemen, avoid participation into unsecured investments and confined secured funds, which prevented the bank from falling prey to financial crisis and helped it to be safe from it. These results were in consonance with the bank's declared aims in its mission thus confirming the bank's success and abilities to confront various banking changes locally and internationally.

The Board of Directors went ahead with caution to enhance and strength the financial position and resolved with the approval of the owner (the government) the transfer of the government share of the profit of the year 2008 to the bank's capital so as to reinforce the base of owner's equity and enhance its ability to compete and carry out loans and investment operations. Thus the owner's equity of the bank was increased to Y R 11,500 million compare to Y R 9,720 million at end of December 2007, an increase of 15.2% and consequence the capital adequacy was raised as of the end the year 2008 according to the Bank International Settlement Standard and Requirements to the local regulatory authority to about to 56% compare to 43%at the end of the year 2007.

In addition to this the year 2008 witnessed the bank's continues pioneer role of issuing the financial statements and interim review reports. These reports are prepared and presented with transparency in compliance to audit and disclosure standards and in accordance to International Financial Reporting Standards.

Also, the phase I of the Development and Modernization Project of the bank was completed , which consists of restructuring of organization structure ,development of banking, financial and administrative rules and procedures; in addition the bidders proposals analysis of software and hardware solutions for networking head office with the branches of the phase II of the project was completed, and it is expected their implementation in the first quarter of 2009, and on completion of these, the full fledge application of the project of Development and Modernization of the bank, which commenced operation in 2007. The aim of restructuring of the bank's organization and the development of banking, financial and administrative rules and procedures and application of the latest modern technology in banking industry and development of substitution channels to provide comprehensive services and products to our honourable customers and public.

The international rating institution, Capital Intelligence in 2008 upgraded the bank's long term foreign currency obligation to B from B- confirming National Bank of Yemen pioneer role among Yemeni banks, based on its

distinguished results and achievements, and financial strength, this rating is regarded the highest given to any bank in Yemen, it is reflected by the development and improved in the bank's financial indicators and in general especially the quality of the assets in addition composition of strong capital.

As for our future aims, our plan for the coming year includes continuing development of human resources and enhance the employees qualifications through advanced training programs domestically and abroad especially designing various expertise and experienced banking programs for important jobs positions in the new organization structure of the bank; and enhance the standard of services and banking products provided to customers ; and in addition, the completion of development of operational and administration risks, and human resources, information technology, and operation and administration of information system, and retail and corporate banking, and direct investments with continue growth and maintaining the highest level of competence of operation and development of asset aiming for the highest quality of assets with concentration of adding value to owner's equity .

We went ahead with beginning new financial year to achieve more achievements, and on this occasion I express on behalf of myself and members of the Board of Directors profound gratitude and appreciation to His Excellency Ali Abdullah Saleh ,the President of the Republic of Yemen, and to the Prime Minister, the Minister of Finance, the Governor of the Central Bank of Yemen, the ministers and authorities in the ministries for their continuous support and encouragement. We especially thank the Ministry of Finance and Central Bank of Yemen for the wise directives and support to our efforts.

Finally I would like to thank our esteemed customers whose invaluable trust we pride on, and their loyalty and confidence, and the executive management and all the staff of the bank for efforts and dedication in serving the bank.

  
Abdul Rahman Mohamed Al Kohali  
Chairman and General Manager  
Aden 3 February 2009

## The Board of Directors Report

**It** pleases The Board of Director of The National Bank of Yemen-wholly Government owned—to present its annual report on the activities of the bank on fiscal year 2008 including the financial statements for the year ending 31 December 2008.

The efforts of the management and the executive personnel focused on the development of internal works of the bank towards the transition to the new phase in the march of the bank at the beginning of 2009 aiming the growth of the financial position of the bank; increasing the profitability to a rational ratio; appropriate risk management; application of modern technology in all banking activities to create best coordination with the bank's strategy and the project of total development and modernization of the bank with continuous emphasis on the development of the human resources to enable them to the best comprehension of the modern technology.

### **The Governance:**

Good Governance are considered an integral part of all the banking activities and the Board of Directors of The National Bank of Yemen affirms confirms to adopt and support a sound culture in the bank concerning the governance based on the principles of integrity, transparency and responsibility. The Bank acknowledges that a prudent leadership and a sound governance would have positive effect on the staffs, the owners (The Yemeni Government) the regulatory authorities and the depositors of the Bank.

### **The Board of Directors:**

The Bank is managed by a Board of Director assisted by a specialized team of executive management. The bank possesses no commercial relations with companies owned fully by members of the Board of Directors or hold shares in these companies. The Board of Directors is the responsible body for supervising the performance of the bank and the functioning of its activities; as well as the guidance, and monitor

of the bank as whole. Among the responsibilities of the board falls the function of setting up specific goals in the bank's activities and approving them; the approval of the strategies and policies necessary to accomplish these goals; continuous reviewing the bank's performance against the set up goals as well as the compliance with the policies.

The Board also performs through the Review and Audit Committee, the function of reviewing the financial position of the Bank with external auditors to reconfirm with their compliances with laws, rules and regulations and the accounting standard imposed in the Republic of Yemen; which is fundamentally in no way different than the International Standard for Financial Reporting. The Board confirms its regulatory responsibility to the correctness, of financial statements and that they present a fair picture of the financial status of the Bank and the result of its activities.

