

البنك الأهلي اليمني

National Bank Of Yemen



Trust & Experience

Annual Report 2005





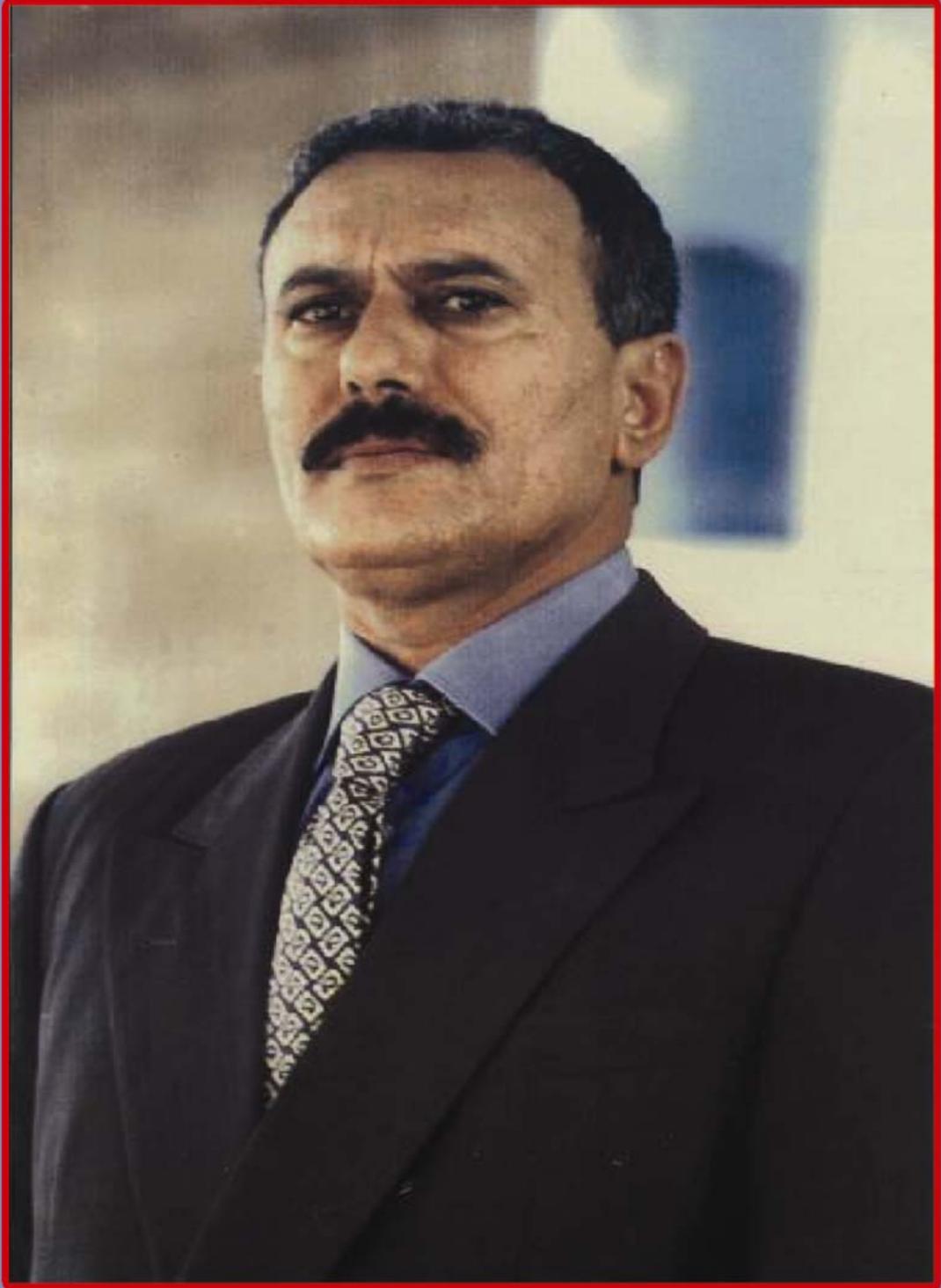
OUR VISION

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

Embarking on such development and updating project the bank aims at providing to its customers high standard banking services and products outweighing traditional services rendered by banks to their customers.

