QATAR NATIONAL BANK – YEMEN BRANCH
(Branch of a Foreign Bank)
SANA'A, REPUBLIC OF YEMEN

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

QATAR NATIONAL BANK – YEMEN BRANCH
(Branch of a Foreign Bank)
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 MANAGEMENT
OF QATAR NATIONAL BANK – YEMEN BRANCH
(Branch of a Foreign Bank)
SANA'A, REPUBLIC OF YEMEN

Report on the Financial Statements

We have audited the accompanying financial statements of Qatar National Bank – Yemen Branch (the Bank), which comprise the balance sheet as at December 31, 2008, and the income statement, cash flow statement and statement of changes in head office 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.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qatar National Bank – Yemen Branch 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

KPMG
Public Accountants
License No: 307
Mejanni, Hazem Hassan & Co.

Sana'a, February 14, 2009

QATAR NATIONAL BANK – YEMEN BRANCH
(Branch of a Foreign Bank)
SANA'A, REPUBLIC OF YEMEN

BALANCE SHEET
AS AT DECEMBER 31, 2008

ASSETS	Note	2008 YR 000s	2007 YR 000s
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	6	260,064	1,872
Due from banks	7	2,183,235	6,047,259
Treasury bills (net)	8	5,567,922	-
Certificates of deposit with Central Bank of Yemen	9	1,290,000	-
Loans and advances to customers	10	31,309	-
Debit balances and other assets (net)	11	40,753	72,218
Property and equipment (net)	12	224,841	212,047
TOTAL ASSETS		9,598,124	6,333,396
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Customers' deposits	13	2,283,046	897
Due to Head office		753,545	257,566
Credit balances and other liabilities	14	279,084	45,746
Other provisions – provision for contingent liabilities		6,132	-
TOTAL LIABILITIES		3,321,807	304,209
HEAD OFFICE EQUITY	15		
Paid-up capital	15/a	6,000,000	6,000,000
Statutory reserve	15/b	41,448	4,378
Retained earnings		234,869	24,809
TOTAL HEAD OFFICE EQUITY		6,276,317	6,029,187
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		9,598,124	6,333,396
CONTINGENT LIABILITIES AND COMMITMENTS (NET)	16	1,063,173	-

(The accompanying notes from 1 to 30 form part of these financial statements)

Ismail Al-Jailani
Acting General Manager

Khaled Bamatraf
Financial Manager

Auditor's report attached.

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

QATAR NATIONAL BANK – YEMEN BRANCH
(Branch of a Foreign Bank)
SANA'A, REPUBLIC OF YEMEN

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 YR 000s	Period from Aug. 18 to Dec. 31, 2007 YR 000s
Interest on loans and advances and due from banks	17	186,960	102,789
Interest on treasury bills and certificates of deposit	18	619,199	-
		806,159	102,789
Less: cost of deposits and borrowings		(44,798)	-
Net interest income		761,361	102,789
Commissions, revenues and bank service charges	19	14,201	-
Less: Commissions, expenses and bank service charges		-	(1,060)
Gain from foreign currency transactions	20	12,651	13,357
Net operating income		788,213	115,086
Less:			
Provisions	21	(6,788)	-
General and administrative expenses and depreciation	22	(400,872)	(70,183)
NET PROFIT FOR THE YEAR / PERIOD BEFORE TAX		380,553	44,903
Less: Income tax for the year / period		(133,423)	(15,716)
NET PROFIT FOR THE YEAR / PERIOD AFTER TAX		247,130	29,187

(The accompanying notes from 1 to 30 form part of these financial statements)

Ismail Al-Jailani
Acting General Manager

Khaled Bamatraf
Financial Manager

Auditor's report attached.

