

Banking Law No. 38 of 1998

Hereby issues the following law:

**Chapter I
Denomination and Definitions**

Article 1 This law shall be called the Banking Law.

Article 2 The following terms and expressions shall have the meanings indicated below, unless the context should require another meaning:

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| a. Republic | The Republic of Yemen. |
| b. Government | The Government of the Republic of Yemen. |
| c. Central Bank | The Central Bank of the Republic of Yemen. |
| d. Governor | The Governor of the Central Bank [of Yemen]. |
| e. Bank | Any legal entity engaged primarily in banking activities, including commercial and specialized banks (the former also including Islamic banks) or branches of foreign institutions engaged in banking activities. |
| f. Currency | The currency of the Republic of Yemen, consisting of banknotes and coins. |
| g. Credit | Facilities, loans, and cash advances in various forms and amounts extended by banks and financial institutions. |

h. Banking activities

1. Receiving cash deposits payable on demand or in accordance with other arrangements, which may be withdrawn by check, money order, or payment order; and granting loans and credit facilities.
2. Banking activities also include the following:
 - (a) Purchasing and discounting of drafts, promissory notes, coupons, and bonds for commercial purposes.
 - (b) Carrying out ordinary banking transactions with correspondents and obtaining customary banking facilities.
 - (c) Buying and selling foreign currencies, bullion, gold and silver coins, shares, and bonds.
 - (d) Issuing and discounting promissory notes and letters of guarantee.
 - (e) Opening documentary credits and receiving bills of lading.
 - (f) Collecting checks, securities, drafts, and promissory notes.
 - (g) Acting as agent or trustee, in the capacity of correspondent or agent of banking and financial institutions.
 - (h) Buying and selling government notes and securities.
 - (i) Leasing: includes leasing production equipment, tools, machinery, vehicles, or real estate for a specified purpose and period of time in exchange for a specified rent, with a pledge to sell the property at the end of the leasing period in accordance with the terms agreed upon by the lessor and lessee for converting the lease agreement to a sale or transferring ownership of the property from the lessor to the lessee.

i. Company

Any company registered in accordance with the Corporation Law currently in force in Yemen, including companies established outside of Yemen.

j. Demand liabilities

Deposits at any bank that are payable on demand.

- k. Term liabilities All deposits at any bank that are not payable on demand, including savings accounts.
- l. Manager Any person, regardless of his title, who is primarily responsible for the management of a bank or financial institution.
- m. Person Any individual or legal entity.
- n. Family A husband and wife, father, and children united by a joint interest.
- o. Senior officers The chief executive officer, the chief operating officer, the chief financial officer, the chief of internal audit, the chief lending officer, the deputies of the aforementioned chiefs, and the legal advisor.

Article 3 Unless explicitly stated herein, the provisions of this law shall not restrict the provisions of the Corporation Law, the Islamic Banking Law, or any other laws in force in the Republic of Yemen, but rather shall supplement such laws.

Article 4 The provisions of this law shall not apply to post office savings banks or other financial institutions, as determined by the Central Bank and ordered by decree of the Council of Ministers.

Chapter II

Authorization to Engage in Banking Activities

- Article 5
- 1. a. With the exception of banks established by special laws, no person shall engage in banking activities in Yemen unless licensed to do so by the Central Bank, which shall have the sole authority to issue such licenses.
 - b. Licenses to engage in banking activities shall be issued by the Central Bank.

- c. The Central Bank shall collect administrative fees for each license to establish a new domestic bank or to authorize a branch of a foreign bank operating in Yemen, as determined by the implementation order for this law.
2. For purposes of this law and unless otherwise stipulated, all branches and offices of any bank in Yemen shall be considered a single bank.

- Article 6
- 1.* No person may, without the consent of the Central Bank:
 - a. Use or continue to use the term "bank" or any derivative of the word in any language, as part of the name under which it operates in Yemen.
 - b. Use or continue to use any word indicating that the nature of its activities is banking, as part of the name, title, or nomenclature under which it operates in Yemen.
 - c. Use or continue to use any description in any invoice, document, correspondence, announcement, advertisement, or any other instrument indicating that it engages in banking activities in Yemen.

*[*Note: The number 1 was retained in the revised version of Article 6, although there is no longer a paragraph 2 in this article.]*

- Article 7
- If the Central Bank has evidence indicating that a person or entity is engaged in unauthorized banking activities, it shall have the right to examine the person's books, accounts, and records to determine whether said person has violated or is violating the provisions of Article 5 of this law. Refusal to submit said books, accounts, an records shall be considered as evidence of engaging in unauthorized banking activities, in which case the provisions of Article 65 of this law shall apply.

- Article 8
1. In accordance with the provisions of Article 5, paragraph 1 of this law, any person wishing to engage in banking activities in Yemen must submit a written application to the Central Bank to obtain a license in accordance with this law, accompanied by three copies of the following:
 - a. Certified copies of the bank's charter or articles of incorporation and its by-laws, or a copy thereof. If the original documents are not in Arabic, a duly authenticated translation must be attached.
 - b. The most recent balance sheet. If the original document is not in Arabic, a duly authenticated translation must be attached.

- c. Any other information required by the Central Bank, related to its investigation in accordance with paragraph 2 of this article.
2. The Central Bank shall not issue a final license to any bank or allow it to continue operating unless it complies with the following:
 - a. All members of the Board of Directors must be at least 25 years of age and no more than two members may be related by family ties.
 - b. All senior officers of the bank must have at least five years of managerial experience in the field of banking, law, accounting, finance, financial corporations, or a similar related field.
 - c. The three most senior officers at the bank must have at least eight years of banking experience. At least three directors shall be non-executive directors, and non-executive directors must constitute a majority of the bank's audit committee.
3. In its review of license applications, the Central Bank shall carry out all investigations it deems necessary to verify the legality of the documents required by paragraphs 1 and 2 of this article, as well as the applicant's position, quality of management, capital adequacy, and the economic feasibility [of the proposed institution].
4. The Central Bank shall decide within a period of 60 days after receiving the application whether or not to grant a license, based on its investigations, and shall inform the applicant in writing of its decision.
5. With due consideration for the rights of depositors, the Central Bank may issue a decree, to be published in the official gazette and at least one widely circulated daily newspaper published in Yemen, revoking a license for any of the following reasons:
 - a. If the licensee fails to commence operations within a period of six months after the license was granted.
 - b. If the licensee ceases his banking activities or liquidates his operations.
 - c. If the Central Bank believes that the licensee is acting to the detriment of his depositors, does not have sufficient assets to meet the requirements of the public, or has failed to comply with any of the provisions of this law.