The Board of Directors consists of a Chairman appointed by Republican decree and independent members from outside the Bank and executives appointed in accordance with Prime Minister's decrees no (60) of 1990 for the forming of the Board of Directors for the Bank. The Board summoned twelve meetings during 2008 (Fourteen meetings during 2007). These meetings are held in the Head Office of the Bank after distribution of the agenda and the supporting memos among the members three days prior to meeting date. The Board has a secretariat who undertake the preparation of meeting agenda and recording the minutes and the decrees of the sessions in a formal meetings minutes. These minutes are available for review and inspection to concerned supervisory authorities.

The supervision of the activities of the related parties with the members of the board is carried in accordance laid out policies and directives of Central Bank of Yemen; also such disclosure are reported in annual report and in compliance to standards of good governance; the member of the board do not participate in decision making on issues related to his interest.

#### **The Main Committees of the Board:**

In compliance with the Central Bank of Yemen directive to achieve the best performance and to benefit from the various relative experiences from the members of the board, the board formed two main committees to assist in their governance. These are:

#### **The Provision Committee:**

Among its members are three non-executive members of the board selected by the board in accordance with instructions of the Central Bank of Yemen. This committee's responsibilities include reviewing the provision prepared by the executive management to ensure their adequacy and calculations according to the standards and policies set up by the regulatory authorities. The committee meetings is attended regularly by the Manager of the Credit Department. The Committee held four meetings during 2008.

#### **The Supreme Control Committee:**

This Committee has the essential and important role in supporting the board of directors to dedicate its accounting, financial and organizational duties as well as controlling of risk limits, in addition to accounts auditing and coordinating with the Bank's external auditors. It carries out quarterly reviews of the financial figures and assists the board of directors in carrying out affective annual reviews of the effectiveness of the internal control systems, defining the expected risks and outlining the suitable strategies application.

This committee consists of a non-executive chairman and two non-executive members from outside the Bank. Manager Audit Department attends all the meeting regularly. The Committee held two meetings during 2008.

#### **Internal Control:**

A part of procedures and systems of internal control are set up towards ensuring the best levels of efficiency and security of the bank interests. It is followed up by the board of directors and the executive management for suitable practices as a standard to develop and supervise the efficiency of these systems. The management persists on developing the governance of information technology to guarantee the existence of tenacious technologies and effective controlling systems, also modernizing the present managerial structure to clearly define the roles, responsibilities and authorities in the bank as well as modernizing the work manuals, procedures and policies. Reports are regularly presented to the board of directors about the financial position of the Bank and results of operations and activities of the Bank and controlling and monitoring the actual performances against the specified goals.

The Bank complies to the standard of International

Financial Reporting system in preparing the accounting and financial statements; interim financial reports are published quarterly half yearly and yearly duly in Arabic and English newspapers in the Republic of Yemen. Accordingly, the responsibilities of the board of directors the Bank has accomplished and sat up a complete group of policies as required by the Central Bank of Yemen.

#### **Risk Management:**

The board of directors and the executive management bear full responsibilities for the risks in the Bank. Therefore, the board of directors and the executive management both work hard to create an equilibrium between risks and the achievement of revenue so as to ensure achievement of the set up targets of the Bank.

The aim of risk management is to weigh, analyze, and present the reports and earmark risks in an independent way within the criteria set up by the board of directors and the concerned controlling authorities. The board of directors and the management are working currently on the reviewing and modernizing the policies and procedures manuals and the control system in the risk management according to different types of risks with the assistances of an international consultant firm.

#### **Bank's External Auditors:**

The appointment of external auditors for the Bank is made on basis of selection and evaluation, of the auditors professional skills and reputation. The Bank follows the necessary procedures in appointing the external auditors in accordance with the directives of the Central Bank of Yemen.

The external auditors are appointed on annual basis (per year) on the approval of the Central Bank of Yemen. The Bank has appointed M/S Dahman RSA to audit its accounts for the year 2008 after the approval the Central Bank of Yemen.

#### **Operational and Financial Performance:**

The net profit of the Bank for the year 2008 amounted to YR. 1,530 million with a decrease of YR.810 million on net profit in 2007 equivalent to 34.6 % that is because of a decrease in interests income on the due from banks amounted to YR.587 million as a result of decline of interest rates on US. Dollar, and non-payment of the returns on mandatory reserve for deposits in Yemeni Rials by Central Bank of Yemen and because keeping long term obligation by the Bank on main foreign currencies; the Bank incurred losses resulted by deference of paring

rates of foreign currencies against Yemeni Rials of about YR.122 million due to non-stability of the exchange rates because of severe fluctuation faced by the currencies market as a result of international financial crisis, beside the rising deposits cost to about YR.856 million against the year 2007. As a result the net operational income decreased to about YR.1054 million in 2008 i.e. to the ratio of 17.4% against the year 2007.

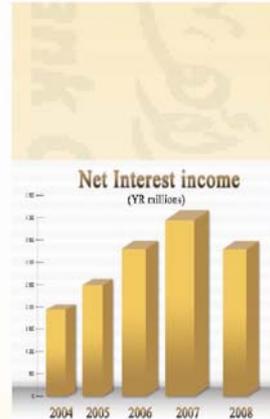
General and administration expenses increased up to YR.326 million to the ratio of 27.2% from YR.1,200 million in 2007 increase of YR.1,526 million in 2008; and as a result to the decrease of net profit of the bank and increase of the capital of the bank to YR.8,500 million, earnings per share amounted YR.191 in 2008 compared with YR.360 in 2007 i.e. at the ratio of 46.9%.

