

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND INDEPENDENT AUDITOR'S REPORT

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of International Bank of Yemen (the Bank), which comprise the balance sheet as at December 31, 2008, the income statement, cash flow statement and statement of changes in shareholders' equity 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 prevailing local 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of International Bank of Yemen as at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and prevailing local laws and regulations.

Report on Other Legal and Regulatory Requirements

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

M. Zohdi Mejanni
Associated Accountant



Sana'a, April 15, 2009

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

BALANCE SHEET
AS AT DECEMBER 31, 2008

ASSETS	Note No	2008 YR 000's	2007 YR 000's
Cash on hand and reserve balances with Central Bank of Yemen	6	16,334,356	16,225,089
Due from banks	7	12,041,766	14,792,697
Treasury bills (net)	8	21,114,008	34,459,333
Treasury bills with repurchase obligation	9	7,575,987	8,125,951
Certificates of deposit with Central Bank of Yemen	10	49,200,000	25,200,000
Loans and advances (net)	11	32,125,779	22,143,115
Available for sale investments	13	20,404	19,880
Investment in subsidiaries and associates	14	-	336,781
Debit balances and other assets (net)	15	2,255,412	2,199,032
Property and equipment (net)	17	<u>1,948,969</u>	<u>1,769,238</u>
TOTAL ASSETS		<u>142,616,681</u>	<u>125,271,116</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	18	3,494,758	1,527,343
Customers' deposits	19	126,290,563	114,914,481
Credit balances and other liabilities	20	3,133,982	2,424,644
Other provisions	21	<u>929,165</u>	<u>610,570</u>
Total Liabilities		<u>133,848,468</u>	<u>119,477,038</u>
SHAREHOLDERS' EQUITY			
Paid-up capital	22/a	5,100,000	3,400,000
Legal reserve	22/b	653,426	653,426
Retained earnings		<u>40,652</u>	<u>1,740,652</u>
Total Shareholders' Equity		5,794,078	5,794,078
Net profit for the year		<u>2,974,135</u>	<u>-</u>
Total Shareholders' Equity and Net Profit		<u>8,768,213</u>	<u>5,794,078</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>142,616,681</u>	<u>125,271,116</u>
Contingent liabilities and commitments (net)	23	<u>48,683,262</u>	<u>30,502,159</u>

(The accompanying notes from 1 to 42 form part of these financial statements)

Shaher Abdul Haq
Vice Chairman

Ahmed Thabet Al Absi
General Manager

Mohammed Faraj Sulaiman
Finance Manager

Independent auditor's report attached.

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



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

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note No.	2008 YR 000's	2007 YR 000's
Interest on loans and due from banks	24	4,240,326	4,447,352
Interest on treasury bills and certificates of deposits	25	11,178,202	9,170,518
		15,418,528	13,617,870
Less: interest expense	26	(8,055,837)	(6,951,172)
Net interest income		7,362,691	6,666,698
Commissions' revenue and bank service charges	27	1,058,955	898,877
Less: commissions' expense and bank service charges		(85,277)	(82,722)
Gain of foreign currency transactions	28	261,331	188,713
Other income	29	127,536	104,605
Net operating income		8,725,236	7,776,171
Less: provisions	30	(2,126,366)	(3,373,250)
Less: general and administrative expenses and depreciation	31	(2,192,465)	(1,482,050)
Operating profit		4,406,405	2,920,871
Evaluation profit (losses) of available for sale investments		465	(759)
Net profit of the year before income tax		4,406,870	2,920,112
Less: Income tax for the year		(1,432,735)	(780,475)
Less: Income tax for previous years		-	(101,191)
Net profit for the year		2,974,135	2,038,446
Earnings per share	32	YR 58.32	YR 59.95

(The accompanying notes from 1 to 42 form part of these financial statements)

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INTERNATIONAL BANK OF YEMEN
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CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Note</u>	<u>2008</u> <u>YR 000's</u>	<u>2007</u> <u>YR 000's</u>
<u>Cash flows from operating activities</u>			
Net profit for the year before income tax		4,406,870	2,920,112
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of property and equipment	17	209,525	191,993
Provisions provided during the year	30	2,126,366	3,373,250
Revaluation differences of provision in foreign currencies		4,048	7,241
Revaluation differences of available for sale investments		(59)	(100)
Revaluation differences of investment in subsidiaries and associates		-	(1,688)
Evaluation profit (loss) of available for sale investments		(465)	759
Provisions reversed		(51,777)	(32,824)
Provisions used		(220,557)	(211,011)
Income tax paid		(780,475)	(762,771)
Net (profit) on sale of property and equipment		-	(921)
Operating profit before changes in assets and liabilities used in operating activities		5,693,476	5,484,040
<u>Net (increase) decrease in assets</u>			
Reserve balances with Central Bank of Yemen		448,654	(1,050,153)
Loans and advances		(11,579,790)	(4,915,445)
Treasury bills due after 3 months		3,127,729	(5,762,541)
Debit balances and other assets		1,261	(954,525)
<u>Net increase (decrease) in liabilities</u>			
Due to banks		1,967,415	(1,003,370)
Customers' deposits		11,376,082	23,235,259
Credit balances and other liabilities		57,078	607,913
Net cash from operating activities		<u>11,091,905</u>	<u>15,641,178</u>
<u>Cash flows from investing activities:</u>			
Net payments to purchase property and equipment		(389,256)	(235,839)
Decrease in investments in subsidiaries and associates		336,781	-
(Increase) in time deposits - restricted		(315,492)	-
(Increase) in available for sale investments		-	(688)
Net cash (used in) investing activities		<u>(367,967)</u>	<u>(236,527)</u>

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INTERNATIONAL BANK OF YEMEN
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STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Note</u>	<u>2008</u> <u>YR 000's</u>	<u>2007</u> <u>YR 000's</u>
Net change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		10,723,938	15,404,651
Cash and cash equivalents at the end of the year		<u>67,848,593</u>	<u>52,443,942</u>
		<u>78,572,531</u>	<u>67,848,593</u>
<u>Cash and cash equivalents consist of:</u>			
Cash on hand and at ATM and cheques purchased		2,199,886	1,641,965
Due from banks		12,041,766	14,792,697
Treasury bills maturing within 3 months		7,870,384	18,087,980
Treasury bills with repurchase obligation maturing within 3 months		7,575,987	8,125,951
Certificates of deposit with Central Bank of Yemen maturing within 3 months		<u>49,200,000</u>	<u>25,200,000</u>
		78,888,023	67,848,593
Less: Time deposits – restricted	7	(315,492)	-
		<u>78,572,531</u>	<u>67,848,593</u>

(The accompanying notes from 1 to 42 form part of these financial statements)

Shaher Abdul Haq
Vice Chairman


Ahmed Thabet Al Absi
General Manager


Mohammed Faraj Sulaiman
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Independent auditor's report attached.