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

QATAR NATIONAL BANK – YEMEN BRANCH
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SANA'A, REPUBLIC OF YEMEN

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 YR 000s	Period from Aug. 18 to Dec. 31, 2007 YR 000s
Cash flows from operating activities			
Net profit for the year / period before tax		380,553	44,903
Adjustments to reconcile net profit to cash flows from operating activities			
Provision provided		6,788	-
Depreciation	12	62,847	6,083
Income tax paid		(15,716)	-
Operating profit before change in assets and liabilities used in operating activities		434,472	50,986
Net (increase) decrease in assets			
Mandatory reserve with Central Bank of Yemen		(224,415)	-
Loans and advances		(31,309)	-
Debit balances and other assets		30,809	(72,218)
Net increase (decrease) in liabilities			
Customers' deposits		2,282,149	897
Credit balances and other liabilities		115,631	1,849
Net cash provided by (used in) operating activities		2,607,337	(18,486)
Cash flows from investing activities			
Payments to purchase property and equipment		(75,641)	(189,949)
Net cash (used in) investing activities		(75,641)	(189,949)
Cash flows from financing activities			
Increase in paid-up capital		-	6,000,000
Increase in due to Head Office		495,979	257,566
Net cash provided by financing activities		495,979	6,257,566
Net change in cash and cash equivalents		3,027,675	6,049,131
Cash and cash equivalents, beginning of the year / period		6,049,131	-
Cash and cash equivalents, end of the year / period		9,076,806	6,049,131
Cash and cash equivalents consist of:			
Cash on hand		35,649	1,872
Due from banks		2,183,235	6,047,259
Treasury bills maturing in 3 months or less		5,567,922	-
Certificates of deposit with CBY maturing in 3 months or less		1,290,000	-
		9,076,806	6,049,131

(The accompanying notes from 1 to 30 form part of these financial statements)

Ismail Al-Jailani
Acting General Manager

Khaled Bamatraf
Financial Manager

Auditor's report attached.

M. Zohdi Mejanni
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QATAR NATIONAL BANK – YEMEN BRANCH
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SANA'A, REPUBLIC OF YEMEN

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Paid-up Capital YR 000's	Statutory reserve YR 000's	Retained earnings YR 000's	Total YR 000's
Paid-up capital	6,000,000	-	-	6,000,000
Net profit for the period in 2007 (after tax)	-	-	29,187	29,187
Transfer to statutory reserve	-	4,378	(4,378)	-
Balance as at December 31, 2007	6,000,000	4,378	24,809	6,029,187
Net profit for the year 2008 (after tax)	-	-	247,130	247,130
Proposed transfer to statutory reserve	-	37,070	(37,070)	-
Balance as at December 31, 2008	6,000,000	41,448	234,869	6,276,317

(The accompanying notes from 1 to 30 form part of these financial statements)

Ismail Al-Jailani
Acting General Manager

Khaled Bamatraf
Financial Manager

Auditor's report attached.

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

1. BACKGROUND INFORMATION

Qatar National Bank – Yemen Branch (the Bank) is a branch of Qatar National Bank, whose head office is in Qatar. The Bank was registered in the commercial register under No. 3800/21 dated August 18, 2007 and the Bank has obtained a license from the Central Bank of Yemen (CBY), in accordance with the CBY Board of Directors' Decision No. 15 of 2007 dated September 25, 2007.

The Bank operates in the Republic of Yemen as a branch of a foreign bank through its head office in Sana'a.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

- The financial statements are prepared on a going concern and historical cost basis, except 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 CBY.

- The financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise 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 Central Bank of Yemen circular No. 6 of 1996 and No. 5 of 1998,

b. The recording of provision for general risks calculated on performing loans under "loans provision" and not under head office equity,

c. The recording of provision for contingent liabilities under "other provisions" and not under head office 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.

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, 10 and 14.

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*

Revenue is 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.

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 statement date.

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.

3.5 *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 statement date. Impairment losses are charged to the income statement.

3.6 *Provision of loans and contingent liabilities*

In order to comply with CBY circulars 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 as a minimum:

Performing loans and contingent liabilities, including special attention accounts	1%
Non-performing loans and contingent liabilities:	
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 specific and general provisions and interest in suspense.