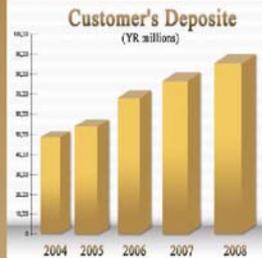
#### Financial Position:

It is worth mentioning that total assets raised by YR.9605 million an increase of 10.1% over the previous year to reach YR.104,707 million in 2008. Cash in hand and reserved balances at the Central Bank of Yemen decreased by a ratio of 23.3%, balances of local investments (treasury bills and certificates of deposit) registered a rise of 32.4% and the balances with the banks to 4.2% and so the net loans and advances decreased from YR.8,915 million in 2007 to YR.8,409 million in 2008 i.e. at ratio 5.7%. Regarding the inoperative loans and advances as at 31 December 2008 amounted 18% of total loans and advances compared to 25% at the end of previous year. The provision ratio – without taking into consideration the general provision amounted to 100% as at the end of 2008 compared to 93% by the end of 2007. In addition to that, balances due to banks and customer deposits amounted to YR.89,947 million as at the end of 2008 an increase of YR.8,414 million to the previous year equivalent to the rate 10.3%.

#### Owner's Equity:

Owner's equity raised in 2008 at the rate of 15.2% compared to 2007 to reach about YR.11,200 million with an increase of YR.1,479 million enabling the Bank to finance many of the big projects. This increase in the owner's equity reinforced the financial solvency of the bank and consequently raised the essential capital adequacy rate to 56% compared to 43% in 2007 according to both Basel Committee resolutions and Central Bank of Yemen directives. The average return on owner's equity decreased to 15.5% in 2008 compared to 30.5% in 2007 that because of the reduction of net profit and the raise of owner's equity.





### Main Operating Sectors

The Bank performs its activities through three main operations – retail, corporate, and investment through its 28 branches network spread throughout the main cities and the governorates in the Republic.

### Retail Banking Services:

The groups of Retail Banking Services to individuals continued its focus on a number of main issues as we introduced attractive conditions for the saving accounts product which continued attracting more new customers. Also, the Conditions of Term Deposit product has been amended to help customers save a specific amount repeatedly with an attractive interest rate. We have also amended the policy of personal loans so as to yield more flexibility for customers in terms of loans limits, interest rates and duration of loans. Many new products has been introduced also and existing products has been innovated. This is beside the launching of many promotional campaigns throughout the year. Programs of Housing loans has been presented also with feasible terms to finances building house loans for the staffs of a pioneer local company. It is expected this product of real state financing will draw many new job opportunity for the Bank during the coming years, opportunist of the flourishing of the real estate sector in our country. The Bank has aggravated the programs of financing electronic equipments and computers etc with attractive conditions. These products has contributed in increasing the personal loans portfolio in a remarkable way during the year.

### Commercial Banking Services:

The management continued to focus on strengthening communication methods with present customers and widen the scope of its work through entering into new business relations with a number of companies and local business houses with the aim of holding a bigger market share in the banking operations and services and doubling the revenues through creating operation opportunities for direct and indirect finances. It also concentrated on growth of the bank's assets and their diversification and enhances customer service delivery techniques

In accordance with the new strategy of the Bank we would continue in future the development of conventional sectors of our banking operations with a clear focus on strengthening relations and improve performance with corporate customers providing them with the best services. We intend to focus significantly on financing

development projects where we seek to increase our market share would be of significant focus where we seek to increase our market share through supporting the biggest companies currently active in such projects. In respect, trade finance we working to expand our market share in order to support the activities of our customers in better way; thus, encouraging them to benefit from the available economic circumstances

The Bank's new organizational structure includes establishing a unit for development of products and services to acclaim their satisfaction through promotion of our competence in dealings and upgrade effectiveness of distribution channels to secure highest possible standards in the field of customers satisfaction and maintain close relations with them.

**Treasury and Investment Department:**

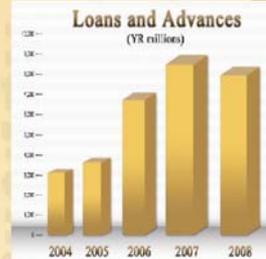
The Treasury and Investment Department achieved several targets during 2008 such as: increase of return on assets in terms of local investment mainly in view of the vast reduction in interest on main foreign currencies. Our treasury department provides suitable solutions to companies and institutional customers in a way to ensure their need of foreign currencies. It performs actively too in managing liquidity in accordance with the policies and directives set by assets and liabilities committee. We visualize developing new products and services in this field according to the new bank strategy to be released to customers also shortly.

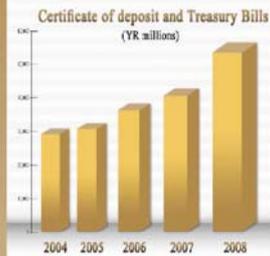
**International Banking Relations:**

Foreign Relations Department undertakes the tasks of supporting and facilitating trade and builds relations with international financial institutions. It also undertakes the management of the bank's international operations and the bank's relations with correspondent banks as the bank deals with more than 115 financial institutions all over the world. The Department has been very active throughout the year in promoting foreign trade operations and coordinating with counter parties relating to credit lines facilitated by the treasury. Delegations from 22 banks and banking institutions visited our banks during 2008, which resulted in the rises of credit lines, treasury transactions and an increase of commercial banking transactions with correspondent banks.

**Credit Risk Management:**

The year 2008 ended with assistance from an International Consulting firm in preparing the manual of credit policy and the Bank's policies to manage various





kinds of risks such as credit risk, market risk, operation risk and others. Risk management has been included in the new organizational structure of the Bank. It works independently of the departments of the marketing of the services and products to customers as it is considered responsible in weighing and considering acceptable risks for the Bank supported by internal audit department and money laundering operations investigation department according to the procedures and policies prevailing in the Bank.