M. Zohdi Mejanni
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INTERNATIONAL BANK OF YEMEN
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Paid-up Capital YR 000's</u>	<u>Legal reserve YR 000's</u>	<u>Retained earnings YR 000's</u>	<u>Net profit for the year YR 000's</u>	<u>Total YR 000's</u>
Balance as at Jan. 1, 2007	3,400,000	347,659	7,973	-	3,755,632
Net profit for the year (after tax)	-	-	2,038,446	-	2,038,446
Transfer to legal reserve	-	<u>305,767</u>	<u>(305,767)</u>	-	-
Balance as at Dec. 31, 2007	3,400,000	653,426	1,740,652	-	5,794,078
Transfer to capital	1,700,000	-	(1,700,000)	-	-
Net profit for the year (after tax)	-	-	-	<u>2,974,135</u>	<u>2,974,135</u>
Balance as at Dec. 31, 2008	<u>5,100,000</u>	<u>653,426</u>	<u>40,652</u>	<u>2,974,135</u>	<u>8,768,213</u>

(The accompanying notes from 1 to 42 form part of these financial statements)

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Vice Chairman

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INTERNATIONAL BANK OF YEMEN
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PROPOSED APPROPRIATION ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u> <u>YR 000's</u>	<u>2007</u> <u>YR 000's</u>
Retained earnings at the beginning of the year	40,652	7,973
Add: net profit for the year	<u>2,974,135</u>	<u>2,038,446</u>
	<u>3,014,787</u>	<u>2,046,419</u>
Proposed to be appropriated as follows:		
15% legal reserve	446,120	305,767
Dividends to shareholders	612,000	-
Transfer to capital increase	1,900,000	1,700,000
Retained earnings	<u>56,667</u>	<u>40,652</u>
	<u>3,014,787</u>	<u>2,046,419</u>

The bottom of the page contains several handwritten signatures and scribbles. On the left, there is a large, stylized signature that appears to be 'AL2' followed by some illegible characters. To the right, there are two more distinct signatures, one above the other, both appearing to be in ink. The signatures are somewhat abstract and difficult to decipher.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. BACKGROUND INFORMATION

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

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

- The financial statements are prepared on the historical cost basis, except available-for-sale investments and financial instruments (financial assets and liabilities) held at fair value, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force at December 31, 2008 and the interpretations of the International Financial Reporting interpretations committee (IFRIC) of the IASB in force at December 31, 2008, the requirements of the current local prevailing laws and regulations as well as rules and instructions issued by the Central Bank of Yemen (CBY).
- The financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise is indicated.

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

- a. The adoption of minimum fixed percentages for loan provisions in accordance with CBY circular No. 6 of 1996 and No. 5 of 1998.
- b. The provision for general risks calculated on performing loans is presented as part of loans and advances provision and not part of shareholders' equity.
- c. The provision for contingent liabilities is presented as part of other provisions and not as part of shareholders' equity.
- d. The valuation differences of the available for sale investments are charged to the income statement in accordance with CBY instructions and not presented as part of shareholders' equity.

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

Significant accounting judgments and estimates

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 4, 11, 20 and 21.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Translation of foreign currencies

- The Bank maintains its records in Yemeni Rial, which is the Bank functional currency. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the income statement.
- The Bank does not deal in forward contracts to cover its needs for foreign currencies or foreign exchange contracts to cover the risks of settling its future liabilities in foreign currencies.

3.2 Revenue recognition

- Revenues are recognized on the accrual basis. However, in order to comply with the requirements of CBY circular No. 6 of 1996, the Bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest.
- Revenues of available for sale investments are recognized when its related dividends are distributed.
- Revenues of investments in subsidiaries and associates are recorded when the financial statements of these companies are approved.

3.3 Treasury bills

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

Treasury bills are presented on the balance sheet net of balance of unearned discount outstanding at the financial statements date.
- Treasury bills with repurchase obligation are presented in the balance sheet at cost at the balance sheet date. The related accrued interest is included in interest receivable.

3.4 CBY certificates of deposits

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

3.5 Valuation of available for sale investments

Available for sale investments are recorded at acquisition cost. At the financial statements date, they are individually valued at fair value. Valuation differences are charged to the income statement in accordance with CBY instructions.

In case that a reliable estimate of the fair value of these investments can not be obtained, due to lack of either quoted market prices or tangible stability in its prices, they are recorded at cost.

3.6 Investment in subsidiaries and associates

Investments in subsidiaries which are controlled by the Bank and associates which the Bank has significant influence over are recorded at the acquisition cost. At the balance sheet date, the value of these investments is adjusted by changes in the Bank's share of the equity of the subsidiary or associate based on the approved financial statements of these companies. Such changes are reflected in the Bank income statement. In case these financial statements are not available, the investments are recorded at cost.

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

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

3.8 Provision of loans and contingent liabilities

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

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

Loans are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.

Loans to customers and banks are presented on the balance sheet net of provision and suspense interest.

3.9 Contingent liabilities and commitments

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

3.10 Cash and cash equivalent

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

3.11 Impairment of assets

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

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

3.12 Property, equipment and depreciation

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

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

3.13 Other provisions

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

3.14 Taxation

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

A provision is provided for tax liabilities after appropriate review of tax assessments received. Due to the nature of Yemeni tax accounting, provision is provided for tax liabilities relating to deferred tax. If deferred tax assets exist, their clearance is not usually definite in the foreseeable future. Accordingly, such assets are not recorded.