National Bank of Yemen seeks always to strengthen its financial position in the social circles in order to pace with competition in Arab and international banking markets and work dedicatedly in one team spirit to satisfy the customers and gave care to the staff, and open opportunities for them to develop and encourage distinction in performance and achievement of satisfactory proceeds to owners.





His Excellency President
Ali Abdullah Saleh
President of the Republic

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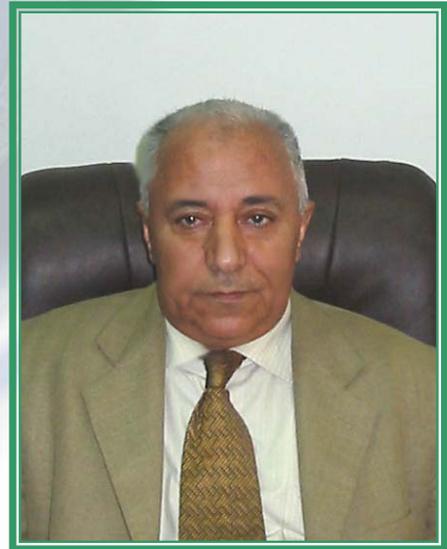
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Financial and Statistic highlights

YR millions unless otherwise indicated

	2005	2004	2003	2002	2001	2000
Balance sheet						
Total assets	64,579	57,627	49,700	43,504	37,861	34,237
Owner's equity	5,876	4,631	3,798	3,330	2,856	2,658
Customers' deposits	56,709	51,284	44,497	38,891	33,847	30,958
Loans and advances (net)	3,841	3,321	2,203	1,774	1,573	1,091
Local investments	32,345	30,870	25,029	20,387	17,110	15,191
Due from banks	15,545	13,760	13,056	14,830	13,190	12,490
Statement of income						
Net interest income	2,653	2,047	1,673	1,489	1,486	1,223
Operating income	626	591	469	329	328	166
Profit before taxation	2,014	1,353	1,115	1,051	1,003	672
Net profit for the year	1,309	880	725	683	652	437
Indicators						
Earning per share	485YR	419YR	392YR	422YR	407YR	273YR
Return on average assets %	2.0	1.5	1.5	1.6	1.7	1.3
Return on average owner's equity %	27.6	22.8	21.5	23.6	22.8	16.4
Liquidity %	80	85	84	89	88	87
Capital adequacy %	50	46	46	46	46	46
US \$ rates	195.08YR	185.84YR	184.30YR	178.88YR	173.27YR	165.53YR
Number of branches	27	27	27	29	28	28
Number of employees	585	597	588	592	608	620

*Mr. Abdulrahman M. Al-Kuhali
Chairman of the Board and General Manager of
NBY since 1989
Chairman of Yemen Financial Services Company
since 2005
Board Member of the Central Bank of Yemen
since 2005*



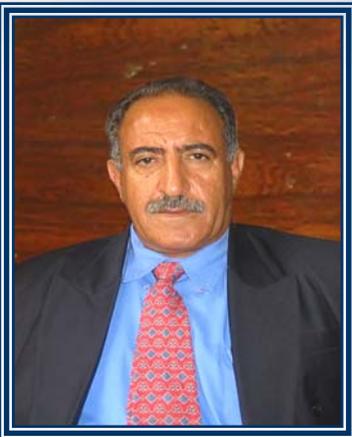
*Mr. Sami A. Hamid Mackawee
Member of the Board & First Deputy General Manager
Appointed as member of the Board of Directors since 1997*



*Mr. Abdulla S. Abadden
Member of the Board of Directors, Representative/ Ministry of
planning and International cooperation.
Occupation: General Manager Ministry of planning and
International cooperation, Aden - Office
Appointed as member of the Board of Directors since 1995*



*Mr. Abdulla A. Saleh
Member of the Board of Directors, Representative/ Ministry of
Finance.
Occupation: General Manager Ministry of Finance Aden – Office
Appointed as member of the Board of Directors since 1996*