Managing and monitoring of credit risk is exercised by selection of customers who enjoy good reputation and through the evaluation of the credit and obtaining the sufficient guarantees and continuous monitoring. Also credit limits are set for customers with analysis and evaluation of portfolios in addition to setting credit concentration limits. Evaluation of total credit portfolio is done periodically too to avoid the risks of credit concentration concerning type of facilities or sector or customers wise or geographical distributions taking into consideration that the Bank follows on a conservative policy to weigh and monitor credit risks and set up sufficient provision to cover doubtful assets.

In addition to the policies and procedures of liquidity management and monitoring approved by the higher management ensures the Bank's ability to finance its operations efficiently and fulfill its possible present and future obligations, such as, loans and ad-hoc obligations and operations of unexpected withdrawals from deposits. Undertaking the responsibility of managing liquidity on a daily basis comes under the Treasury Department assisted by other departments in the Bank.

In respect of the market risk and to avoid taking unreasonable risks in dealings with customers, the Bank complies to the controls set up by Central Bank of Yemen concerning currencies open positions. The Bank also deals with interest rate risk through matching the valuing of assets and liabilities, and with the various means and operations within the defined gaps limits.

The Bank has the internal procedures and system and necessary manpower to control operational risks and to ensure the existence of a secure monitoring environment for internal monitoring procedures in the Bank. Some of the procedures adopted by the Bank to manage risk operations are summarized in effective training, documentation of operations and procedures, in addition to establishing adequate monitoring systems

to safeguard the Bank's assets and registrar with regular reconciliation of accounts and transactions and continuous monitoring of credit limits and the segregation between duties and the edition of administrative reports. The internal audit department carries out independent and regular evaluation of internal monitoring procedures of all branches and departments and submits its reports to the Audit Committee formed by the Board.

The Bank's strategy is focused on understanding and evaluating the current risks in a clear manner beside evaluating the level of efficiency of the internal monitoring system in mitigating these risks and provide continuous and effective control. The availability of governance of risk management through various committees at the level of the board of directors and the executive management of the bank such as, credit committee, the investment committee and the assets and liabilities committee. Besides of concentrating our efforts on the control of credit costs and provision policies which resulted in provisioning the targeted ratios of classified loans.

During the year the Bank's project of comprehensive restructuring of organization was completed, which established a unified procedures in every unit of the Bank competitive to the best international practice according to the requirements of Basel II in order to identify, evaluate, analyze and report on the risks. These processes would enable the Bank to identify points of weakness in the internal control system and establish imperative solutions in order to solve them and mitigate from their frequent occurrence.

#### **International Rating:**

Capital Intelligence an International rating institution upgraded the long term obligations of the Bank to (B) from (B - ) in November 2008, this up grading reflects the strong financial performance of the Bank and improvement of its assets quality supported by strong liquidity and excellent capital adequacy which the Bank enjoys. The outlook rendered by Capital Intelligence is (stable) which reflects expectations that the Bank will continue to confirm its position in the market and maintain its strong position. Capital Intelligence kept the rating level at (BB) regarding the financial solidity and strength of the Bank. Such rating is considered to be the highest rating given to a bank in Republic of Yemen.

#### **Commitment:**

There had been tremendous efforts in this respect, including setting up procedures competitive with the legal

requirements levied by the concerned authorities of the State to know your customer, and complete the policies and procedures pertaining to money laundering and monitoring customers' activities beside the establishing of an investigation unit and redrafting the procedures and policies relating to Anti Money Laundering Committee within the administrative manuals of the bank prepared with the cooperation's of International Consultants. Money Laundering Operations Investigations Unit undertakes the task of monitoring the level of compliance of the branches and departments with the directives of Central Bank of Yemen. It also trains and educates the Bank staffs toward the concerned policies and procedures through training and educational courses.

#### **Information Technology:**

During 2008 the Bank has achieved a number of initiatives to modernize information technology and specified programs integrated to information systems at Head Office departments and branches level, the procedure of analyzing suppliers offers for the new banking system is completed with the assistance of an international consultant firm and we are trying currently the procedure of rewarding the successful supplier of systems software and hardware, to inter link branches with the Head Office of the Bank via network in accordance with the prevalent law for bidding and tenders. In order to reinforce the infrastructure of information technology and the commencement application of the second phase of the Bank's project of modernizing and restructuring of 'automation and technology' to upgrade to working technology of the Bank to the criteria of international banking industry and minimizing the time process in customer services. In addition, the swift system and the banking system in the branches has seen new additions in executing many of the operations using the latest techniques.

#### **Human Resources Development:**

Tremendous focus targeting human resources development is rendered by the Bank in pursuance of its policies aiming attraction and training the young national cadres. The Bank has succeeded in the attracting numerous of newly graduates from State universities; and training them in administrative and technical programs allowing them to participate in a number of internal and external theoretical courses beside the practical on-job training in order to enhance their skills and make them productive and effective when beginning their assignments. The management has transcribed this issue in developing the human resources from staff-

participation in banking technical and financial courses and seminars organized by local, Arabic and international organizations. The number of trainees reached to (422) in 2008 participated in (54) local and foreign training programs in the field of sales, services, operations, banking credit and risks; thus, targeting enhancement of employees skills and acquainted them with latest banking techniques. In 2009 the Bank will endeavour to attract many numbers of experts and qualified local and Arab persons offering an opportunity to train and develop Bank staff.