3.15 Zakat due on shareholders

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

INTERNATIONAL BANK OF YEMEN
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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

3.16 End of service benefits

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

3.17 Applicable new standards and interpretations issued but not yet adopted

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

- Revised IAS 1 Presentation of Financial Statements which becomes effective from January 1, 2009 introduces the term “total comprehensive income,” which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.
- IAS 23 Borrowing costs (as revised during 2007) which becomes effective from January 1, 2009.
- Amended IAS 27 Consolidated and Separate Financial Statements, which becomes effective from July 1, 2009 requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.
- Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank’s 2009 financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory from 2010.
- IFRS 2 “Share-based payment” (as revised during 2008) which becomes effective from January 1, 2009.
- IFRS 3 Business combination (as revised during 2008) which becomes effective from July 1, 2009.
- IFRS 8 Operating Segments, which becomes effective for annual periods beginning on or after January 2009, introduces the “management approach” to segment reporting, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank’s “chief operating decision maker” in order to assess each segment’s performance and to allocate resources to them. Currently, the Bank presents segment information in respect of its business segments and geographical distribution. This standard will have no effect on the Bank’s reported total profit or loss or equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

- IFRIC 13 Customer Loyalty Programmes which becomes effective annual periods beginning on or after July 2008 addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements.

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.

4. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

4.1 Financial instruments

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

Note (3) to the financial statements includes significant accounting policies applied for recognition and measurement of significant financial instruments and their related revenues and expenses.

- b. Fair value of financial instruments

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

4.2 Risk management of financial instruments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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

(a) Credit risk

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

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

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

	2008	2007
	<u>YR 000s</u>	<u>YR 000s</u>
Cash on hand and reserve balances with CBY (excluding cash on hand and ATM)	14,179,137	14,620,251
Due from banks	12,041,766	14,792,697
Treasury bills (net)	21,114,008	34,459,333
Treasury bills with repurchase obligation	7,575,987	8,125,951
Certificates of deposit with CBY	49,200,000	25,200,000
Loans and advances (net)	32,125,779	22,143,115
Available-for-sale investments	20,404	19,880
Investments in subsidiaries and associates	-	336,781
Debit balances and other assets (net)	<u>2,255,412</u>	<u>2,199,032</u>
	138,512,493	121,897,040
Contingent liabilities and commitments	<u>53,843,349</u>	<u>34,753,079</u>
Total credit risk exposure	<u>192,355,842</u>	<u>156,650,119</u>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 35 shows the distribution of financial instruments over different economic sectors and Note no. 36 shows the distribution of financial instruments based on geographical locations.

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(b) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its 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 and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

	2008				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	3,494,758	-	-	-	3,494,758
Customers' deposits	65,864,819	37,661,214	22,764,530	-	126,290,563
Income tax for the year	-	1,432,735	-	-	1,432,735
Total liabilities	<u>69,359,577</u>	<u>39,093,949</u>	<u>22,764,530</u>	<u>-</u>	<u>131,218,056</u>
2007					
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	1,527,343	-	-	-	1,527,343
Customers' deposits	60,106,623	34,455,511	20,352,348	-	114,914,482
Income tax for the year	-	780,475	-	-	780,475
Total liabilities	<u>61,633,966</u>	<u>35,235,986</u>	<u>20,352,348</u>	<u>-</u>	<u>117,222,300</u>

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

(c) Interest rate risk

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

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

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

	2008						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	16,334,356	16,334,356		
Due from banks	8,395,116	-	-	-	3,646,650	12,041,766	-	3.2
Treasury bills (net)	7,870,384	4,453,103	8,790,521	-	-	21,114,008	15.09	-
Treasury bills with repurchase obligation	7,575,987	-	-	-	-	7,575,987	15.01	-
Certificates of deposit with Central Bank of Yemen	49,200,000	-	-	-	-	49,200,000	14.80	-
Loans and advances (net)	14,109,218	9,823,412	8,050,185	-	142,964	32,125,779	18.50	8.0
Available-for-sale investments	-	-	-	-	20,404	20,404		
Debit balances and other assets (net)	-	-	-	-	2,255,412	2,255,412		
Property and equipment (net)	-	-	-	-	1,948,969	1,948,969		
Total Assets	<u>87,150,705</u>	<u>14,276,515</u>	<u>16,840,706</u>	<u>-</u>	<u>24,348,755</u>	<u>142,616,681</u>		
Liabilities and Shareholders' Equity								
Due to banks	3,494,758	-	-	-	-	3,494,758	13.00	3.0
Customers' deposits	18,800,247	37,661,491	16,501,263	-	53,327,562	126,290,563	13.00	2.5
Credit balances and other liabilities	-	-	-	-	3,133,982	3,133,982		
Other provisions	-	-	-	-	929,165	929,165		
Shareholders' equity	-	-	-	-	8,768,213	8,768,213		
Total Liabilities and Shareholders' Equity	<u>22,295,005</u>	<u>37,661,491</u>	<u>16,501,263</u>	<u>-</u>	<u>66,158,922</u>	<u>142,616,681</u>		
Interest rate sensitivity gap	<u>64,855,700</u>	<u>(23,384,976)</u>	<u>339,443</u>	<u>-</u>	<u>(41,810,167)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>64,855,700</u>	<u>41,470,724</u>	<u>41,810,167</u>	<u>41,810,167</u>	<u>-</u>	<u>-</u>		

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	2007						Average interest rates	
	Less than 3 months <u>YR 000s</u>	From 3 months to 6 months <u>YR 000s</u>	From 6 months to 1 year <u>YR 000s</u>	Over 1 year <u>YR 000s</u>	Non- interest sensitive <u>YR 000s</u>	Total <u>YR 000s</u>	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances								
with the Central Bank of Yemen	7,151,776	-	-	-	9,073,313	16,225,089	13.00	-
Due from banks	6,782,769	-	-	-	8,009,928	14,792,697	-	4.60
Treasury bills (net)	18,087,980	9,208,444	7,162,909	-	-	34,459,333	15.87	-
Treasury bills with repurchase obligation	8,125,951	-	-	-	-	8,125,951	15.86	-
Certificates of deposit with Central Bank of Yemen	25,200,000	-	-	-	-	25,200,000	15.87	-
Loans and advances (net)	10,731,200	6,517,155	4,826,196	-	68,564	22,143,115	18.00	9.00
Available-for-sale investments	-	-	-	-	19,880	19,880		
Investment in subsidiaries and associates	-	-	-	-	336,781	336,781		
Debit balances and other assets (net)	-	-	-	-	2,199,032	2,199,032		
Property and equipment (net)	-	-	-	-	1,769,238	1,769,238		
Total Assets	<u>76,079,676</u>	<u>15,725,599</u>	<u>11,989,105</u>	<u>-</u>	<u>21,476,736</u>	<u>125,271,116</u>		
Liabilities and Shareholders' Equity								
Due to banks	1,527,343	-	-	-	-	1,527,343	-	5.30
Customers' deposits	11,572,653	34,455,511	20,352,348	-	48,533,969	114,914,481	13.00	2.00
Credit balances and other liabilities	-	-	-	-	2,424,644	2,424,644		
Other provisions	-	-	-	-	610,570	610,570		
Shareholders' equity	-	-	-	-	5,794,078	5,794,078		
Total Liabilities and Shareholders' Equity	<u>13,099,996</u>	<u>34,455,511</u>	<u>20,352,348</u>	<u>-</u>	<u>57,363,261</u>	<u>125,271,116</u>		
Interest rate sensitivity gap	62,979,680	(18,729,912)	(8,363,243)	-	(35,886,525)	-		
Cumulative interest rate sensitivity gap	62,979,680	44,249,768	35,886,525	35,886,525	-	-		