3.7 *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" – net any margin held from the customers as they do not represent actual assets or liabilities at balance sheet date.

3.8 *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 the 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.

3.9 *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.

3.10 *Property and equipment*

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

	Estimated Useful lives
Furniture and fixtures	4 - 7 years
Equipment and machinery	3 - 5 years
Improvement and decoration	4 years
Motor vehicles	5 years

3.11 *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.

3.12 *Taxation*

Corporate tax due 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.

3.13 *Zakat due on Head office equity*

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

3.14 *End of service benefits*

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

3.15 *Applicable new standards and interpretations*

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 while maintaining 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 and geographical segments. This standard will have no effect on the Bank's reported total profit or loss or equity.

- IFRIC 13 Customer Loyalty Programs which becomes effective annual periods beginning on or after July 2008 addresses the accounting by entities that operate or otherwise participate in customer loyalty programs 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 are represented in financial assets and liabilities. Financial assets include cash balances, current accounts, and deposits with banks, treasury bills, CBY certificates of deposit and loans and advance to customers. Financial liabilities include customers' deposits, and due to Head office. Also, financial instruments include rights and obligation noted in 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 complied from all businesses is examined and processed in order to analyze, control and identify early risks.

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 minimum 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 risk mitigation by the use of collateral agreements:

	2008 **YR 000s**	**2007** **YR 000s**
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	224,415	-
Due from banks	2,183,235	6,047,259
Treasury bill (net)	5,567,922	-
Certificate of deposits with Central Bank of Yemen	1,290,000	-
Loans and advances to customers	31,309	-
Debit balances and other assets (net)	40,753	72,218
	9,337,634	6,119,477
Contingent liabilities and commitments	1,313,341	-
Total credit risk exposure	10,650,975	6,119,477

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 25 shows the distribution of financial instruments over different economic sectors and Note no. 26 shows the distribution of financial instruments based on geographical locations.

b. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the Bank's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

	2008				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
Liabilities					
Due to Head office	753,545	-	-	-	753,545
Customers' deposits	2,005,680	277,366	-	-	2,283,046
Income tax for the year	-	133,423	-	-	133,423
Total liabilities	2,759,225	410,789	-	-	3,170,014

	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
Liabilities					
Due to Head office	257,566	-	-	-	257,566
Customers' deposits	897	-	-	-	897
Income tax for the period	-	-	15,716	-	15,716
Total liabilities	258,463	-	15,716	-	274,179

In addition to the above, Note no. 23 shows the maturity analysis of financial assets and liabilities and the net gap between them at the balance sheet date.

c. Interest rate risk

Interest rate risk arises form 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.

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

	2008							
	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	Average interest rates Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	260,064	260,064	-	-
Due from banks	2,050,290	-	-	-	132,945	2,183,235	13.8	3.0
Treasury bills (net)	5,567,922	-	-	-	-	5,567,922	15.0	-
Certificates of deposit with Central Bank of Yemen	1,290,000	-	-	-	-	1,290,000	14.8	-
Loans and advances to customers	25,804	-	-	5,505	-	31,309	-	8.0
Debit balances and other assets (net)	-	-	-	-	40,753	40,753		
Property and equipment (net)	-	-	-	-	224,841	224,841		
Total Assets	8,934,016	-	-	5,505	658,603	9,598,124		
Liabilities and Head Office Equity								
Due to Head office	-	-	-	-	753,545	753,545		
Customers' deposits	1,298,285	27,198	-	-	957,563	2,283,046	13.0	2.5
Credit balances and other liabilities	-	-	-	-	279,084	279,084		
Other provision	-	-	-	-	6,132	6,132		
Head office equity	-	-	-	-	6,276,317	6,276,317		
Total Liabilities and Head Office Equity	1,298,285	27,198	-	-	8,272,641	9,598,124		
Interest rate sensitivity gap	7,635,731	(27,198)	-	5,505	(7,614,038)	-		
Cumulative interest rate sensitivity gap	7,635,731	7,608,533	7,608,533	7,614,038	-	-		