*Mr. Muqbil S. Al-qawseie
Member of the Board of Directors, Representative/ Central Bank
of Yemen
Occupation: General Manager Central Bank of Yemen Aden –
Branch
Appointed as member of the Board of Directors since 2001*



*Mr. Hasen Makawee
Member of the Board of Directors, Representative/ Ministry of
Industry & Trade
Occupation: General Manager Ministry of Industry & Trade,
Aden – Office
Appointed as member of the Board of Directors since 2004*

Executive Management



ESAM AHMED AL-SAQQAF
Manager, Central Accounts



ARWA ALI SULEMAN
Manager, Statistic & Research



ALI MUSA ALI
Manager Branches Dept.



BADR A. MAJED SAHAB
Manager, Audit Dept.



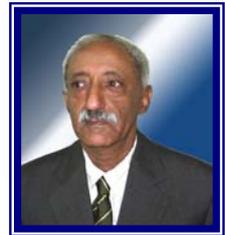
DR. AHMED BIN SUNKER
Manager, Human Resources & Administration



SAKINA ABDULHUSSEIN MOHAMED
Manager, Foreign Relations Dept.



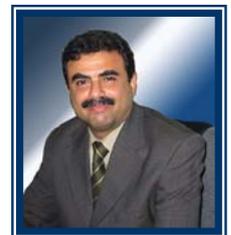
ARWA SALEH SAIF
Acting Manager, Legal Dept.



ALI ADBU SALAM MOHAMMED
Manager, Studies Dept. & Training Center



ALAWI MUNASSAR
Manager, Credit Dept.



ZIAD A. BASUNAID
Head-IT Division



Chairman's Message

Abdul Rahman Mohamed Al-Kohali
Chairman and General Manager

It is my pleasure, on behalf of the Board of Directors and the executive management of the National Bank of Yemen, to present the Annual Report of the Bank for the year 2005.

The world economy continued to grow for the third year and oil prices maintained the rates, which it realized in the previous year. These factors had its effects on the results of the National Economy, whereas the GNP grew by 4.6% (19% in current rates). The foreign accounts realized surplus of US\$ 2,256 million in the trade balance and US\$ 1,224 million in the current account, accordingly the balance of payments made a surplus of US\$ 584 million, thus increasing the foreign reserves to US\$ 6.0 billion, which cover the country's imports for 17 months. Further, the external debts of our country were reduced from 39%, as a percentage of GDP, in 2004 to 33% at the end of 2005. As such, Yemen is considered one of the least indebted countries. Moreover, the exchange rate of the Yemeni Riyal against the US\$ was relatively stable and depreciated by an average of 3.6% due to the increase of the US\$ against all major currencies at a rate of more than 10%.

Whereas in respect legislative it is expected that, in 2006, the government will assume bringing before the parliament the amended draft of the current commercial law and a new law of lease financing to look into it. It is also expected that, in 2006, the Central Bank of Yemen will complete drafting a new law concerning banks' deposits guarantee, which will contribute in organizing different aspects of the financial dealings and banking activities. In addition to that, the Yemeni Banks Association adopted an accord of honor between banks in Yemen, which will help restrain some of the undesirable banking practices.

The year 2005, also witnessed an increase in the rates of return on the financial instruments issued by Central Bank of Yemen to be in accordance with the increases in the rate of interest on the US\$ and to curtail the rate of inflation and achieve a relatively stable exchange rate of the Yemeni Riyal against major currencies.

As for the National Bank of Yemen, the Bank has proved, in 2005, its efficiency and capability to achieve significant and remarkable growth levels in all its financial indicators. In this respect, the Board of Directors resolved, in compliance with Central Bank of Yemen directives, which aims to support the capital base of banks and raising their capital adequacy ratio.