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

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(d) Exchange rate risk

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

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

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

	2008					
	US	EURO	Saudi	Sterling	Emirates	Total
	Dollars	EUR	Rial	Pound	Dirhams	YR 000s
	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Assets	43,042,809	1,822,101	885,389	340,870	7,757	46,098,926
Liabilities	(42,761,175)	(1,847,059)	(882,670)	(335,379)	(4,551)	(45,830,834)
Net currency position	<u>281,634</u>	<u>(24,958)</u>	<u>2,719</u>	<u>5,491</u>	<u>3,206</u>	<u>268,092</u>
	2007					
	US	EURO	Saudi	Sterling	Emirates	Total
	Dollars	EUR	Rial	Pound	Dirhams	YR 000s
	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Assets	43,483,164	1,559,557	1,416,242	301,879	935,946	47,696,788
Liabilities	(44,637,919)	(1,551,718)	(943,160)	(293,633)	(294,543)	(47,720,973)
Net currency position	<u>(1,154,755)</u>	<u>7,839</u>	<u>473,082</u>	<u>8,246</u>	<u>641,403</u>	<u>(24,185)</u>

Note 37 to the financial statements indicates the significant foreign currencies' positions at the balance sheet date compared with last year.

(e) Operational risk

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

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(f) Other risks

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

5. CAPITAL MANAGEMENT

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

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

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

	2008	2007
	<u>YR 000s</u>	<u>YR 000s</u>
Core capital	8,747,809	5,774,198
Supplementary capital	<u>769,604</u>	<u>482,060</u>
	<u>9,517,413</u>	<u>6,256,258</u>
 <u>Risk-weighted assets and contingent liabilities and commitments:</u>		
Total assets	38,480,209	24,103,019
Contingent liabilities and commitments	<u>33,360,482</u>	<u>17,984,198</u>
Total risk-weighted assets and contingent liabilities and commitments	<u>71,840,691</u>	<u>42,087,217</u>
Capital adequacy ratio	<u>13.2%</u>	<u>14.9%</u>

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

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

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Cash on hand and at ATM – local currency	1,180,817	801,197
Cash on hand and at ATM – foreign currency	<u>974,402</u>	<u>803,641</u>
	<u>2,155,219</u>	<u>1,604,838</u>
Mandatory reserve at CBY – local currency	6,090,054	7,151,776
Mandatory reserve at CBY – foreign currency	<u>8,044,416</u>	<u>7,431,348</u>
	<u>14,134,470</u>	<u>14,583,124</u>
Cheques purchased	<u>44,667</u>	<u>37,127</u>
	<u>16,334,356</u>	<u>16,225,089</u>

The reserve balances with Central Bank of Yemen represent the minimum reserve requirements against customers' accounts in Yemeni Rial of 7% (10% in 2007) and foreign currencies of 20% (20% in 2007). These funds are not available for the Bank's daily business.

7. DUE FROM BANKS

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Central Bank of Yemen		
Current accounts – local currency	869,793	1,141,915
Current accounts – foreign currency	<u>466,393</u>	<u>556,916</u>
	1,336,186	1,698,831
Foreign banks		
Current accounts	2,310,464	6,311,097
Time deposits	<u>8,395,116</u>	<u>6,782,769</u>
	<u>12,041,766</u>	<u>14,792,697</u>

Time deposits – foreign banks at December 31, 2008 included YR 315,492 Thousand (equivalent to Euro 1,118 Thousand) restricted at the foreign bank against facilities (Note no. 18).

8. TREASURY BILLS (NET)

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Treasury bills due within 90 days	8,012,600	18,400,000
Treasury bills due within 180 days	4,571,960	9,600,000
Treasury bills due within 360 days	<u>9,257,560</u>	<u>7,850,000</u>
	21,842,120	35,850,000
Unearned discount balance	<u>(728,112)</u>	<u>(1,390,667)</u>
	<u>21,114,008</u>	<u>34,459,333</u>

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9. TREASURY BILLS WITH REPURCHASE OBLIGATION

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Treasury bills with repurchase obligation due within 90 days	<u>7,575,987</u>	<u>8,125,951</u>

10. CERTIFICATES OF DEPOSIT WITH CENTRAL BANK OF YEMEN

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
CBY certificates of deposit due within 90 days	<u>49,200,000</u>	<u>25,200,000</u>

11. LOANS AND ADVANCES (NET)

a. Loans and advances by type

	Note	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Overdraft		35,322,020	23,055,679
Loans to customers		8,813,462	9,556,904
L/Cs finance		92,525	30,248
Staff loans		<u>23,776</u>	<u>27,176</u>
		44,251,783	32,670,007
Less:			
Loans and advances provision	12	(10,995,685)	(9,398,559)
Uncollected interest		<u>(1,130,319)</u>	<u>(1,128,333)</u>
		<u>32,125,779</u>	<u>22,143,115</u>

Non-performing loans and advances amounted to YR 26,155,714 Thousand at December 31, 2008 (after deducting uncollected interest) (YR 21,346,233 Thousand at December 31, 2007). The break up of the above amount is as follows:

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Substandard loans and advances	3,101,987	3,049,637
Doubtful loans and advances	2,638,208	753,677
Bad loans and advances	<u>20,415,519</u>	<u>17,542,919</u>
	<u>26,155,714</u>	<u>21,346,233</u>

Bad loans and advances at December 31, 2008 included balances secured by cash deposits amounting to YR 11,241,983 Thousand (YR 9,042,859 Thousand at December 31, 2007).