- d. If a license is granted on the basis of documents or information submitted by the licensee which subsequently prove to be false.
 - e. If a bank that was granted a license in accordance with Article 5, paragraph 1 of this law fails to comply with the provisions of this law within the period of time determined by the Central Bank.
6. Any license granted in accordance with this article or with Article 5, paragraph 1 of this law shall be displayed at all times in a prominent location at the headquarters of the bank in Yemen, and copies of the licence shall be placed in similar locations at all branches and offices of the bank in Yemen.

Article 9

1. No bank shall open a new branch, change its business location, or close an existing branch without the consent of the Central Bank.
2. Before approving the opening of y a new branch or a change in location of the existing place of business, the Central Bank may require an inspection to verify that the new branch or office or the newly relocated bank will continue to meet the requirements of Article 8, paragraph 3 of this law.

Article 10

1. No bank operating in Yemen shall sell all or a portion of its assets in excess of the value determined by the Central Bank without the prior approval of the Central Bank, in accordance with the conditions and procedures attached to said approval.

The Central Bank may issue an order to revoke an approval issued in accordance with this article, if it discovers that the approval was based on false information. The bank concerned shall comply with this order, but shall have the right to file a legal appeal within 30 days of the date of proper notification.

2. No bank shall merge or join with another bank or other establishment or acquire a share of the capital of any person or legal entity, either directly or indirectly, in excess of 10 percent of the total shares or voting rights, without the prior approval of the Central Bank.
3. No person shall acquire, by purchase or otherwise, shares in a bank equivalent to more than 10 percent of the voting rights without the prior written approval of the Central Bank. The bank's management shall notify the Central Bank when any person acquires an interest equivalent to 5 percent or more of the voting rights in any bank, within 15 days of such acquisition.

4. No bank shall amend its charter or by-laws without the prior approval of the Central Bank. Any bank established abroad and licensed to operate in Yemen shall notify the Central Bank at least 30 days prior to the date of any meeting it holds to revise or amend its charter or by-laws, and shall attach to the notification a copy of the proposed amendment.

Chapter III

Capital, Reserve Account, and Liquid Assets Ratio

- Article 11 In accordance with the provisions of this law, no bank shall be issued or allowed to retain a license unless it complies with the following conditions:
- a. In accordance with the provisions of this law, the paid-in capital of any bank shall at no time be less than YR1s 1 billion. The Central Bank may increase this amount in accordance with the standards it establishes for capital adequacy. All domestic banks and branches of foreign banks shall increase their paid-in capital to the above-mentioned amount within a period of two years from the date on which this law is issued.
 - b. Branches of foreign banks shall maintain the required minimum capital as stipulated in paragraph (a) in a convertible currency.
 - c. The paid-in capital and reserves maintained in accordance with Article 12 of this law together with other required reserves (less defined reserves and allocations) shall not be less than 5 percent of total obligations to depositors. The Central Bank may increase this ratio in accordance with the prevailing conditions and circumstances or when it deems necessary. If the amount of paid-in capital should fall below the required minimum for any reason, the bank concerned shall notify the Central Bank within three days of its discovery of such shortfall.
 - d. If a bank fails to comply with the percentage stipulated in paragraph (c) above within a period of three months, it shall either increase its capital and reserves or deposit the amount of its excess deposits with the Central Bank.
- Article 12 1. All banks, before distributing dividends or transferring profits to their headquarters abroad or in any other location, shall retain in a reserve account a minimum of 15 percent of net earnings, excluding amounts set aside for taxes and other potential liabilities, so that the reserve account balance is equal to twice the paid-in capital or the capital allocated for operations in Yemen, as the case may be.

2. The Central Bank shall have the right to modify the percentage of reserves subject to retention from the bank's annual earnings, in accordance with the prevailing conditions and circumstances.

Article 13 All banks shall retain liquid assets in accordance with the Central Bank's instructions. The Central Bank may also establish a deadline for dealing with a shortage or surplus of liquid assets.

Chapter IV Restrictions and Limitations

Article 14 No bank shall pay any portion of its profits, announce or distribute them to its shareholders, or transfer any funds from the profits account, until all its capital expenditures have been fully covered (including initial costs, incorporation expenses, commissions on the sale of shares, brokerage, and any other losses or disbursements not included in tangible assets), is in compliance with the provisions of this law, and has obtained the prior written approval of the Central Bank.

Article 15 No bank in Yemen shall grant any person (except with the prior approval of the Central Bank) any loan, facility, or financial guarantee, or assume any other obligation to such person (net of permitted collateral as defined by the Central Bank and held by the bank) if the total value of the loans, facilities, or financial guarantees granted to such person and his affiliates exceeds 15 percent of the total paid-in capital and reserves of the bank, maintained in accordance with Articles 11 and 12 of this law, and any other required reserves, net of specific reserves and provisions. If the Central Bank approves a percentage higher than 15 percent, the bank concerned shall not grant any loan, facility, or financial guarantee or assume any other obligation if the total value of the loans, facilities, and financial guarantees granted to such person or his affiliates exceeds 25 percent of its paid-in capital.

Article 16 Loans guaranteed by the Government of Yemen, by any authority subordinate to it, or by any foreign country specified by the Central Bank, shall be exempt from the provisions of Article 15.

Article 17 No bank in Yemen may provide any loans or credit facilities secured by its capital shares.