We have established a specialized unit in job qualification within the human resources department in the new organizational structure of the Bank to confirm our commitment to assist our staff to achieve their ambitious career and create a cadre with a feeling of loyalty and trust in an economic enterprise. The Bank has contracted during the year with Arab banking cadres on a selective basis having experience which is not available in the local market.

#### **Customers' Service:**

To maintain our leading position, the Bank started in 2008 in pursuing a number of procedures targeting at upgrading customers' services through offering the Bank's products and services to customers with reasonable cost and minimum span of time in addition to automation procedures. The Bank during this year and within its scope of modernization project and total restructuring which is implemented with assistance of an international consultant firms has worked to restructure the branches as points of sale to customers according to the specification of modern to banking industry. In addition to performing the operation via the network and the increased effectiveness of distribution channels within the framework of technology and automation strategy currently implemented by the Bank to ensure highest possible level of customers' satisfaction.

In order to preserve our close relations with our customers we continued to keep them well informed about our new initiatives and achievements. This led to raise the level of customers' loyalty and satisfaction and we would continue in future to strengthen the relations and improve its administrations with corporate customers offering them better services in order to gain and secure their loyalty.

#### **Social Responsibility:**

The Bank undertakes many social activities which reflects its continuous support the humanitarian issues

in forms of continued distributing of donations to needy individuals and organizations as a contribution in charity works and humanitarian activities. The Bank supported the social activities of a number of charitable associations and some of the financial institutions interested in developing human resources working in local banks. It continues the encouraging and supporting the school events, cultural, professional educational and sports activities.

#### **Bank Strategy:**

National Bank of Yemen performs in an environment of severe competition and therefore it works within annual work plans based on long term strategy. Besides the profit accomplishment and it tries to present the services and products which fulfill the needs of customers – creating jobs opportunity, social responsibility toward the local community, rising the market share of the Bank in term of extending its services and channels of expansion enhancing its financial position through a clear working strategy implying modern technology in all banking activities which is competitive with the techniques used in the developed banks.

The Bank performs within clear and specific targets and work plans outlined the strategies to achieve these targets. Thus the managing of assets and liabilities are balanced in manner focusing on maintaining the owners' equity and depositors' rights concurrently with laws and directives of Central Bank of Yemen.

In conclusion, we are pleased to take this opportunity to express our sincere gratitude and appreciation to our prudent government under the leadership of his Excellency Ali Abdullah Saleh, the President of the Republic, banks' customers and correspondents on their great trust. We also express our sincere gratitude and appreciation to the Bank's management and its employees who, without their dedication, loyalty and sincere concentrated efforts in their work, the achievement of these good results would not be possible.

**Board of Directors  
National Bank of Yemen  
Aden**

03 February 2009.

## List of Branches

### Head office

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

### Aidroos Branch

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

### Queen Arwa Branch

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

### Sana'a Branch

Sana'a Zubairy Street.  
P.O. Box No. 198309  
Republic of Yemen  
Tel.: + 967 1 517771  
Fax: + 967 1 517773  
SWIFT: NBOYYESA002

### Mukalla Branch

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

### Hodeidah Branch

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

### Maalla Branch

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

### Steamer Point Branch

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

### A. Aziz A. Wali Branch

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

### Public Lending Branch

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

### Little Aden Branch

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

### Seiyun Branch

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

**Khormaksar Branch**

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

**Al-Qaa Branch**

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

**Zingubar Branch**

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

**Al-Dala Branch**

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

**Al-Habeelain Branch**

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

**Labaus Branch**

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

**Lahej Branch**

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

**Al-Baidha Branch**

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

**Zarah Branch**

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

**Rusod Branch**

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

**Ataq Branch**

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

**Hai October Branch**

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

**Al-Sheher Branch**

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

**Al-Qatan Branch**

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

**Al-Ghaedhah Branch**

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

**Suqotra Branch**

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

**Tiaz Branch**

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

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

P.O. Box 16146  
Villa 11, opposite to Supreme Comm. of  
Elections, New Alkhorvit St., Aser Zone,  
Sana'a, Republic of Yemen  
Tel: (967) 1- 214 365  
Fax: (967) 1- 214 360  
E-mail: [dahmanco@yemen.net.ye](mailto:dahmanco@yemen.net.ye)  
[adren.office@dahman.rsm.net](mailto:adren.office@dahman.rsm.net)  
<http://www.dahman-rsm.com>

**Report on the Financial Statements**

We have audited the accompanying financial statements of the National Bank of Yemen (The Bank) which comprises the balance sheet as of 31 December 2008, the related income statement, statement of changes in owners' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**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 and related Yemeni laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**OPINION**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and of its financial performance, the changes in owners' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and related Yemeni laws and regulations.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

We have obtained all the information and explanations which we required for the purpose of our audit. We also confirm that, in our opinion, proper accounting records have been kept by the Bank and the accompanying financial statements are in agreement therewith. According to our knowledge and belief no violations to the provisions of the Banks Law No. 38 of 1988, Commercial Companies Law No. 22 of 1997 as amended, the Public Companies and Establishments Law No. 35 of 1991 or guidelines of Central Bank of Yemen have occurred during the year ended on 31 December 2008.