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b. Loans and advances by sector

	2008				
	Overdraft YR 000s	Loans to customers YR 000s	L/C finance YR 000s	Staff loans YR 000s	Total YR 000s
Trade	18,850,507	4,435,008	92,525	-	23,378,040
Industry	5,662,903	1,505,329	-	-	7,168,232
Services	5,899,704	1,568,276	-	-	7,467,980
Individuals and others	<u>4,908,906</u>	<u>1,304,849</u>	<u>-</u>	<u>23,776</u>	<u>6,237,531</u>
Total	<u>35,322,020</u>	<u>8,813,462</u>	<u>92,525</u>	<u>23,776</u>	<u>44,251,783</u>
	2007				
	Overdraft YR 000s	Loans to customers YR 000s	L/C finance YR 000s	Staff loans YR 000s	Total YR 000s
Trade	12,855,644	4,809,115	30,248	-	17,695,007
Industry	2,591,782	2,396,860	-	-	4,988,642
Services	4,592,821	936,012	-	-	5,528,833
Individuals and others	<u>3,015,432</u>	<u>1,414,917</u>	<u>-</u>	<u>27,176</u>	<u>4,457,525</u>
Total	<u>23,055,679</u>	<u>9,556,904</u>	<u>30,248</u>	<u>27,176</u>	<u>32,670,007</u>

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

	Note	2008		
		Specific YR 000's	General YR 000's	Total YR 000's
Provision balance at first of Jan. 2008		9,296,660	101,899	9,398,559
Revaluation differences of provision in foreign currencies		4,048	-	4,048
Add: provision provided during the year	30	1,665,632	67,758	1,733,390
Less: provision used during the year		(140,312)	-	(140,312)
Provision balances at end of Dec. 2008		<u>10,826,028</u>	<u>169,657</u>	<u>10,995,685</u>
		2007		
	Note	Specific YR 000's	General YR 000's	Total YR 000's
Provision balance at first of Jan. 2007		6,173,271	121,742	6,295,013
Revaluation differences of provision in foreign currencies		7,241	-	7,241
Provision transferred from general to specific		19,843	(19,843)	-
Add: provision provided during the year	30	3,270,284	-	3,270,284
Less: provision used during the year		(173,979)	-	(173,979)
Provision balances at end of Dec. 2007		<u>9,296,660</u>	<u>101,899</u>	<u>9,398,559</u>

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13. AVAILABLE FOR SALE INVESTMENTS

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Yemeni Co. for Financial Services	20,698	20,639
Yemeni Center for Conciliation and Arbitration	<u>616</u>	<u>616</u>
	21,314	21,255
Less: Impairment of investments	(910)	(1,375)
	<u><u>20,404</u></u>	<u><u>19,880</u></u>

14. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2008 <u>YR 000's</u>	Shareholding Percentage %	2007 <u>YR 000's</u>	Shareholding Percentage %
International Bank of Yemen - Djibouti Branch (under incorporation)	<u>-</u>	<u>-</u>	<u>336,781</u>	<u>100%</u>

15. DEBIT BALANCES AND OTHER ASSETS (NET)

	Note	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Accrued interest		869,825	815,864
Prepaid expenses		193,261	119,108
Assets which have been transferred to the Bank' ownership	3.7	615,901	615,901
Other debit balances		<u>1,047,412</u>	<u>1,176,787</u>
		2,726,399	2,727,660
Less: provision for doubtful debts	16	(470,987)	(528,628)
		<u><u>2,255,412</u></u>	<u><u>2,199,032</u></u>

16. PROVISION FOR DOUBTFUL DEBTS

	Note	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Balance at beginning of the year		528,628	561,452
Less: Provision used during the year		(5,864)	-
Less: Reversed provision	29	<u>(51,777)</u>	<u>(32,824)</u>
Balance at the end of the year		<u><u>470,987</u></u>	<u><u>528,628</u></u>

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17. PROPERTY AND EQUIPMENT (NET)

	2008						
	Land <u>YR 000's</u>	Buildings and Constructions <u>YR 000's</u>	Furniture and Fixtures <u>YR 000's</u>	Equipment & Machinery <u>YR 000's</u>	Vehicles <u>YR 000's</u>	Computers <u>YR 000's</u>	Total <u>YR 000's</u>
<u>Cost</u>							
Balance at beginning of the year	129,436	1,316,992	205,959	532,570	140,690	390,869	2,716,516
Additions	<u>3,638</u>	<u>111,205</u>	<u>86,502</u>	<u>59,677</u>	<u>-</u>	<u>128,234</u>	<u>389,256</u>
Balance at the end of the year	<u>133,074</u>	<u>1,428,197</u>	<u>292,461</u>	<u>592,247</u>	<u>140,690</u>	<u>519,103</u>	<u>3,105,772</u>
<u>Accumulated depreciation</u>							
Balance at beginning of the year	-	193,823	110,548	426,923	58,678	157,306	947,278
Depreciation	<u>-</u>	<u>35,615</u>	<u>22,989</u>	<u>37,533</u>	<u>19,063</u>	<u>94,325</u>	<u>209,525</u>
Balance at the end of the year	<u>-</u>	<u>229,438</u>	<u>133,537</u>	<u>464,456</u>	<u>77,741</u>	<u>251,631</u>	<u>1,156,803</u>
<u>Net book value</u>							
December 31, 2008	<u>133,074</u>	<u>1,198,759</u>	<u>158,924</u>	<u>127,791</u>	<u>62,949</u>	<u>267,472</u>	<u>1,948,969</u>

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	2007						
	<u>Land</u> <u>YR 000's</u>	<u>Buildings and</u> <u>Constructions</u> <u>YR 000's</u>	<u>Furniture</u> <u>and Fixtures</u> <u>YR 000's</u>	<u>Equipment &</u> <u>Machinery</u> <u>YR 000's</u>	<u>Vehicles</u> <u>YR 000's</u>	<u>Computers</u> <u>YR 000's</u>	<u>Total</u> <u>YR 000's</u>
<u>Cost</u>							
Balance at beginning of the year	66,199	1,305,169	189,852	503,260	124,413	296,816	2,485,709
Additions	63,237	13,128	16,936	37,032	16,508	95,900	242,741
Disposals	<u>-</u>	<u>(1,305)</u>	<u>(829)</u>	<u>(7,722)</u>	<u>(231)</u>	<u>(1,847)</u>	<u>(11,934)</u>
Balance at the end of the year	<u>129,436</u>	<u>1,316,992</u>	<u>205,959</u>	<u>532,570</u>	<u>140,690</u>	<u>390,869</u>	<u>2,716,516</u>
<u>Accumulated depreciation</u>							
Balance at beginning of the year	-	157,670	85,408	392,638	41,411	84,111	761,238
Depreciation	-	36,215	25,140	39,945	17,498	73,195	191,993
Disposals	<u>-</u>	<u>(62)</u>	<u>-</u>	<u>(5,660)</u>	<u>(231)</u>	<u>-</u>	<u>(5,953)</u>
Balance at the end of the year	<u>-</u>	<u>193,823</u>	<u>110,548</u>	<u>426,923</u>	<u>58,678</u>	<u>157,306</u>	<u>947,278</u>
<u>Net book value</u>							
December 31, 2007	<u>129,436</u>	<u>1,123,169</u>	<u>95,411</u>	<u>105,647</u>	<u>82,012</u>	<u>233,563</u>	<u>1,769,238</u>