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

	2007						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	-	-	-	-	1,872	1,872		
Due from banks	6,031,906	-	-	-	15,353	6,047,259	-	6.1
Debit balances and other assets	-	-	-	-	72,218	72,218		
Property plant and equipments (net)	-	-	-	-	212,047	212,047		
Total Assets	6,031,906	-	-	-	301,490	6,333,396		
Liabilities and Head Office Equity								
Due to Head office	-	-	-	-	257,566	257,566		
Customers' deposits	-	-	-	-	897	897		
Credit balances and other liabilities	-	-	-	-	45,746	45,746		
Head office equity	-	-	-	-	6,029,187	6,029,187		
Total Liabilities and Head Office Equity	-	-	-	-	6,333,396	6,333,396		
Interest rate sensitivity gap	6,031,906	-	-	-	(6,031,906)	-		
Cumulative interest rate sensitivity gap	6,031,906	6,031,906	6,031,906	6,031,906	-	-		

Note no. 24 shows the average interest rates on assets and liabilities applied during the year ended December 31, 2008 and the period ended December 31, 2007.

d. Exchange rate risk

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

In order to comply with 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 Dollars YR 000s	**EURO YR 000s**	**Qatari Rial YR 000s**	**Total YR 000s**
Assets	2,010,412	12,782	141	2,023,335
Liabilities	(1,216,632)	(14,012)	(7,417)	(1,238,061)
Net currency position	793,780	(1,230)	(7,276)	785,274

	2007			
	US Dollars YR 000s	**EURO YR 000s**	**Qatari Rial YR 000s**	**Total YR 000s**
Assets	6,045,585	-	-	6,045,585
Liabilities	-	-	-	-
Net currency position	6,045,585	-	-	6,045,585

Note no. 27 to the financial statements indicates the significant foreign currencies' positions at the balance sheet date.

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.

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 were issued by the 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 requirements 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 YR 000s	2007 YR 000s
Core capital	6,276,317	6,029,187
Supplementary capital	6,132	-
Total capital	6,282,449	6,029,187
Risk-weighted assets and contingent liabilities and commitments		
Total weighted assets	719,293	1,491,023
Weighted contingent liabilities and commitments	521,840	-
Total risk weighted assets and contingent liabilities and commitments	1,241,133	1,491,023
Capital adequacy ratio	506%	404%

The core capital consists of paid-up capital, reserves and retained earnings (after deducting investment in any local bank or financial company, if any) while supplementary capital consists of general provisions.

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

	2008 YR 000s	2007 YR 000s
Cash on hand – local currency	8,724	1,872
Cash on hand – foreign currency	26,925	-
	35,649	
Mandatory reserve at CBY – local currency	101,566	-
Mandatory reserve at CBY – foreign currency	122,849	-
	224,415	-
	260,064	1,872

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 YR 000s	2007 YR 000's
Central Bank of Yemen		
Current accounts – local currency	12,427	499
Current accounts – foreign currency	58,857	12,968
	71,284	13,467
Local banks		
Current accounts – local currency	55,120	1,176
Current accounts – foreign currency	6,541	710
Time deposits – foreign currency	2,050,290	6,031,906
	2,111,951	6,033,792
	2,183,235	6,047,259

8. TREASURY BILLS (NET)

	2008 YR 000s	2007 YR 000's
Treasury bills due within 90 days	5,703,000	-
Less: Unearned discount	(135,078)	-
	5,567,922	-

9. CERTIFICATES OF DEPOSIT WITH CENTRAL BANK OF YEMEN

	2008 YR 000s	2007 YR 000's
CBY certificates of deposit due within 90 days	1,290,000	-

10. LOANS AND ADVANCES

a. By type

	2008 YR 000s	2007 YR 000's
Overdraft	25,804	-
Loans to customers	5,505	-
	31,309	-

All the loans and advances are secured by cash deposits at the Bank.