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

3 February 2009,  
Aden, Republic of Yemen

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

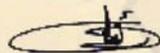
## BALANCE SHEET

### As at 31 December 2008

ASSETS	Note	31 December 2008	31 December 2007
		YR' 000	YR' 000
Cash on hand and reserve balances with the Central Bank of Yemen	5	9,933,260	12,950,745
Due from banks	6	25,812,567	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
<b>TOTAL ASSETS</b>		<b>104,707,552</b>	<b>95,102,978</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>		<b>93,508,305</b>	<b>85,382,069</b>
<b>EQUITY</b>			
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
<b>TOTAL EQUITY</b>		<b>11,199,247</b>	<b>9,720,909</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>104,707,552</b>	<b>95,102,978</b>
<b>CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET</b>	18	<b>19,666,131</b>	<b>36,125,309</b>

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

OPERATING INCOME	Note	2008	2007
		YR' 000	YR' 000
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		9,078,990	8,905,657
Cost of deposits	20	(5,611,628)	(4,755,558)
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	830,363	1,099,469
<b>NET OPERATING INCOME</b>		<b>4,994,364</b>	<b>6,048,430</b>
<b>OPERATING EXPENSES</b>			
Commissions and fee expenses on banking services		68,635	77,296
General and administration expenses	24	1,526,855	1,200,402
Provisions	25	969,471	1,105,420
<b>TOTAL OPERATING EXPENSES</b>		<b>2,564,961</b>	<b>2,383,118</b>
<b>PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX</b>		<b>2,429,403</b>	<b>3,665,312</b>
Zakat paid	26	(75,000)	(65,000)
<b>PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX</b>		<b>2,354,403</b>	<b>3,600,312</b>
Provision for income tax	16	(824,041)	(1,260,109)
<b>PROFIT FOR THE YEAR</b>		<b>1,530,362</b>	<b>2,340,203</b>
Basic earnings per share	27	191 YR	360 YR

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

## STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2008

	Capital	Surplus On Revaluation Of Property Reserve	Statutory Reserve	General Reserve	Cumulative Changes in Fair Value Reserve	Retained Earnings	Total
	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	8,500,000	639,762	1,641,326	372,350	45,809	-	11,199,247

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.

## STATEMENT OF CASH FLOWS For The Year Ended 31 December 2008

	2008	2007
	YR 000	YR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>CHANGES IN BANKING ASSETS AND LIABILITIES</b>		
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
<b>CASH FLOWS FROM/ (USED IN) INVESTMENT ACTIVITIES</b>		
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)
<b>CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES</b>		
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 (15+4+3+2+)	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
- 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.

#### **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:

Buildings on freehold land	2 %
Vehicles	1 %
Furniture and equipment	
Computers and software programs	15 %
Security vaults	45 %
Improvements to leasehold property	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.

**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

### 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.

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

The Bank manages concentration of risk by distributing the portfolio

Assets	31 December 2008	31 December 2007
	YR'000	YR'000
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
<b>Total assets</b>	<b>101,496,982</b>	<b>91,474,561</b>
Contra accounts and other commitments	25,749,246	44,655,854
<b>Total credit risk exposure</b>	<b>127,246,228</b>	<b>136,130,415</b>

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:

In addition to the above, note no. 29 shows the maturity analysis

As at 31 December 2008	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
<b>LIABILITIES</b>					
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
<b>Total liabilities</b>	<b>60,028,378</b>	<b>12,998,435</b>	<b>17,618,272</b>	<b>127,224</b>	<b>90,772,309</b>

As at 31 December 2007	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
<b>LIABILITIES</b>					
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
<b>Total liabilities</b>	<b>50,181,363</b>	<b>10,746,648</b>	<b>20,399,413</b>	<b>1,466,747</b>	<b>82,794,171</b>

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.

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

As at 31 December 2008	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>						
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
<b>Total assets</b>	<b>77,213,656</b>	<b>1,292,765</b>	<b>3,318,755</b>	<b>4,251,091</b>	<b>18,631,285</b>	<b>104,707,552</b>
<b>LIABILITIES AND EQUITY</b>						
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
<b>Total liabilities and equity</b>	<b>37,254,571</b>	<b>11,084,287</b>	<b>15,948,858</b>	<b>-</b>	<b>40,419,836</b>	<b>104,707,552</b>
Interest rate sensitivity gap	39,959,085	(9,791,522)	(12,630,103)	4,250.91	21,788,551	-
Cumulative interest rate sensitivity gap	39,959,085	30,167,563	17,537,460	21,788,551	-	-

As at 31 December 2007	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>						
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
<b>Total assets</b>	<b>62,229,720</b>	<b>4,158,579</b>	<b>6,592,150</b>	<b>3,130,190</b>	<b>18,992,339</b>	<b>95,102,978</b>

**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
<b>Total liabilities and equity</b>	<b>30,255,955</b>	<b>8,847,691</b>	<b>16,817,769</b>	<b>-</b>	<b>39,181,563</b>	<b>95,102,978</b>
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.

**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:

### Capital Management

As at 31 December 2008	United States Dollar	Pound Sterling	Euro	Saudi Riyal	Other	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
Assets	27,037,811	1,815,963	1,353,282	1,779,675	120,116	32,106,847
Liabilities	(26,606,038)	(1,536,384)	(1,368,234)	(1,538,943)	(95,470)	(31,145,069)
Net currency position	431,773	279,579	(14,952)	240,732	24,646	961,778

As at 31 December 2007	United States Dollar	Pound Sterling	Euro	Saudi Riyal	Other	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
Assets	28,285,131	2,034,353	2,699,212	1,473,800	137,956	34,630,452
Liabilities	(27,522,604)	(1,738,606)	(2,402,699)	(1,188,063)	(111,866)	(32,963,838)
Net currency position	762,527	295,747	296,513	285,737	26,090	1,666,614

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.

The capital adequacy is calculated as follows:

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

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

In accordance with the Yemeni Banks Law No. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank

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

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).