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18. DUE TO BANKS

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
<u>Foreign banks</u>		
Current account	2,085,145	31,018
Time deposits	609,293	1,496,325
Short-term loans (L/Cs finance)	<u>800,320</u>	<u>-</u>
	<u><u>3,494,758</u></u>	<u><u>1,527,343</u></u>

Short-term loans presents in the equivalent amount to US\$ 4 million, which it given to the Bank during the year from a foreign bank with annual rate 1.25%. The loan is due in January 6, 2009 and is secured by a restricted deposit equivalent to Euro 1,118 Thousand (YR 315,492 Thousand).

19. CUSTOMERS' DEPOSITS

a. Customers' deposits by type

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
Current accounts	46,596,169	43,255,988
Time and demand deposits	64,843,401	58,316,549
Saving accounts	8,119,600	8,063,963
Margins of LCs, LGs and other	5,432,080	4,520,733
Other deposits	<u>1,299,313</u>	<u>757,248</u>
	<u><u>126,290,563</u></u>	<u><u>114,914,481</u></u>

b. Customers' deposits by sector

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
Public and mixed sectors	7,476,674	6,949,691
Individual	41,723,919	37,095,064
Corporations	23,569,388	22,396,711
Others	<u>53,520,582</u>	<u>48,473,015</u>
	<u><u>126,290,563</u></u>	<u><u>114,914,481</u></u>

20. CREDIT BALANCES AND OTHER LIABILITIES

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
Corporate tax for the year	1,432,735	780,475
Interest payable	869,037	848,730
Accrued expenses	397,799	135,847
Income received in advance	53,968	60,946
Inter-branch balances	-	36,451
Sundry credit balances	<u>380,443</u>	<u>562,195</u>
	<u><u>3,133,982</u></u>	<u><u>2,424,644</u></u>

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21. OTHER PROVISIONS

<u>Description</u>	<u>Note</u>	<u>2008</u>		
		<u>Provision for contingent liabilities YR 000s</u>	<u>Provision for contingent claims YR 000s</u>	<u>Total YR 000s</u>
Balance at first of Jan. 2008		496,806	113,764	610,570
Provided during the year from income statement	30	182,359	210,617	392,976
Used during the year		-	(74,381)	(74,381)
Balance at the end of Dec. 2008		<u>679,165</u>	<u>250,000</u>	<u>929,165</u>
		<u>2007</u>		
<u>Description</u>	<u>Note</u>	<u>Provision for contingent liabilities YR 000s</u>	<u>Provision for contingent claims YR 000s</u>	<u>Total YR 000s</u>
Balance at first of Jan. 2007		493,840	50,796	544,636
Provided during the year from income statement	30	2,966	100,000	102,966
Used during the year		-	(37,032)	(37,032)
Balance at the end of Dec. 2007		<u>496,806</u>	<u>113,764</u>	<u>610,570</u>

22. SHAREHOLDERS' EQUITY

a. *Authorized and paid capital*

- In accordance with CBY Board of Directors Decision no. 12 of 2004, which requires banks to increase their capital effective 2005 and within a five year period ending in 2009 to become YR 6 billion, starting from 2005.
- Issued and paid-up capital of the Bank is YR 5.1 billion as at December 31, 2008 (according to the Bank Extraordinary General Assembly Meeting on June 22, 2008) divided into 51 million shares with nominal value of YR 100 per share.

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

b. *Statutory reserves*

According to provisions of the Law, 15% of the net profit for the year should be transferred to statutory reserve till it equals two times paid-up capital.

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23. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2008		
	Gross commitment <u>YR 000s</u>	Margin held <u>YR 000s</u>	Net commitments <u>YR 000s</u>
Letters of credit	11,428,711	(1,934,752)	9,493,959
Letters of guarantee	<u>42,414,638</u>	<u>(3,225,335)</u>	<u>39,189,303</u>
	<u>53,843,349</u>	<u>(5,160,087)</u>	<u>48,683,262</u>
	2007		
	Gross commitment <u>YR 000s</u>	Margin held <u>YR 000s</u>	Net commitments <u>YR 000s</u>
Letters of credit	9,633,073	(1,415,846)	8,217,227
Letters of guarantee	<u>25,120,006</u>	<u>(2,835,074)</u>	<u>22,284,932</u>
	<u>34,753,079</u>	<u>(4,250,920)</u>	<u>30,502,159</u>

24. INTEREST ON LOANS AND DUE FROM BANKS

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
<u>Interest on loans to customers</u>		
Interest earned on overdrafts	2,870,923	2,246,871
Interest earned on loans	<u>885,156</u>	<u>913,522</u>
	<u>3,756,079</u>	<u>3,160,393</u>
<u>Interest on due from banks</u>		
Interest from foreign banks	255,217	489,197
Interest from local banks	<u>229,030</u>	<u>797,762</u>
	<u>484,247</u>	<u>1,286,959</u>
	<u>4,240,326</u>	<u>4,447,352</u>

25. INTEREST ON TREASURY BILLS AND CERTIFICATES OF DEPOSITS

	2008 <u>YR 000's</u>	2007 <u>YR 000's</u>
Interest on treasury bills	5,885,002	5,226,175
Interest on CBY certificates of deposits	<u>5,293,200</u>	<u>3,944,343</u>
	<u>11,178,202</u>	<u>9,170,518</u>

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26. INTEREST EXPENSE

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
<u>Interest on customers' deposits</u>		
Interest on time and demand deposits	7,206,023	6,152,660
Interest on saving accounts	756,181	690,291
Other interest	<u>16,797</u>	<u>19,736</u>
	7,979,001	6,862,687
 <u>Interest on balances due to banks</u>		
Interest paid to foreign banks	<u>76,836</u>	<u>88,485</u>
	<u><u>8,055,837</u></u>	<u><u>6,951,172</u></u>