b. By industry

	2008			2007		
	Overdraft YR 000s	Loans to customers YR 000s	Total YR 000s	Overdraft YR 000s	Loans to customers YR 000s	Total YR 000s
Trade	25,804	-	25,804	-	-	-
Other	-	5,505	5,505	-	-	-
	25,804	5,505	31,309	-	-	-

11. DEBIT BALANCES AND OTHER ASSETS (NET)

	Note	2008 YR 000s	2007 YR 000's
Interest receivable		33,214	55,747
Prepaid expenses		7,060	15,095
Advances to employees		479	1,376
Other debit balances		656	-
		41,409	72,218
Less: provision for doubtful debts	21	(656)	-
		40,753	72,218

12. PROPERTY AND EQUIPMENT (NET)

2008

	Cost as at beginning of the year YR 000s	Additions YR 000s	Disposals YR 000s	Cost as at 31.12.2008 YR 000s	Accumulated depreciation as at beginning of the year YR 000s	Depreciation for the year YR 000s	Accumulated depreciation of assets disposed YR 000s	Accumulated depreciation as at 31.12.2008 YR 000s	Net book value as at 31.12.2008 YR 000s
Furniture and fixtures	55,493	3,616	(888)	58,221	1,965	9,435	(888)	10,512	47,709
Equipment and machinery	27,996	29,420	-	57,416	1,386	10,844	-	12,230	45,186
Motor vehicles	-	12,914	-	12,914	-	1,722	-	1,722	11,192
Improvements and decorations	134,641	29,691	-	164,332	2,732	40,846	-	43,578	120,754
Total	218,130	75,641	(888)	292,883	6,083	62,847	(888)	68,042	224,841

2007

	Cost as at beginning of the period YR 000s	Additions YR 000s	Disposals YR 000s	Cost as at 31.12.2007 YR 000s	Accumulated depreciation as at beginning of the period YR 000s	Depreciation for the period YR 000s	Accumulated depreciation of assets disposed YR 000s	Accumulated depreciation as at 31.12.2007 YR 000s	Net book value as at 31.12.2007 YR 000s
Furniture and fixtures	-	55,493	-	55,493	-	1,965	-	1,965	53,528
Equipment and machinery	-	27,996	-	27,996	-	1,386	-	1,386	26,610
Improvements and decorations	-	134,641	-	134,641	-	2,732	-	2,732	131,909
Total	-	218,130	-	218,130	-	6,083	-	6,083	212,047

13. CUSTOMERS' DEPOSITS

a. By type

	2008 YR 000s	2007 YR 000's
Current account	707,395	897
Time deposits	1,325,483	-
Cash margin for LGs and LCs	250,168	-
	2,283,046	897

b. By sector

	2008 YR 000s	2007 YR 000's
Individuals	559,072	897
Corporation	1,723,974	-
	2,283,046	897

14. CREDIT BALANCES AND OTHER LIABILITIES

	2008 YR 000's	2007 YR 000's
Interest payable	20,548	-
Accrued expenses	125,113	-
Corporate tax for the year / period	133,423	15,716
Creditors of property and equipment	-	28,181
Other credit balances	-	1,849
	279,084	45,746

15. HEAD OFFICE EQUITY

a. *Paid capital*

The paid-up capital is YR 6 Billion according to CBY Board of Directors decision No. 12 of 2004, fully paid by the Bank's Head office (Qatar National Bank - Qatar).

b. *Statutory reserves*

According to provisions of the Banks Law No. 38 of 1998, 15% of the net profit should be transferred to statutory reserve till it equals two times the paid-up capital.

16. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2008 YR 000's	2007 YR 000's
Letters of credit	669,794	-
Less: letters of credit – cash margin held	(249,033)	-
	420,761	-
Letters of guarantee	643,547	-
Less: letters of guarantee – cash margin held	(1,135)	-
	642,412	-
	1,063,173	-

17. INTEREST ON LOANS AND DUE FROM BANKS

	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Interest on customers' loans and advances	1,218	-
Interest on due from banks		
Interest from local banks	185,742	102,789
	186,960	102,789

18. INTEREST ON TREASURY BILLS AND CERTIFICATES OF DEPOSITS

	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Interest on treasury bills	586,632	-
Interest on CBY certificates of deposits	32,567	-
	619,199	-

19. COMMISSIONS, REVENUES AND BANK SERVICE CHARGES

	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Commissions on letters of credit	4,535	-
Commissions on letters of guarantee	8,285	-
Commissions on transfers of funds	906	-
Others	475	-
	14,201	-

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

20. GAIN FROM FOREIGN CURRENCY TRANSACTIONS

	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Gain from dealing in foreign currencies and translation of foreign currencies balances	12,651	13,357

21. PROVISIONS PROVIDED

	Note	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Provision for doubtful debit balances	11	656	-
Other provisions – provision for contingent liabilities		6,132	-
		6,788	-

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2008 YR 000's	Period from Aug. 18 to Dec. 31, 2007 YR 000's
Salaries and wages		102,333	29,037
Zakat expenses		150,000	-
Depreciation	12	62,847	6,083
Rent		27,800	12,839
Subscriptions		14,057	1,586
Communication and postage		6,734	220
Professional fees		5,737	3,177
Maintenance		4,110	1,045
Cleaning expenses		3,895	30
Insurance expenses		3,771	-
Water and electricity		3,693	278
Security expenses		3,363	1,065
Stationary and printing supplies		2,795	1,030
Advertisement and publications		2,002	7,616
Training expenses		1,611	511
Duties and taxes		1,000	1,109
Other expenses		5,124	4,557
		400,872	70,183

23. MATURITIES OF ASSETS AND LIABILITIES

	2008				
	Due within 3 months YR 000s	Due from 3 to 6 months YR 000s	Due from 6 months to one year YR 000s	Due over one year YR 000s	Total YR 000's
a. Assets					
Cash on hand and reserve balances with Central Bank of Yemen	260,064	-	-	-	260,064
Due from banks	2,183,235	-	-	-	2,183,235
Treasury bills (net)	5,567,922	-	-	-	5,567,922
Certificates of deposit with the Central Bank of Yemen	1,290,000	-	-	-	1,290,000
Loans and advances to customers	25,804	-	-	5,505	31,309
	9,327,025	-	-	5,505	9,332,530
b. Liabilities					
Due to Head office	753,545	-	-	-	753,545
Customers' deposits	2,005,680	277,366	-	-	2,283,046
	2,759,225	277,366	-	-	3,036,591
Net gap	6,567,800	(277,366)	-	5,505	6,295,939

	2007				
Description	Due within 3 months YR 000s	Due from 3 to 6 months YR 000s	Due from 6 months to one year YR 000s	Due over one year YR 000s	Total YR 000's
a. Assets					
Cash on hand and reserve balance with CBY	1,872	-	-	-	1,872
Due from banks	6,047,259	-	-	-	6,047,259
	6,049,131	-	-	-	6,049,131
b. Liabilities					
Due to Head office	257,566	-	-	-	257,566
Customers' deposits	897	-	-	-	897
	258,463	-	-	-	258,463
Net gap	5,790,668	-	-	-	5,790,668

24. AVERAGE INTEREST RATES APPLIED DURING THE YEAR / PERIOD

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

	2008		2007	
	Yemeni Rial %	US Dollar %	Yemeni Rial %	US Dollar %
Assets				
Loans to customers	-	8.0	-	-
Overdraft	-	8.0	-	-
Treasury bills	15.0	-	-	-
CBY certificates of deposit	14.8	-	-	-
Due from banks – time deposits	13.8	3.0	-	6.11
Liabilities				
Customers' deposits	13.0	2.5	-	-