Article 18 No bank in Yemen may grant or allow the granting of total loans and credit facilities to any member of its board of directors in excess of one-half of one percent (0.5%) of the bank's total paid-in capital and reserves retained under the provisions of Article 12 of this law or any other required reserves (net of specific reserves and provisions).

No bank may grant or allow the granting of total loans and credit facilities to any holder of 5 percent or more of the capital voting power of the bank, in excess of 25 percent of the bank's total paid-in capital and reserves retained under the provisions of Article 12 of this law or any other required reserves (net of specific reserves and provisions) on December 31, 1998 and 15 percent on December 31, 1999.

- Article 19 No bank shall grant or allow the granting of total advances or credit facilities to any of its directors or employees, including members of its board of directors, in excess one year's salary.
- Article 20 In accordance with the Banking Law and the Islamic Banking Law, no bank operating in Yemen shall engage directly in wholesale or resale trade, including import and export trade, except for the purpose of achieving its objectives, providing credits to its clients, or guaranteeing such credits, or if it becomes necessary in exceptional circumstances in order to redeem a claim through the banking operations or services of the bank concerned.
- Article 21 In accordance with the Islamic Banking Law, no bank shall become a shareholder in projects whose total market value at any one time exceeds 20 percent of the bank's total capital and the reserves retained under the provisions of Article 12 of this law or any other required reserves, net of specific reserves and provisions. The Central Bank may increase this ratio if necessary.
- Article 22 In accordance with the provisions of Article 20 of this law, no bank shall purchase, own, or rent any real estate, unless it is required for the management of its affairs, including future expansion requirements and housing for its employees.
- Article 23 In applying the restrictions stipulated in Article 15 of this law, if the Central Bank decides that the interests of two or more groups of persons are so intermingled that they are considered as one, the liabilities of the two groups shall be combined and considered as a single liability. The bank concerned shall rectify the situation within a period not exceeding six months from the date of the issue of this decision. Banks in violation shall be subject to the provisions of Article 65 of this law.
- Article 24 Banks shall be prohibited from receiving any deposits in the event of their insolvency. Any member of the board of directors, manager, or bank employee aware of such insolvency shall be prohibited from receiving, or allowing the receipt, of any deposit.

- Article 25
1. All banks and other finance institutions recognized by the Central Bank shall submit a monthly report to the Central Bank indicating the following:
 - a. The balance of credit provided by the bank or financial institution concerned.
 - b. A list of loans and facilities of YRls 10 million and greater, along with the recipients' names, the maturity dates, and the collateral provided.
 - c. A list of overdue loans that have not been paid in part for more than 90 days and the amounts of overdue payments.
 2. The Central Bank shall prepare a combined statement on the credit facilities provided to each customer by banks, the amount of available overdraft protection, the collateral pledged, and the record of failure by each customer to pay his debts when due, without mentioning the name of the banks providing such information.
 3. All banks and financial institutions recognized by the Central Bank shall have the right to review the combined statement on any customer requesting credit facilities from them. The Central Bank shall bear no liability for the information contained in such combined statements or for their dissemination.
 4. The Central Bank may distribute monthly to all banks the list compiled under the provisions of paragraph 1 of this article, indicating customers with credit facilities of more than YRls 10 million that are in arrears for more than 90 days, and may prohibit banks from extending new credits to these borrowers until the status of their credits in arrears is regularized to the satisfaction of the creditor bank and the Central Bank.

Chapter V

Financial Statements, Auditing, and Supervision

- Article 26
- Authorized banks operating in Yemen under the provisions of this law shall keep all their books and registers and record their official correspondence with the authorities in Yemen in the Arabic language. Banks failing to comply with the provisions of this article shall be subject to a fine as stipulated in Article 65 of this law.

- Article 27
1. a. Every bank established under Yemeni law or established abroad and operating in Yemen through its branches or offices shall prepare, in a form to be determined by the Central Bank, using accounting rules and principles established by the Central Bank, and within three months of the end of its fiscal year, its balance sheet and its profit and loss account up to the last day of the fiscal year, with respect to its operations in Yemen.
 - b. The balance sheet and profit and loss accounts prepared in accordance with paragraph 1(a) of this article shall be audited in accordance with the method described in Article 29 of this law.
2. All banks shall:
- a. Display throughout the year, in a prominent place in every branch or office in Yemen, a copy of their latest balance sheet certified by a chartered accountant.
 - b. Submit to the Central Bank, within four months of the end of its fiscal year, a copy of its most recent balance sheet certified by a chartered accountant. The bank shall publish this balance sheet in the Official Gazette and in at least one widely circulated daily newspaper published in Yemen.
3. The Central Bank may establish audit standards as it deems necessary to ensure the soundness of any bank, and such standards shall be followed by all banks in the performance of internal and external audit functions.

- Article 28
1. All banks shall submit a monthly statement to the Central Bank no later than the fifteenth day of each month, in a form to be specified by the Central Bank, indicating their assets and liabilities, including those of their branches and offices in Yemen, together with a breakdown of the position of loans, discounted drafts and other assets on the last day of the previous month, and a breakdown of the foreign exchange transactions during the same month.
 2. The Central Bank may from time to time require any bank to submit any other information as may be necessary for purposes of this law, relating to the bank's operations or the operations of its affiliate institutions in Yemen.
 3. The Central Bank shall be responsible for the compilation of consolidated data combining the figures given in the statements submitted under paragraph 1 of this article. Figures incorporated into the detailed

statements shall be considered confidential information restricted to each individual bank and the Central Bank.