27. COMMISSIONS' REVENUE AND BANK SERVICE CHARGES

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
Commissions on letter of credits	183,100	190,663
Commissions on letters of guarantee	364,305	282,129
Commissions on transfer of funds	290,622	255,426
Commissions on visa card	97,949	68,458
Other banking commissions	<u>122,979</u>	<u>102,201</u>
	<u><u>1,058,955</u></u>	<u><u>898,877</u></u>

28. GAIN OF FOREIGN CURRENCY TRANSACTIONS

	2008	2007
	<u>YR 000's</u>	<u>YR 000's</u>
Gain from dealing in foreign currencies	276,085	193,101
(Losses) from translation of foreign currencies	(14,754)	(4,388)
	<u><u>261,331</u></u>	<u><u>188,713</u></u>

29. OTHER INCOME

	Note	2008	2007
		<u>YR 000's</u>	<u>YR 000's</u>
Reversed provisions	16	51,777	32,824
Rental		72,544	69,751
Others		<u>3,215</u>	<u>2,030</u>
		<u><u>127,536</u></u>	<u><u>104,605</u></u>

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30. PROVISIONS PROVIDED DURING THE YEAR

	<u>Note</u>	<u>2008</u> <u>YR 000's</u>	<u>2007</u> <u>YR 000's</u>
Provision for loans and advances	12	1,733,390	3,270,284
Provision for contingent liabilities	21	182,359	2,966
Provision for contingent claims	21	<u>210,617</u>	<u>100,000</u>
		<u>2,126,366</u>	<u>3,373,250</u>

31. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	<u>Note</u>	<u>2008</u> <u>YR 000's</u>	<u>2007</u> <u>YR 000's</u>
Wages and salaries		818,046	620,105
Zakat expenses		255,000	13,867
Depreciation	16	209,525	191,993
Contract services		133,668	73,778
Donations		124,214	13,567
Advertisement and publication		86,353	82,075
Maintenance		82,162	50,016
Rent		80,761	53,625
Consultancy and professional fees		55,438	62,995
Stationary and printing supplies		41,010	45,581
Telephone, telex and postage		38,664	58,865
Water and electricity		35,071	30,314
Board of Directors' allowances		23,076	17,431
Transportation		21,687	17,170
Training expenses		20,151	20,679
Insurance		13,208	18,318
Other expenses		<u>154,431</u>	<u>111,671</u>
		<u>2,192,465</u>	<u>1,482,050</u>

32. EARNINGS PER SHARE

	<u>2008</u>	<u>2007</u>
Net profit for the year (YR thousand)	<u>2,974,135</u>	<u>2,038,446</u>
Weighted average of number of shares by thousand	<u>51,000</u>	<u>34,000</u>
Earnings per share (YR)	<u>58.32</u>	<u>59.95</u>

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33. MATURITIES OF ASSETS AND LIABILITIES

<u>Description</u>	2008				
	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	16,334	-	-	-	16,334
Due from banks	12,042	-	-	-	12,042
Treasury bills (net)	7,870	4,453	8,791	-	21,114
Treasury bills with repurchase obligation	7,576	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	49,200
Loans and advances (net)	14,109	9,823	8,194	-	32,126
Available-for sale investments	-	-	-	20	20
	<u>107,131</u>	<u>14,276</u>	<u>16,985</u>	<u>20</u>	<u>138,412</u>
b. Liabilities					
Due to banks	3,495	-	-	-	3,495
Customers' deposits	65,865	37,661	22,765	-	126,291
	<u>69,360</u>	<u>37,661</u>	<u>22,765</u>	<u>-</u>	<u>129,786</u>
Net gap	<u>37,771</u>	<u>(23,385)</u>	<u>(5,780)</u>	<u>20</u>	<u>8,626</u>
	2007				
<u>Description</u>	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	16,225	-	-	-	16,225
Due from banks	14,793	-	-	-	14,793
Treasury bills (net)	18,088	9,208	7,163	-	34,459
Treasury bills with repurchase obligation	8,126	-	-	-	8,126
CBY certificates of deposits	25,200	-	-	-	25,200
Loans and advances (net)	10,736	6,518	4,889	-	22,143
Available-for sale investments	-	-	-	20	20
Investments in subsidiaries and associates	-	-	-	337	337
	<u>93,168</u>	<u>15,726</u>	<u>12,052</u>	<u>357</u>	<u>121,303</u>
b. Liabilities					
Due to banks	1,527	-	-	-	1,527
Customers' deposits	60,107	34,456	20,352	-	114,915
	<u>61,634</u>	<u>34,456</u>	<u>20,352</u>	<u>-</u>	<u>116,442</u>
Net gap	<u>31,534</u>	<u>(18,730)</u>	<u>(8,300)</u>	<u>357</u>	<u>4,861</u>

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34. AVERAGE INTEREST RATES APPLIED DURING THE YEAR

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

<u>Description</u>	2008			
	Yemeni Rial %	US Dollar %	EURO %	Saudi Rial %
<u>Assets</u>				
Due to banks – time deposits	-	3.09	3.97	2.61
Loans to customers	18.00	10.00	-	-
Overdrafts	19.00	8.00	8.00	-
Treasury bills	15.09	-	-	-
Treasury bills with repurchase obligation	15.01	-	-	-
CBY certificates of deposit	14.80	-	-	-
<u>Liabilities</u>				
Customers' - time deposits	13.00	3.00	2.00	-
Saving accounts	13.00	2.00	-	-
Banks - time deposits	13.00	3.00	-	-
2007				
<u>Description</u>	Yemeni Rial %	US Dollar %	EURO %	Saudi Rial %
<u>Assets</u>				
Mandatory reserve at CBY	13.00	-	-	-
Due to banks – time deposits	-	5.35	3.75	4.68
Loans to customers	19.00	9.50	10.00	-
Overdrafts	17.00	8.00	8.00	-
Treasury bills	15.87	-	-	-
Treasury bills with repurchase obligation	15.86	-	-	-
CBY certificates of deposit	15.87	-	-	-
<u>Liabilities</u>				
Customers' - time deposits	13.50	3.00	2.00	-
Saving accounts	13.00	2.00	-	-
Banks - time deposits	-	5.30	-	-