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

	2008				
	Finance YR 000s	Trade YR 000s	Manufacturing YR 000s	Individuals and other YR 000s	Total YR 000s
Assets					
Cash on hand and reserve balances with Central Bank of Yemen	260,064	-	-	-	260,064
Due from banks	2,183,235	-	-	-	2,183,235
Treasury bills (net)	5,567,922	-	-	-	5,567,922
Certificates of deposit with Central Bank of Yemen	1,290,000	-	-	-	1,290,000
Loans & advances to customers	-	25,804	-	5,505	31,309
Liabilities					
Due to Head office	753,545	-	-	-	753,545
Customers' deposits	-	1,981,176	300,000	1,870	2,283,046
Contingent liabilities and commitments					
Letters of credit	-	326,336	94,425	-	420,761
Letters of guarantee	-	642,412	-	-	642,412

	2007				
	Finance YR 000s	Trade YR 000s	Manufacturing YR 000s	Individuals and other YR 000s	Total YR 000s
Assets					
Cash on hand and reserve balances with Central Bank of Yemen	1,872	-	-	-	1,872
Due from banks	6,047,259	-	-	-	6,047,259
Liabilities					
Due to Head office	257,566	-	-	-	257,566
Customers' deposits	-	-	-	897	897

26. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATION

	2008					
	Republic of Yemen YR 000s	USA YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with Central Bank of Yemen	260,064	-	-	-	-	260,064
Due from banks	2,183,235	-	-	-	-	2,183,235
Treasury bills (net)	5,567,922	-	-	-	-	5,567,922
Certificates of deposit with Central Bank of Yemen	1,290,000	-	-	-	-	1,290,000
Loans & advances to customers	31,309	-	-	-	-	31,309
Liabilities						
Due to Head office	-	-	-	753,545	-	753,545
Customers' deposits	2,283,046	-	-	-	-	2,283,046
Contingent liabilities and commitments						
Letters of credit	-	-	-	420,761	-	420,761
Letters of guarantee	642,412	-	-	-	-	642,412

	2007					
	Republic of Yemen YR 000s	USA YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with Central Bank of Yemen	1,872	-	-	-	-	1,872
Due from banks	6,047,259	-	-	-	-	6,047,259
Liabilities						
Due to Head office	-	-	-	257,566	-	257,566
Customers' deposits	897	-	-	-	-	897

27. 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:

	2008		2007	
	Surplus (Deficit) YR 000's	% of capital & reserves	Surplus (Deficit) YR 000's	% of capital & reserves
US Dollar	793,780	13.1%	6,045,585	100.3%
Euro	(1,230)	-	-	-
Qatar Rial	(7,276)	(0.1)%	-	-
Surplus	785,274	13.0%	6,045,585	100.3%

28. TRANSACTIONS WITH RELATED PARTIES

An entity is considered a related party when it has the ability to control or has a significant influence over the Bank operating and financial decisions.

The Bank's related parties are the Bank's parent company and all its subsidiaries and branches, as well as the Bank's key management personnel.

The Bank deals with related parties on the same basis applied to third parties.

The Banks Law as implemented by CBY circular No. 4 of 1999, 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 following are the nature and balances of these transactions at the balance sheet date:

Description	**Nature of related parties**	**2008 YR 000's**	**2007 YR 000's**
Due to Head office	Qatar National Bank – Qatar (Head office)	753,545	257,566
Compensation	Key management personnel	19,200	10,973

29. TAX STATUS

a. The difference between accounting and tax profit for the year 2008 represents the addition of YR 656 thousand to the accounting profit which represents the provisions provided during the year which were subject to tax. Net profit was subjected to tax at a rate of 35%.

b. The Bank has submitted the tax declaration for 2007 and paid the amount due. The tax inspection by the Tax Authority has not began yet.

c. Salary tax

Salary tax is calculated and remitted on a monthly basis up to the end of 2008.

30. COMPARATIVE FIGURES

The comparative figures noted in the income statement, cash flow statement and statement of changes in head office equity are for the period from August 18, 2007 to December 31, 2007.