Article 29

1. All banks shall appoint a chartered accountant on an annual basis. The Central Bank may object to the appointment within one month of the date on which it was announced. In the event that the Central Bank objects to the accountant appointed, another accountant shall be nominated to perform his duties. If the bank fails to appoint another accountant acceptable to the Central Bank, the latter shall have the authority to appoint a chartered accountant and to determine his remuneration, which shall be payable by the bank concerned.
2. The duties of the chartered accountant shall include preparing a report on the balance sheet and annual accounts, for shareholders in the case of banks incorporated in accordance with Yemeni law, or for the headquarters of banks established abroad. He shall state in the report whether, in his opinion, the balance sheet and the profit and loss accounts are complete, accurate, and were prepared according to a sound method providing a true picture of the bank's positions, whether the accountant received the information and explanations he requested from the bank authorities or bank agents, and whether such information and explanations were satisfactory.
3. The report of the chartered accountant and that of the board of directors of the bank shall be read aloud at the annual shareholders meeting of any bank established under Yemeni law, or sent to the headquarters of any bank established abroad. A copy shall be sent to the Central Bank.
4. A chartered accountant may not participate in the establishment of a bank or accept membership in its board of directors or employment on a permanent basis in any of the bank's technical, administrative, or advisory tasks. The chartered accountant of a bank may not have any interest in the bank other than as a depositor. Any person who acquires an interest in a bank after being appointed as its chartered accountant shall cease to act as chartered accountant of said bank.

Article 30

The Central Bank shall from time to time inspect each bank or any of its affiliate institutions when deemed necessary or desirable to ascertain that the bank is in a sound financial position and that it meets the requirements of this law and the Central Bank Law in the conduct of its affairs.

Article 31 All banks (and their affiliate institutions) shall submit all books, minutes, accounts, cash, vouchers, documents, and receipts in their possession or custody relating to their business in Yemen, together with all information pertaining to such business, for examination by any inspector designated by the Central Bank, within a period of time to be determined by the inspector.

Article 32 If the Central Bank's inspection reveals that the bank concerned is conducting its affairs in an illegal or unsound manner or that its capital is inadequate, the Central Bank may:

- a. Require the bank to take such measures as the Central Bank shall deem necessary to correct the situation, including but not limited to: compliance with the plan agreed to with the Central Bank, suspension of payments of dividends and remuneration, forced sale of non-core assets, reduction of assets and operation, suspension of further lending to identified borrowers, performance of required audits, and in extreme cases, liquidation of the bank's activities.
- b. Appoint a person it believes to have the skills and expertise required to advise the bank on steps to be taken to correct the situation. The Central Bank shall determine the remuneration of said person, which shall be payable by the bank.
- c. Take over management of the bank.

Chapter VI **Responsibilities of Members of the Board of Directors** **and Other Officers**

Article 33 Branches of foreign banks authorized to operate in Yemen shall have a resident regional director appointed by their headquarters abroad through an official document authorizing him to direct the activities of the bank in question and making him fully responsible before all competent Yemeni authorities. An official copy of said document shall be deposited with the Central Bank. for

Article 34 1. Without prejudice to the provisions of any law currently in effect regarding companies, any member of a board of directors, manager, or employee responsible for managing a bank shall cease to hold such position in the following cases:

- a. If it is declared bankrupt or insolvent.
- b. If he is convicted of any violation of integrity or honesty.

2. The Central Bank of Yemen may object to the membership on the board of directors of any member who does not meet the requirements determined by this law.

Article 35

1. Any member of a bank's board of directors having any kind of direct or indirect interest in an advance, loan, or credit facility shall declare the nature of said interest to the members of the board of directors of the bank at the earliest possible opportunity and shall distribute his declaration to all members of the board of directors.
2. For the purposes of paragraph 1 of this article, the notification of a bank's board of directors by means of a general notice from a member of that board to the effect that he has an interest in any advance, loan, or credit facility that may be extended after the date of notification shall be considered sufficient declaration of the interest with respect to any advance, loan, or credit facility, provided that:
 - a. The notice states the nature and extent of the interest.
 - b. The interest will not differ in nature or extent from that specified at the time the advance, loan, or credit facility is extended.
3. Every member of a board of directors of a bank occupying a position or having possessions that may, directly or indirectly, conflict with the interests of the bank or with his duties toward the bank, shall make a declaration to that effect at a meeting of the board of directors, explaining the nature and scope of the conflict. No member shall participate in any discussion of nor attempt to affect any decision regarding any matter in which he has a conflict of interest.
4. The declaration referred to in paragraph 3 of this article shall be presented at the first meeting of the board of directors held:
 - a. After the person assumes his position as a member of the board of directors; or
 - b. After assuming the position or acquiring the possessions, if he is already a member of the board of directors.
5. Every member of a board of directors who acknowledges an interest under the provisions of this Article shall include the declaration submitted under paragraphs 1 or 3 of this article on the agenda of the board meeting following the meeting at which he declared his interest, and the text of his declaration shall be recorded in the minutes of the meeting.

Article 36 The obligations of members of the board of directors of any bank, in accordance with the law on commercial companies, as amended, shall apply to depositors of the bank and to the Central Bank.

Chapter VII **Liquidation, Seizure, and Reorganization**

Article 37 No voluntary liquidation of any bank shall be permitted except with the prior authorization of the Central Bank. Such authorization shall be given only in the following cases:

- a. When the bank is able to repay all its debts and has sufficient liquid assets to pay the depositors and other creditors without delay; and
 - b. When the liquidation has been approved at a special meeting held for this purpose by two-thirds of shareholders with voting rights, representing at least one-half of the registered capital.
2. The Central Bank may cancel the authorization of any bank operating in Yemen, in the following cases:
- a. At the request of the bank in question (voluntary liquidation).
 - b. If it declares bankruptcy or is ordered to liquidate.
 - c. If it merges with another bank, as approved by the Central Bank.
 - d. If its repeated failure to comply with the provisions of this law threatens the interests of depositors.

Article 38 Upon receiving authorization to go into liquidation from the Central Bank, a bank shall:

- a. Immediately cease engaging in any banking activity, maintaining only the authority necessary to put the liquidation into effect.
- b. Pay the claims of depositors and other creditors.
- c. Complete all transactions initiated before receiving authorization to go into liquidation.

Article 39 Within 30 days of receiving the authorization referred to in Article 37 of this law, the bank shall send notice of voluntary liquidation containing information as determined by the Central Bank to all depositors, other creditors, and persons having a claim on the assets and possessions of the bank in its capacity as a credit entity, lessor of safety deposit boxes, or custodian of the possessions of others. The notice shall be exhibited in a prominent location in all offices or branches of the bank and shall be published in the Official Gazette and in at least one widely circulated newspaper published in Yemen.