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

	2008					Total YR Million
	Financial YR Million	Trade YR Million	Manufac -turing YR Million	Contractors and Services YR Million	Individuals & Others YR Million	
ASSETS						
Cash on hand and reserve balances with CBY	16,334	-	-	-	-	16,334
Due from banks	12,042	-	-	-	-	12,042
Treasury bills (net)	21,114	-	-	-	-	21,114
Treasury bills with repurchase obligation	7,576	-	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	-	49,200
Loans and advances (net)	-	16,949	5,218	5,436	4,523	32,126
Available-for-sale Investments	20	-	-	-	-	20
LIABILITIES						
Due to banks	3,495	-	-	-	-	3,495
Margin and other deposits	-	42,204	20,553	24,541	38,993	126,291
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	7,780	-	-	1,714	9,494
Letters of guarantee	-	29,977	-	-	9,212	39,189
	2007					Total YR Million
	Financial YR Million	Trade YR Million	Manufac -turing YR Million	Contractors and Services YR Million	Individuals & Others YR Million	
ASSETS						
Cash on hand and reserve balances with CBY	16,225	-	-	-	-	16,225
Due from banks	14,793	-	-	-	-	14,793
Treasury bills (net)	34,459	-	-	-	-	34,459
Treasury bills with repurchase obligation	8,126	-	-	-	-	8,126
CBY certificates of deposits	25,200	-	-	-	-	25,200
Loans and advances (net)	-	11,523	3,910	2,182	4,528	22,143
Available-for-sale Investments	20	-	-	-	-	20
Investments in subsidiaries and associates	337	-	-	-	-	337
LIABILITIES						
Due to banks	1,527	-	-	-	-	1,527
Customers' deposits	-	43,789	20,933	27,057	23,136	114,915
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	8,075	-	-	142	8,217
Letters of guarantee	-	17,098	-	-	5,187	22,285

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

	2008					
	Republic of Yemen	America	Europe	Asia	Africa	Total
	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>
ASSETS						
Cash on hand and reserve						
balances with CBY	16,334	-	-	-	-	16,334
Due from banks	8	4,591	1,861	5,367	215	12,042
Treasury bills (net)	21,114	-	-	-	-	21,114
Treasury bills with repurchase						
obligation	7,576	-	-	-	-	7,576
CBY certificates of deposits	49,200	-	-	-	-	49,200
Loans and advances (net)	32,126	-	-	-	-	32,126
Available-for-sale investments	20	-	-	-	-	20
LIABILITIES						
Due to banks	833	-	1,862	800	-	3,495
Customers' deposits	126,291	-	-	-	-	126,291
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	2,594	3,314	3,586	-	9,494
Letters of guarantee	39,189	-	-	-	-	39,189
	2007					
	Republic of Yemen	America	Europe	Asia	Africa	Total
	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>	<u>YR Million</u>
ASSETS						
Cash on hand and reserve						
balances with CBY	16,225	-	-	-	-	16,225
Due from banks	1,895	5,261	2,849	4,573	215	14,793
Treasury bills (net)	34,459	-	-	-	-	34,459
Treasury bills with repurchase						
obligation	8,126	-	-	-	-	8,126
CBY certificates of deposits	25,200	-	-	-	-	25,200
Loans and advances (net)	22,143	-	-	-	-	22,143
Available-for-sale investments	20	-	-	-	-	20
Investments in subsidiaries and						
associates	-	-	-	-	337	337
LIABILITIES						
Due to banks	1,488	-	39	-	-	1,527
Customers' deposits	114,915	-	-	-	-	114,915
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	1,277	2,070	1,561	3,297	12	8,217
Letters of guarantee	22,285	-	-	-	-	22,285

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37. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

To comply with CBY circular No. 6 of 1998, the Bank establishes limits for positions in individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of total capital and reserves respectively. The following schedule shows the Bank's significant foreign currency positions at the balance sheet date:

	<u>2008</u>		<u>2007</u>	
	<u>Surplus (deficit) YR 000's</u>	<u>% of capital & reserves</u>	<u>Surplus (deficit) YR 000's</u>	<u>% of capital & reserves</u>
US Dollar	281,634	4.9%	(1,154,755)	(28.5%)
Euro	(24,958)	(0.4%)	7,839	0.2%
Saudi Rial	2,719	-	473,082	11.7%
Sterling Pound	5,491	0.1%	8,246	0.2%
UAE Dirham	<u>3,206</u>	<u>0.1%</u>	<u>641,403</u>	<u>15.8%</u>
Net surplus (deficit)	<u>268,092</u>	<u>4.7%</u>	<u>(24,185)</u>	<u>(0.6%)</u>

38. TRANSACTIONS WITH RELATED PARTIES

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

The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular No. 4 of 1999, which limits credit transactions with related parties and requires that the Bank should apply the same terms and conditions that are applied with unrelated parties.

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

The following are the nature and balances of these transactions at the balance sheet date:

	<u>2008 YR Million</u>	<u>2007 YR Million</u>
Loans and advances	6,863	3,781
Current accounts and time deposits	3,018	3,114
Indirect facilities (net)	4,490	1,860
Investment in subsidiaries and associates	-	337
Executive management salaries	23	22
Board of Directors' allowances	23	17

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35. TAX STATUS

- Difference between accounting and tax profit for 2008 represents a deduction amount of YR 313,341 thousand as a result of adjusting accounting profit with provided, used and reversed provisions during the year, rental income and 50% of revenues from loans and advances to companies established according to Investment Law, on the basis of tax rate of 35%.
- Corporate and salary tax has been cleared up to 2006.
- The Bank has submitted the tax declaration for the year 2007 and the Bank has paid the tax based on the declaration. The Tax Authority has not performed a review or issued a final assessment yet.

40. ZAKAT

- The Bank submits its Zakat declaration annually on time and remits the amount due based on the declaration.
- On February 14, 2009, the Bank reached to a final settlement with the Zakat department related to all outstanding Zakat obligations (additional differences to annual Zakat declaration) which were being considered by the courts for the years 2004 to 2007 totaling YR 255 Million. The Bank provided an accrual for this additional assessment and recorded it in income statement of this year 2008.

41. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform with this year financial statement classification for more appropriate presentation. Such reclassifications do not impact the previously reported net profit or shareholders' equity.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by Board of Directors on April 15, 2009 and a Board resolution proposing the approval of the financial statements by the General Assembly of the shareholders was issued.