In realization of the Banks' future plans which drive at increasing the role of the Bank in the economic & investments activities and to participate effectively in the development of our country, to increase the capital of the Bank by 50% of its paid up capital to reach YR 4 billion in the end of 2005. Moreover, the Bank, during the coming years, will follow the same course in order to enhance the confidence of its depositors and correspondent banks in the equity base of the Bank. The year 2005 also witnessed the success of the Bank in achieving its best result in the net profits of the Bank since its establishment; where it managed to achieve 50% increase over the net profits achieved in 2004, as well as, an increase in the share profit of 16%.

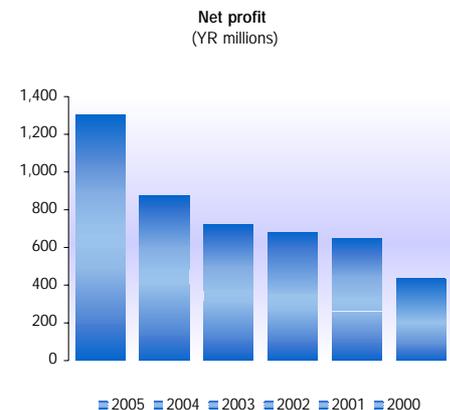
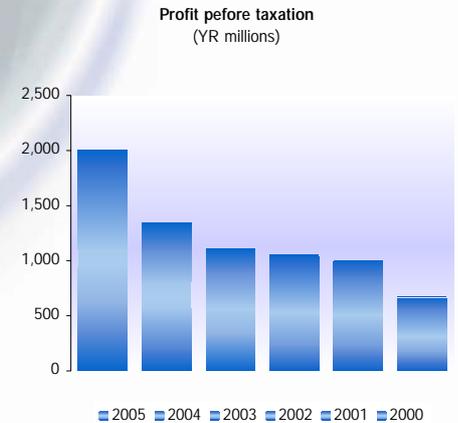
Moving forward with these significant accomplishments and with the results, which have been achieved during the year 2005, the business plan of the Bank for the year 2006 will include several technical, organizational, marketing, and restructuring development projects. These projects will aim at the advancement of the Bank and modernizing its system to put it within the league of the best banks in the region.

In conclusion, I would like to take this opportunity to express on behalf of the Board of Directors, our profound gratitude and reverence to His Excellency President Ali Abdullah Saleh, the President of the Republic of Yemen, for his prudent leadership and foresight, and his sound guidance for setting up a suitable climate for the comprehensive economic development that our country is witnessing.

In addition, I extend my gratitude and appreciation to the Prime Minister, the former Deputy Prime Minister the Minister of Finance Mr. Alawi Saleh Al-Salami -under whose supervision the Bank operated in 2005 - and to the Minister of Finance, the Governor of the Central Bank of Yemen, and to all the Ministers and the General Mangers of all Governmental Entities for the trust they put in us and for their continued support to put the Bank in high standing.

I would also like to take this opportunity to thank our esteemed customers and correspondent banks for their valuable confidence and support rendered to the Board of Directors and the executive management of the Bank.

I also express my appreciation and thanks to my colleagues, members of the Board of Directors and to the management of the Bank for their fruitful efforts exerted during 2005. I would also like to thank our staff for all their dedication and total commitment to realizing the prosperity of the Bank.

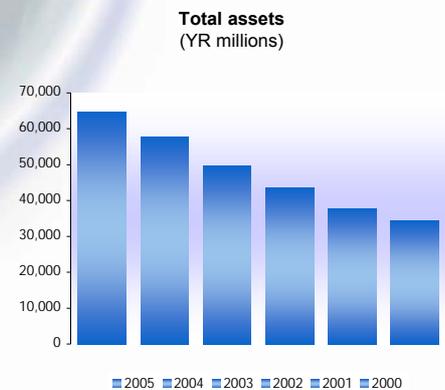


Mr. Abdul Rahman Mohamed Al-Kohali
Chairman & General Manager

The Board of Directors' Report

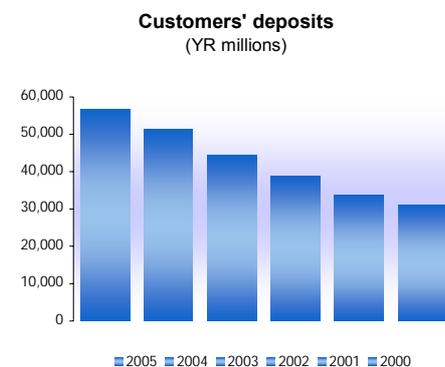
The Board of Directors of the National Bank of Yemen (wholly owned by the Government of Yemen) has a great pleasure to present the Financial Statements of the Bank and the External Auditors report for the year ending 31 December 2005.