Article 40 An authorization to go into voluntary liquidation shall not infringe upon the right of any depositor or creditor to receive his claims in full, nor upon that of any person to retrieve any funds or possessions kept at the bank. All legal claims shall be paid without delay and all other funds and possessions held by the bank shall be disbursed to their legitimate owners within a period prescribed by the Central Bank.

Article 41 When the Central Bank is satisfied that the bank has met all its obligations referred to in Article 38 of this law, it shall cancel the bank's license and distribute its remaining assets among its shareholders in proportion to their claims. No distribution, however, shall be made before:

- a. Payment of all the claims of depositors and other creditors. In the event of disputed claims, the bank shall deposit sufficient funds with the Central Bank to meet any liability that may be legally decided.
- b. Transfer of funds unclaimed by depositors or creditors to the Central Bank, to be credited to trust accounts for the beneficiaries. The Central Bank shall issue notices on a regular basis concerning these accounts through persons related to the beneficiaries.
- c. Transfer of any funds or possessions held by the bank that the bank has been unable to return to their rightful owners pursuant to the provisions of Article 40 of this law to the Central Bank together with the pertinent lists.

Article 42 If it becomes clear to the Central Bank that the assets of a bank authorized to go into voluntary liquidation are not sufficient to meet all its obligations or that there is an unwarranted delay in effecting the liquidation, the Central Bank may, if it deems necessary, seize the bank and liquidate it by force or reorganize it in accordance with the procedures stipulated by this law.

- Article 43 The Central Bank may, with the approval of its board of directors, seize any bank operating in Yemen, in the following cases:
- a. If it fails to comply with the orders, instructions, and policies of the board of directors of the Central Bank.
 - b. If it becomes clear that its capital is inadequate.
 - c. If the bank or any of its branches conducts its business in an unsound or illegal manner.
 - d. If the bank's position is unsound and is likely to be harmful to the interests of its depositors.
 - e. If the bank has violated any of the provisions of this law or any regulations of the Central Bank.
 - [f.] If it is a branch of a foreign bank whose headquarters is undergoing bankruptcy or liquidation.
- Article 44 Upon seizing a bank, the Central Bank shall post a notice at its premises announcing the measure pursuant to this law and indicating the effective date, which shall not be earlier than that of the official notice. A copy of the notice shall be published in the Official Gazette and in at least one widely circulated daily newspaper published in Yemen.
- Article 45 The bank concerned shall have the right to bring legal action before a court to have its seizure by the Central Bank terminated within a period of 60 days from the date of the seizure.
- Article 46 When the Central Bank seizes any bank, it shall have full authority to manage and supervise said bank, including the power to continue the bank's operations, suspend or limit the payment of its obligations, employ personnel as it deems necessary, ratify any document on behalf of the bank, undertake any legal proceedings on its behalf as plaintiff or defendant, sell any or all of its shares or otherwise dispose of any or all rights to its property, terminate the seizure, restore the bank to its board of directors as previously constituted or after replacing some or all of its members, reorganize it, or liquidate it, pursuant to the provisions of this law.

- Article 47 When the Central Bank seizes any bank:
- a. The bank concerned may request an extension of the period determined for issuing a call for one of its claims or demands; such an extension may not exceed six months.
 - b. Any attachment or real estate mortgage against the bank shall terminate (except real estate mortgage in effect for six months or more before the date of seizure). No such attachment or real estate mortgage shall have effect on any of the property or assets of the bank during the seizure by the Central Bank, except as disposed by the Central Bank itself for the purpose of implementing the provisions of this Chapter of the Law.
 - c. Any transfer of the assets of a bank, after it has declared bankruptcy or due to its prospective bankruptcy or its seizure, with a view to acquiring priority in the redemption of any debt or the like, shall be null and void.
- Article 48 Judicial executory proceedings shall not be undertaken against the property of a bank that has been seized by the Central Bank unless the court deems such proceedings appropriate for the implementation of a ruling passed prior to the date of seizure.
- Article 49 When the Central Bank seizes any bank, it shall take the following measures:
- a. Mandatory liquidation; or
 - b. Reorganization of the seized bank within a period not exceeding 60 days from the date of seizure; or
 - c. Termination of the seizure.
- Article 50
1. Within a period of 30 days after the date on which a liquidator is appointed for a bank, any of the following may file an appeal with the competent commercial court if they believe that the Central Bank has abused the application of Article 42 of this law:
 - One or more shareholders owning not less than 25 percent of the shares in the bank in question;
 - One or more depositors holding at least 25 percent of the total deposits with the bank;
 - One or more creditors other than the above-mentioned depositors, representing at least 25 percent of the total claims of creditors.

2. The court shall review the appeal to determine whether the Central Bank abused the authority granted to it in accordance with Article 42 of this law.
3. The court shall hold a hearing on the above-mentioned appeal within 10 days of the date of its submission; and shall render its decision, in accordance with paragraph 2 of this article, within 30 days of the date of submission. If the court determines that the Central Bank abused the authority granted to it in accordance with Article 42 of this law, it shall also determine the damages involved and the monetary compensation to be paid, and the license that has been revoked shall not be reinstated.

If the court determines that the Central Bank did not abuse its authority, the liquidation procedures shall continue in accordance with this law.

Article 51

1. Within a period of 30 days after the date on which a liquidator is appointed for a bank, any of the following may submit to the Central Bank an objection or recommendation concerning any liquidation procedures:
 - One or more shareholders owning not less than 10 percent of the shares in the bank in question; or
 - One or more depositors holding at least 10 percent of the total deposits with the bank; or
 - One or more creditors, representing at least 10 percent of the total claims of creditors.
2. If the Central Bank determines that the objection or recommendation is acceptable, it shall modify the liquidation procedures and notify the liquidator.

Article 52

- The reorganization plan shall be executed pursuant to the provisions of this chapter of the law, in accordance with the following conditions:
- a. The plan shall be fair to all groups of depositors, other creditors, and shareholders.
 - b. The plan shall provide for the removal of any member of the board of directors or manager responsible for the conditions leading to the seizure of the bank pursuant to the provisions of Article 43 of this law.