#### 6 - DUE FROM BANKS

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

	31 December 2008	31 December 2007
	YR'000	YR'000
Due from the Central Bank of Yemen and other local banks		
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	4,108,670	6,719,926
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	4,510,644	6,721,900
Due from foreign banks and other financial institutions		
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	21,101,923	20,018,742
Total due from banks	25,612,567	26,740,642

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

The treasury bills and repurchased treasury bills carry interest

	31 December 2008	31 December 2007
	YR'000	YR'000
<b>Treasury bills due within:</b>		
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
<b>Total nominal value of treasury bills</b>	<b>47,544,686</b>	<b>34,485,691</b>
<b>Unamortized discount due within:</b>		
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)
<b>Net book value of treasury bills</b>	<b>46,280,049</b>	<b>33,423,127</b>

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

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of three months and carry

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

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.

#### 9 - LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

Gross non-performing loans and advances as at 31 December

Loans and advances to customers in the private sector	31 December 2008	31 December 2007
	YR'000	YR'000
Overdraft facilities	5,654,601	6,568,294
Short term loans	5,112,777	4,241,227
<b>Total loans and advances to customers in the private sector</b>	<b>10,767,378</b>	<b>10,809,521</b>
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)
<b>Total provision for losses on non performing loans and advances and suspended interest</b>	<b>(2,358,076)</b>	<b>(1,894,937)</b>
<b>Net loans and advances to customers</b>	<b>8,409,302</b>	<b>8,914,584</b>

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:

#### 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 -

	31 December 2008	31 December 2007
	YR'000	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

(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:

Management has decided to provide for the general provision

	31 December 2008			31 December 2007		
	Specific	General	Total	Specific	General	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	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

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.

Suspended Interest	31 December 2008	31 December 2007
	YR'000	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	169,008	89,988

### 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	31 December 2007
			YR'000	YR'000
<b>Unquoted investments in shares of UBAF Group</b>				
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		45,202	27,144	27,144
<b>Other unquoted investments</b>				
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			205,826	146,671
Total available for sale investments			232,970	173,815
Provision for impairment (note 10-e)			(27,144)	(29,211)
Net book value of investments available for sale			205,826	144,604

#### 10-a AI UBAF Arab International Bank (BSC) - Bahrain

During the year the AI 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 AI 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.

### 11- DEBIT BALNCES AND OTHER ASSETS

	31 December 2008	31 December 2007
	YR'000	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 Tadamon 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

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 Tadamon 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	Leasehold	Furniture & equipment	Motor vehicles	Swift & computers	Total
Cost or valuation:	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
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 epreciation:						
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.

## 13 - DUE TO BANKS

DUE TO BANKS	31 December 2008	31 December 2007
	YR'000	YR'000
Current and demand accounts:	1,501,408	10,026
Local banks	575,219	562,832
Foreign banks	2,076,627	572,858

## 14 - CUSTOMERS' DEPOSITS

CUSTOMERS' DEPOSITS	31 December 2008	31 December 2007
	YR'000	YR'000
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
Total customers' deposits	87,871,641	80,961,204

**15 - CREDIT BALANCES AND OTHER LIABILITIES**

CREDIT BALANCES AND OTHER LIABILITIES	31 December 2008	31 December 2007
	YR'000	YR'000
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
Total credit balances and other liabilities	2,735,996	2,587,898

**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**

CREDIT BALANCES AND OTHER LIABILITIES	31 December 2008	31 December 2007
	YR'000	YR'000
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)
Balance at end of the year	114,485	281,403

**16 - INCOME TAX PAYABLE**

Amounts due to the Tax Authority	31 December 2008	31 December 2007
	YR'000	YR'000
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 OMMITMENTS, 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.

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

As at 31 December 2008	Gross commitments	Covered by margin	Net commitments
	YR'000	YR'000	YR'000
Documentary letters of credit	12,494,585	4,571,414	7,923,171
Letters of guarantee - customers	5,924,769	1,491,482	4,433,287
Letters of guarantee - correspondent banks	7,241,521	-	7,241,521
Credit cards	66,627	16,957	49,670
Cheques purchased	21,744	3,262	18,482
Total contra accounts and other commitments	25,749,246	6,083,115	19,666,131

As at 31 December 2007	Gross commitments	Covered by margin	Net commitments
	YR'000	YR'000	YR'000
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

	2008	2007
	YR'000	YR'000
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

	2008	2007
	YR'000	YR'000
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

## 21 - COMMISSIONS AND FEE INCOME ON BANKING SERVICES

	2008	2007
	YR'000	YR'000
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
Total commissions and fee income on banking services	805,114	724,567

## 22 - (LOSS) / GAIN ON FOREIGN CURRENCY TRANSACTIONS

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

## 23 - OTHER OPERATING INCOME

	2008	2007
	YR'000	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
Total other operating income	830,363	1,099,469

**24 - GENERAL AND ADMINISTRATION EXPENSES**

	2008	2007
	YR'000	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
<b>Total general and administration expenses</b>	<b>1,526,855</b>	<b>1,200,402</b>

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

**25 - PROVISIONS**

	2008	2007
	YR'000	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
<b>Total provisions</b>	<b>969,471</b>	<b>1,105,420</b>

**26 - ZAKAT PAID**

	2008	2007
	YR'000	YR'000
Zakat paid	75,000	65,000

**27 - BASIC EARNINGS PER SHARE**

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

## 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:

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

## 29 - MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2008	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>					
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
<b>Total assets</b>	<b>91,728,124</b>	<b>1,290,840</b>	<b>3,318,032</b>	<b>4,454,008</b>	<b>100,791,004</b>
<b>LIABILITIES</b>					
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
<b>Total liabilities</b>	<b>60,028,378</b>	<b>12,174,394</b>	<b>17,618,272</b>	<b>127,224</b>	<b>89,948,268</b>
<b>Net Gap</b>	<b>31,699,746</b>	<b>(10,883,554)</b>	<b>(14,300,240)</b>	<b>4,326,784</b>	<b>10,842,736</b>