Despite the increased challenges, the banking sector is facing, the National Bank of Yemen by praise of Allah, the continuous support of the Owner (Government) and due to the dedication of the Banks' employees, ended, by all measures, another excellent year. Whereas it achieved good results and significant achievements at all levels, financial, organizational as well as the services levels. Thus reaching a stage where the year 2005, became an important station in the Bank's successful path.



The result, which the Bank succeeded in achieving during the year 2005 were due to a flexible strategy adapted by the management of the Bank. This strategy consisted of securing high returns, effective risks control while concentrating, at the same time, on ensuring the satisfaction of the customers and improving service qualities and productivity, operation efficiency, cost effectiveness and supporting the capital base of the Bank.

During the year 2005, the Bank was able to strengthen and consolidate its financial position and to make adequate reserves and provisions while achieving good and stable growth in all its key financial indicators. As such, the Bank's total assets grew by 12.2% where it increased from YR 57.6 billion in 2004 to YR 64.6 billions in 2005. Net loans also increased by 15.2% and investments by 5%, due from banks grew by 12.3% and contra accounts and other commitments have registered a noticeable growth of 31.9% to reach YR 14.9 billions at the end of 2005. The Bank also maintained its conservative policy in making sufficient provisions to cover classified loans and made YR 276 million compared with YR 348 Million in 2004. The Bank also supported its legal reserves with the Central Bank of Yemen by an increase of YR3.1 billion over the previous year. At the same time, customers' deposits grew by 10.5% to increase from YR 51.3 billion in 2004 to YR 56.7 billions in 2005. Moreover, in spite of the strong competition between banks in the local banking sector, the Bank continued, in 2005, to maintain its high ability to attract various types of deposits, while maintaining its broad client's base. This fact reflects the Bank's successes in strengthening its client's confidence and trust, and its ability to attract numerous new customers while retaining its current ones at the same time.



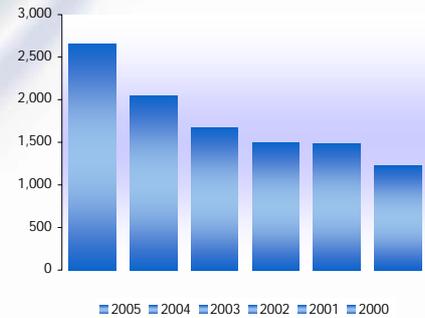
Despite of the economic circumstances surrounding the environment of the banking business, the Bank, continued in 2005, to maintain significant growth in its profitability which increased by 48.4% over 2004. Whereas the net profit before taxation increased from YR 1.3 billions in 2004 to YR 2.0 billions in 2005, the net interest income increased by 29.6% from YR 2.0 billions in 2004, to YR 2.7 billions in 2005, the net operating income increased from YR 2.6 billions in 2004 to 3.3 YR billion in 2005, registering a growth of 26.9%. Moreover, earnings per share increased by YR 66 to YR 485 an increase of 15.8% over last year-.

In addition to the increases in the Bank's paid up capital during the years 2003 & 2004, the paid up of the Bank, and for the third year in a row, was increased by YR 1.3 billion. An increase of 48.1% over 2004, to reach YR 4.0 billions at the end of 2005, and to represent 68.1% of the total owner's equity, which formed about 9.1% of the Bank's total assets by the end of 2005, compared with 8.0% in 2004. This fact emphasizes the continuous growth in the capitalization of the Bank, and allows it to become one of the highest capitalized banks in the Yemeni banking sector.