- Article 53 If it becomes apparent during the reorganization procedure that certain conditions have made the plan unfair or its execution undesirable, the Central Bank may take one of the following measures:
1. Amend the plan.
 2. Order the mandatory liquidation of the bank, in accordance with the provisions of Article 42 of this law.
- Article 54 In executing the mandatory liquidation of any bank, the Central Bank may exercise authority for said bank to carry out the following transactions:
- a. Sell any of the bank's possessions or assets exceeding YRIs 5,000 in value.
 - b. Pledge any of the bank's possessions or assets as security for any creditor providing a new facility to the bank.
 - c. Settle or relinquish any claim exceeding YRIs 10,000 in value.
 - d. Pay any claims.
- Article 55 Without prejudice to the provisions of any other legislation in force, the Central Bank may, within six months of the date of the order for mandatory liquidation, terminate:
- a. Any work contract.
 - b. Any service contract to which said bank is party.
 - c. Any lease obligation, in which case the lessor, after receiving 90 days' notice from the Central Bank that the latter has canceled the lease pursuant to the powers conferred up on it, shall not be entitled to claim any compensation or rental owing to the termination of said lease, except the rental due up to the date of cancellation of the lease.
- Article 56 The Central Bank shall, as soon as possible after the order for mandatory liquidation, take the necessary steps to revoke all the credit powers of said bank in its capacity as a supervisor of the property of others, to return such property and assets held by the bank in that capacity to their owners and to liquidate the corresponding accounts.

Article 57 The Central Bank shall, as soon as possible [after the order] for mandatory liquidation, mail out statements, at the addresses listed in the bank's registers, to all depositors, other creditors, renters of safety deposit boxes and owners of property held by the bank, indicating the nature and amount of their claims as registered in the books of said bank. The claimants shall be invited to submit any objection to the Central Bank in accordance with Articles 50 and 51 of this law. Renters of safety deposit boxes and owners of property held by the bank shall withdraw or remove such deposits and possessions in person.

Notice of the mailing of the statements referred to above shall also be published in the Official Gazette and in at least one widely circulated daily newspaper published in Yemen.

Article 58 Safety deposit boxes, the contents of which have not been removed by the specified date, shall be opened in a manner to be determined by the Central Bank, and the Central Bank shall hold the contents and any other unclaimed property in the custody of the bank for one year, together with lists of said items. If such assets and property remain unclaimed throughout the year, they shall remain in the custody of the Central Bank against a service fee no less than 1 percent of their value per annum, to be deducted from their value.

Article 59 Within six months from the date specified in the notice to present claims for assets and property referred to in Article 58, or within any longer period as may be specified, the Central Bank shall:

- a. Reject any claim of doubtful legitimacy.
- b. Determine the amount due to each known depositor or to any other creditor and the priority of each, pursuant to the provisions of this law.
- c. Prepare a report of the procedures it proposes to adopt.
- d. Inform every person who has not received his full claims and publish a weekly notice for three consecutive weeks in a local newspaper of the date and place where the report of the procedures proposed for adoption may be examined. Said date shall be no earlier than one month from the date on which the notice is published in the newspaper for the third time.

Article 60 Every depositor, creditor, shareholder, or any other party concerned shall have the right, within 21 days of the date of submission of the report referred to in Article 59, paragraph (c), to object to any of the steps proposed therein. The Central Bank shall consider such objections, and if any such objection is accepted, it shall order an appropriate amendment of the report. The Central Bank shall, from time to time, carry out a partial distribution of assets to

persons having undisputed claims or those whose claims have been approved, provided that sufficient reserves are maintained to pay the disputed claims.

Final distribution shall be made by the Central Bank as soon as possible after consideration of all the objections filed with it. If the Central Bank rejects the claim, the injured party may submit it to the competent court.

- Article 61
1. In distributing the assets of the bank, the following claims shall be given priority, and in the order indicated:
 - a. Reasonable, necessary expenses incurred by the Central Bank in implementing the provisions of this law.
 - b. Savings deposits not exceeding YRIs 5,000.
 - c. Government and local taxes and duties.
 - d. One month's salary of bank employees, except for the chairman and members of the board of directors and the general managers.
 - e. All other deposits.
 - f. Salaries and wages of the members of the board of directors and senior officers still remaining with the bank. In all cases, claims against the bank submitted by members of the board of directors, senior officers of the bank, and persons owning at least 5 percent of the bank, including deposits, shall be paid as last priority. No amounts shall be paid in respect of any claim obtained by fraud or in willful violation of this law or the regulations of the Central Bank.
 2. After payment of all other claims submitted together with the interest on them as determined by the Central Bank, any remaining claims that were not submitted within the time specified shall be paid.
 3. If the funds available are not sufficient to make full payment of the claims of any of the groups stated above, such funds shall be distributed among the particular groups in proportion to their claims.

- Article 62
- The remaining assets shall be distributed, after payment of all claims, to all shareholders in proportion to their shares.

Article 63 The Central Bank shall submit a statement of account to the court after the distribution of assets is completed in accordance with the provisions of this law. The license of the liquidated bank shall be revoked after the court's approval of the statement of account referred to above, and the Central Bank shall be released from all responsibility relating to the liquidation. The court shall announce the liquidation and publish the statement of account submitted by the Central Bank in the official gazette and at least one widely circulated daily newspaper published in Yemen.

Chapter VIII Penalties

Article 64 Any person who fails to comply with the provisions of paragraph 1(a) of Article 5 of this law shall be prohibited from engaging in banking activities, and all commercial papers, securities, and cash in his possession shall be confiscated by decree of the Central Bank.

Article 65 Any person who fails to comply with the provisions of paragraph 1(b) of Article 5 of this law shall be subject to a fine of no less than YRls 5,000 and no more than YRls 100,000 per day, by decree of the Central Bank, to be deducted from any credit account held by the person at the Central Bank or any other bank. If no such account exists, the Central Bank may take direct action to collect the fine.