As at 31 December 2007	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
<b>ASSETS</b>	YR'000	YR'000	YR'000	YR'000	YR'000
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
<b>Total assets</b>	<b>77,435,941</b>	<b>4,143,787</b>	<b>6,590,301</b>	<b>3,353,673</b>	<b>91,523,702</b>
<b>LIABILITIES</b>					
Due to banks	572,858	-	-	-	572,858
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	80,961,204
<b>Total liabilities</b>	<b>50,181,363</b>	<b>9,486,539</b>	<b>20,399,413</b>	<b>1,466,747</b>	<b>81,534,062</b>
<b>Net Gap</b>	<b>27,254,578</b>	<b>(5,342,752)</b>	<b>(13,809,112)</b>	<b>1,886,926</b>	<b>9,989,640</b>

**30 - AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES**

As at 31 December 2008	Yemeni Riyal	US Dollar	Saudi Riyal	Sterling Pound	Euro
<b>ASSETS</b>	%	%	%	%	%
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	-	-	-
<b>LIABILITIES</b>					
Customers' deposits	13.00	1.95	1.14	2.20	1.45

As at 31 December 2007	Yemeni Riyal	US Dollar	Saudi Riyal	Sterling Pound	Euro
<b>ASSETS</b>	%	%	%	%	%
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	-	-	-
<b>LIABILITIES</b>					
Customers' deposits	13,00	3,06	1,65	2,19	1,15

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

As at 31 December 2008	Manufacturing	Agriculture	Trade	Services	Financing	Personal	Total
<b>ASSETS</b>	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
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
<b>Total assets</b>	<b>730,332</b>	<b>-</b>	<b>4,450,826</b>	<b>22,623</b>	<b>92,417,181</b>	<b>3,170,042</b>	<b>100,791,004</b>
<b>LIABILITIES</b>							
Due to banks					2,076,627		2,076,627
Customers' deposits	755,770	145,156	9,907,497	4,098,002	635,080	72,330,136	87,871,641
<b>Total liabilities</b>	<b>755,770</b>	<b>145,156</b>	<b>9,907,497</b>	<b>4,098,002</b>	<b>2,711,707</b>	<b>72,330,136</b>	<b>89,948,268</b>
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	Manufacturing	Agriculture	Trade	Services	Financing	Personal	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>							
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
<b>Total assets</b>	<b>42,725</b>	<b>-</b>	<b>6,556,716</b>	<b>105,854</b>	<b>82,658,664</b>	<b>2,159,743</b>	<b>91,523,702</b>
<b>LIABILITIES</b>							
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
<b>Total liabilities</b>	<b>1,780,145</b>	<b>126,630</b>	<b>9,337,496</b>	<b>2,279,290</b>	<b>1,840,919</b>	<b>66,169,582</b>	<b>81,534,062</b>
Contra accounts and other commitments	14,876,784	-	23,045,638	198,939	1,900,813	4,631,681	44,655,854

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

As at 31 December 2008	Republic of Yemen	USA	Europe	Asia	Africa	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>						
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
<b>Total assets</b>	<b>79,606,620</b>	<b>2,601,576</b>	<b>10,714,485</b>	<b>7,862,895</b>	<b>5,428</b>	<b>100,791,004</b>
<b>LIABILITIES</b>						
Due to banks	1,501,408	-	-	575,219	-	2,076,627
Customers' deposits	87,871,641	-	-	-	-	87,871,641
<b>Total liabilities</b>	<b>89,373,049</b>	<b>-</b>	<b>-</b>	<b>575,219</b>	<b>-</b>	<b>89,948,268</b>

As at 31 December 2007	Republic of Yemen	USA	Europe	Asia	Africa	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<b>ASSETS</b>						
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
<b>Total assets</b>	<b>71,483,473</b>	<b>3,707,555</b>	<b>13,152,401</b>	<b>3,119,590</b>	<b>60,683</b>	<b>91,523,702</b>
<b>LIABILITIES</b>						
Due to banks	10,026	-	-	562,832	-	572,858
Customers' deposits	80,961,204	-	-	-	-	80,961,204
<b>Total liabilities</b>	<b>80,971,230</b>	<b>-</b>	<b>-</b>	<b>562,832</b>	<b>-</b>	<b>81,534,062</b>

### 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
<b>Aggregate foreign currency positions</b>	<b>8.59</b>	<b>961,778</b>	<b>17.14</b>	<b>1,666,614</b>

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.

National Bank Of Yemen  
البنك الأهلي اليمني



# البنك الأهلي اليمني National Bank Of Yemen



## Trust & Experience

### our vision:

National Bank of Yemen is the pioneer in providing high quality services and banking products that meet the customers' needs, and pace with the developments in the Yemeni, Arab and international financial and banking markets through a wide network of correspondents in various parts of the world.

### our message:

Embarking on such development and updating project the bank aims at providing to its customers high standard banking services and products outweighing traditional services rendered by banks to their customers. National Bank of Yemen seeks always to strengthen its financial position in the social circles in order to pace with competition in Arab and international banking markets and work dedicatedly in one team spirit to satisfy the customers and gave care to the staff, and open opportunities for them to develop and encourage distinction in performance and achievement of satisfactory proceeds to owners.

[www.nbyemen.com](http://www.nbyemen.com)

















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