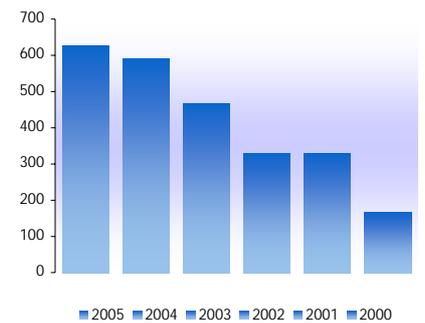
As such, the Bank has managed, during these years to rise the paid up capital by YR 2.2 billion achieving a rate of growth of 120%, to confront with the remarkable growth which was achieved during the past few years. Also to realize the Banks' ambitious future growth plans that require the availability of strong capital to support this continuous growth and to comply also, with the directives issued by the Central Bank of Yemen regarding the increase in the banks' paid up capitals to YR6.0 billion by the end of 2009. These increases in the paid up capital of the Bank contributed in raising its capital adequacy ratio, at the end of 2005, by six times the minimum capital ratio required locally and internationally. In addition, the Bank continued, during 2005, to maintain a liquidity ratio of 80%, one of the highest ratios in the banking industry, thus enabling the Bank, at all times and under all unforeseen circumstances, to meet all of its commitments at all levels. In addition to that, the Bank has succeeded in increasing the returns on its assets from 1.5% in 2004 to 2.0% in 2005. It also managed to increase the returns on the owner's equity from 19.0% to 22.2% respectively. These profitability ratios which the Bank managed to realize in 2005, are among the highest, according to local and international standards.

These developments in the financial indicators of the Bank are reflected in the ratings that the Bank has received from the International Rating Agency, Capital Intelligence, which rated the Bank for the long-term foreign currency position as '-B'; the short-term foreign currency position as 'B' which is equal to the sovereign rating of the Republic of Yemen. It also rated the

Net interest income
(YR millions)

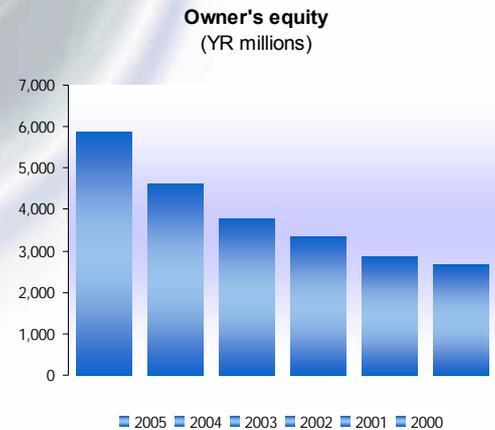


Operating income
(YR millions)



financial strength of the Bank as 'BB', the highest rating given to any commercial bank in Yemen; and rated the outlook for the Bank as 'stable'. In its report Capital Intelligence pointed out that, the National Bank of Yemen has excellent local presence, efficient management, and conservative lending policy, which have resulted in improving the Banks' assets quality and its financial position.

The performances ratios achieved during 2005 emphasize the continuous growth in all of the Banks' financial indicators and the strength of its capital base and its profits, and confirm the advanced position of the Bank in the Yemeni banking sector. Besides that, it emphasizes the availability of a complying working team, which proved its swiftness to adjust to the changes in the banking markets in a positive way while maintaining, at the same time, a balanced growth in the Bank's various performances, and increasing their ratios to levels higher than those achieved during the last years.



Also, from the Bank's awareness of the importance of promoting and developing its employees' banking skills in all fields of modern banking services, the year 2005, witnessed comprehensive training programs locally and abroad at all employments' levels to get them acquainted with the latest in the banking industry. In addition, the Bank continued during the year of the report, to recruit new qualified graduates, as well as selecting targeted younger staff and train them to take over higher positions. Accordingly, the number of trainees in 2005 reached (286) participated in (42) training programmers locally and abroad. These training programs aimed to promote the skills of the employees of the Bank and to get them to know the latest in the modern banking operations, especially in areas such as risk management, advanced credit operations Basil II Compliance and money laundering and IT.