Article 66 Any person subject to any measure under the provisions of Articles 64 and 65 of this law shall have the right to appeal to the competent court to establish the invalidity of the measure taken against him, within 30 days of the dates of said measure.

Article 67 Any person who violates or fails to comply with any of the provisions of Article 6 of this law shall be subject to the provisions of Article 65 above.

Article 68 Anyone who fails to comply with the provisions of paragraphs 1, 2, 3, and 4 of Article 10 of this law shall be jointly or severally subject to the following penalties imposed by the Central Bank:

- a. A fine of no less than YRls 20,000 and no more than YRls 100,000 for each day of violation, until the situation is rectified. The Central Bank shall have the right to deduct said fine from any credit balances held by the bank concerned with the Central Bank.
- b. Taking over control of the management of the bank in question until the situation has been rectified.

- c. Referral of the matter of false information to the Attorney General, requesting prosecution of the chairman and members of the board of directors of the bank in question and any other persons having benefited through bad faith, in accordance with the law on penalties and any other relevant legislation.

Article 69 The bank or persons subject to the penalties described in paragraphs 5 (a) and (b) of Article 68 of this law may appeal to the competent court to establish the invalidity of the measure taken against them, within 30 days of the date of proper notification.

Article 70 Banks in violation of the provisions of paragraph 2 of Article 27 of this law shall be subject to the provisions of Article 65 above.

Article 71 Banks in violation of the provisions of paragraphs 1 and 2 of Article 28 of this law shall be subject to a fine of not less than YRIs 20,000 and not more than YRIs 40,000 for each day that the violation persists.

Article 72 If a bank fails to submit its books, minutes, accounts, cash, vouchers, documents, receipts, or information in accordance with the provisions of paragraph 1 of Article 31 of this law, the bank or its affiliate shall be subject to a fine not less than YRIs 10,000 and not exceeding YRIs 50,000 for each day that the violation persists.

Article 73 Banks in violation of the provisions of Articles 18, 19, 20, 21, 22, and 23 of this law shall be granted a period not exceeding one month to rectify the situation. Such banks shall be subject to the provisions of Article 65 of this law. No bank shall be considered in violation of said articles if it takes executory action with respect to the securities pledged to it for the redemption of a debt. In such a case, it must dispose of them within a period not exceeding one year for movable property and five years for real estate. This period may be extended by Central Bank decree.

Article 74 a. Without prejudice to the penalties imposed by any other laws currently in effect in Yemen, the penalties stipulated by this law shall be duly imposed.

b. Violations shall be categorized as follows:

- Tier 1 offenses
- Tier 2 offenses
- Tier 3 offenses

c. Tier 1 offenses shall be any violation of this law, other applicable law, or Central Bank regulation which is not a Tier 2 or Tier 3 offense.

d. Tier 2 offenses shall be:

- (1) Failure by a bank to maintain, at any time, at least the amount of capital required in accordance with Article 11 of this law, but not less than 50 percent of such amount.
- (2) Failure to maintain at least 75 percent, but not less than 25 percent, of the risk-adjusted capital required.
- (3) Failure to maintain adequate records as required by the law and Central Bank instructions, after having received a warning from the Central Bank.
- (4) Failure to comply with any agreement or understanding between the bank and the Central Bank, to rectify a violation.
- (5) Violation of the provisions of Articles 18 and 19 of this law concerning loans and credit facilities provided to members of the bank's board of directors, managers, or other employees, and failure to create adequate provisions for this purpose.
- (6) Failure to create adequate provisions for debts in accordance with the standards established by the Central Bank, despite previous warnings by the Central Bank.

e. Tier 3 offenses shall be:

- (1) Failure by a bank to maintain, at any time, at least 50 percent of the capital required in accordance with Article 11 of this law.
- (2) Failure to maintain at least 50 percent of the risk-adjusted capital required.
- (3) Gross mismanagement leading to potential insolvency.
- (4) Failure to provide information requested by Central Bank inspectors when such information is available.
- (5) Extension of combined credit to insiders in excess of 100 percent of the bank's capital.
- (6) Violation of the provisions of Article 10 of this law.
- (7) Operation of the bank in a patently unsafe or unsound manner.

- (8) Violation of or failure to comply with an agreement or understanding reached with the Central Bank to rectify a Tier 2 violation, or failure to rectify a Tier 2 violation within 60 days of the commencement of said violation.
- f. When the Central Bank discovers a Tier 1 offense committed by a bank, it shall notify the bank of its violation and order it to cease immediately the violation and to rectify the situation within 90 days. If the offense is not corrected within this period, the Central Bank may impose a fine of not less than YRIs 5,000 and not more than YRIs 25,000 per day until the offense is corrected or until the bank shall have entered into an agreement with the Central Bank to rectify the violation within a certain period of time. If the bank fails to rectify the offense within the period of time agreed upon with the Central Bank, such failure shall be considered a Tier 2 offense and subject to the provisions pertaining thereto.
- g. Upon the discovery of a Tier 2 offense by the Central Bank, the following shall apply:
- (1) The bank in violation shall immediately begin to pay a fine of not less than YRIs 26,000 and not more than YRIs 50,000 per day until the offense is corrected or until the bank shall have entered into an agreement with the Central Bank to rectify the violation within a certain period of time. If the bank fails to rectify the offense within the period of time agreed upon with the Central Bank, such failure shall be considered a Tier 3 offense and subject to the provisions pertaining thereto.
 - (2) During the period of the offense, the offending bank shall be prohibited from paying any dividends or other payments to shareholders, with the exception of interest payments due to depositors.
 - (3) The Central Bank may, at its discretion, place restrictions on the activities of the offending bank or order it to limit its accepting of deposits and granting of loans or credit facilities.
- h. Upon the discovery of a Tier 3 offense by the Central Bank, the following shall apply:
- (1) The bank in violation shall immediately begin to pay a fine of not less than YRIs 51,000 and not more than YRIs 100,000 per day until the offense is corrected or until the bank shall have entered into an agreement with the Central Bank to rectify the violation within a certain period of time. In the event that the Tier 3 offense is not

rectified or a an agreement in not entered into within 30 days of notification of the offense by the Central Bank, the latter shall appoint an advisor to rectify the bank's position or to liquidate it, in accordance with Article 32 of this law.

- (2) During the period of the offense, the offending bank shall be prohibited from paying any dividends or other payments to shareholders, with the exception of interest payments due to depositors.
- i. No fine imposed in accordance with the provisions of this article shall be imposed again upon the same person for the same offense in accordance with the provisions of any other article of this law.
- j. The Central Bank may modify the description of Tier 2 and Tier 3 offenses and the amount of fines imposed upon publication of a notice in the Official Gazette and at least one widely circulated daily newspaper published in Yemen.

Article 75 Anyone violating the provisions of paragraphs 1 and 2 of Article 34 of this law shall, upon conviction by a court of law, be punished by imprisonment for a period not exceeding one year or a fine not exceeding YRIs 200,000.

Article 76 Any member of a board of directors in violation of the provisions of paragraphs 1 or 3 of Article 35 of this law shall be subject, upon conviction by a court of law, to imprisonment for a period not exceeding one year or by a fine not exceeding YRIs 100,000.

Article 77

1. Any member of a board of directors, manager, staff member, of agent of a bank who:
 - a. With intent to deceive:
 - (1) presents a statement or makes any entry that is false or misleading;
 - (2) deletes any statement or entry he had to present or make in any of the bank's books, accounts, reports, or statements; or
 - b. Knowingly participates in a violation of Articles 18, 19, and 21 of this law or knowingly contributes to the operation of a bank in a patently unsafe or unsound manner; or
 - c. Obstructs or attempts to obstruct the legitimate inspection of any bank by a Central Bank inspector;

2. Anyone who commits any of the infractions described above in items (a), (b), and (c) of paragraph 1 of this article shall be subject, upon conviction by a court of law, to imprisonment for a period of not more than one year or a fine not exceeding YRls 200,000.

Article 78 The Central Bank may refer to the office of the public prosecutor the case of any chairman of the board of directors, board member, manager, or official in charge of managing a bank in the following cases:

1. Failure to take the necessary steps to implement the provisions of this law;
2. Being a party to any offense falling under the provisions of Article 77 of this law.

Chapter IX Miscellaneous Provisions

- Article 79
1. Cash deposits and deposits in kind that have remained with banks for 15 years without any deposit or withdrawal activity shall be considered unclaimed deposits.
 2. The bank shall carry out the necessary investigation in order to turn unclaimed deposits over to their owners during a period not exceeding two years following the period referred to in paragraph 1 of this article. If, at the end of the two-year period, the bank fails to locate the owners, it shall transfer such deposits to the Ministry of Finance for eventual credit as public revenue.
 3. Unclaimed deposits belonging to government bodies and public institutions are excluded from the provisions of paragraphs 1 and 2 of this article. If any funds belonging to them are found to have been dormant, with no deposit or withdrawal activity in over five years, the bank shall inform the entities to this effect. If the bank does not receive an acknowledgment of such deposits within a maximum period of six months, it shall transfer the funds to the Ministry of Finance.
 4. If the funds referred to in paragraphs 1 and 2 above are claimed after having been transferred to the government treasury and the claim is verified as valid by a court order, the government shall be obliged to pay fair compensation to the claimant.

Article 80 Banks operating in Yemen may establish an association, with membership optional for banks, provided that the association's charter is approved by the Central Bank.

- Article 81
1. The association of banks may, solely or in conjunction with other parties and subject to the approval of the Governor, establish a mediation and arbitration center to resolve conflicts arising between banks or with their customers. Recourse to such a center shall be optional.
 2. The mediation and arbitration center described in paragraph 1 shall be established as a civil company in accordance with the civil law, and shall be registered with the competent ministry as a nonprofit, noncommercial civil company. Mediation and arbitration regulations shall be approved by the Minister of Justice.
 3. The above-mentioned center shall be subject to the provisions of this law and the civil law or any law that replaces it, as well as to its charter and the mediation and arbitration regulations.
- Article 82
- The Central Bank shall be responsible for collecting all fines stipulated by this law and depositing them as revenue in the government's general account. No direct expenditures from these funds shall be permitted.
- Article 83
- In all transactions related to opening, depositing funds in, or making withdrawals from any account, if the depositor is unable to sign his name, the mark of his thumbprint made in the presence of the bank manager shall have the same legal effect as his signature.
- Article 84
1. Neither the Central Bank nor any inspector appointed thereby to examine the affairs of a bank shall disclose to any person any information related to the accounts of any client that was obtained during the inspection, unless required to do so by the competent court or in accordance with paragraph 2 of this article.
 2. The Central Bank may publish, completely or in part and at such times as it sees fit, any information or data supplied to it pursuant to the provisions of this law, on the condition that it publish no information or data revealing the private affairs of any particular bank or customer of a bank without the prior agreement in writing of the party concerned. Such prior agreement shall not be required if the Central Bank is acting in accordance with the provisions of Article 25, paragraph 4 of this law.
- Article 85
- Notwithstanding any text appearing in the income tax law, no bank shall be obliged to pay taxes on specific loan loss provisions established in compliance with Central Bank directives.

- Article 86 a. The Chairman of the Council of Ministers shall issue the implementation order for this law, upon the recommendation of the Governor and subject to the approval of the Council of Ministers.
- b. Resolutions for the implementation of this law shall be issued by decree of the Governor.
- Article 87 Upon the issuance of this law, all banks operating in Yemen shall adjust their positions to comply with its provisions within a maximum period of one year from the date of issue.
- Article 88 Presidential Decree No. 36 of 1991 on banks and any other provision or legal text that contradicts the provisions of this law are hereby revoked.
- Article 89 This law shall enter into force on the date it is issued and shall be published in the Official Gazette.

Issued by the Office of the President
in Sana'a on December 27, 1998

Ali Abdallah Salih

/s/

President of Yemen