On the other hand, the Bank saved no effort in expanding its relationship with correspondent banks and other financial institutions. In line with this trend, delegates from (24) correspondent banks and financial institutions visited the Bank in 2005. Executives and delegates from the Bank also made visits to various banks in Europe and the Middle East. These visits and continuous intercommunication with correspondent banks had its impact in increasing credit lines, treasury operations, and foreign trade operations. All these efforts had its positive effect in appointing the Bank as an agent for the Saudi Exports Finance Program in Yemen.

Undoubtedly, these accomplishments will surely impose further challenges on the management of the Bank to continue the growth in the Bank's assets and its revenues and to achieve higher ratios in all of its financial indicators, and to raise the standard of its services and products to higher levels. It will also impose more challenges to develop its systems, procedures, and the organizational structure of the Bank, and to provide new channels to deliver its products and services to customers.



In order to meet these challenges, during 2006 and in the next coming years, the Bank will adopt a new vision, which aims to revise totally its strategy and implement a plan that will improve the performance of the Bank, its systems and the internal procedures of the Bank. This plan will aim also to expand the Banks' activities and its customer's base by linking the branches' network electronically, while providing new electronic distributing channels to the Banks' customers by the use of new modern systems and channels. Moreover, the Bank will adapt a more competitive pricing policy suitable to the accelerated developments in the banking environment, and improving the quality of products and services provided by the Bank to its customers while maximizing the owner's equity and the Bank's profitability by investing its resources in the most professional management of assets and liabilities.

Moreover, the Bank's business plan for 2006 will concentrate upon several cores, which aim to maximize the Bank's profitability, enhance its market share, and consolidate the Banks' financial indicators. The business plan will aim also to develop the Bank's IT, its products and services, and the Banks' electronic transactions. In addition, the business plan of the Bank for 2006 will includes providing high quality of training to ensure confirming compliance to enhance experiences and the expertise of the Bank's staff, which helps in providing fast and distinctive banking services for all customers while consolidating the Bank's financial position and its capability to compete and to strengthen its local presence. Further the Bank's business plan will focus on developing the marketing policy of the Bank's services and products and strengthen the relations with customers and opining new branches in various places in Yemen with the aim of expanding the Bank's wide customer's base.

In conclusion, The Board of Directors of the National Bank of Yemen would like to take this opportunity to convey their profound gratitude and sincere thanks to its esteemed customers, correspondent banks, the management and the staff of the Bank, for their fruitful efforts to achieve the growth that caped the year 2005. The Board of Directors also pray Allah that the Bank continues in 2006, its successful and prosperous path, enhance more great achievements at levels of expertise, development , profitability and to succeed in providing new and modern banking services and products that will suit the requirement of it's esteemed customers.

**The Board of Directors
Aden 29 January 2006**



List of branches

Head office

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

Aidroos Branch

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

Sana'a Branch

Sana'a Zubairy Street.
P.O. Box No. 198309
Republic of Yemen
Tel.: 967 1 284123
Fax: 967 1 284128
SWIFT: NBOYYESA002

Hodeidah Branch

P. O. Box No. 4851
Sana'a Street,
Hodeidah,
Republic of Yemen
Tel.: 967 3 210162
Fax: 967 3 232834
SWIFT: NBOYYESA034

Steamer Point Branch

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

Queen Arwa Branch

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

Mukalla Branch

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

Maalla Branch

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

A. Aziz A. Wali Branch

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

Public Lending Branch

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

Seiyun Branch

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

Al-Qaa Branch

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

Al-Dala Branch

Main Road,
Al-Dala
Republic of Yemen
Tel.: 967 2 532431
Fax: 967 2 532845

Labaus Branch

Main Road,
Labaus,
Lahej
Republic of Yemen
Tel.: 967 6 602111
Fax: 967 6 602112

Little Aden Branch

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

Khormaksar Branch

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

Zingubar Branch

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

Al-Habeelain Branch

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

Lahej Branch

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

Al-Baidha Branch

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

Rusod Branch

Main Road,
Rusod,
Abyan
Republic of Yemen
Tel.: 967 2 605018
Fax : 967 2 605018

Hai October Branch

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

Al-Qatan Branch

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

Suqotra Branch

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

Zarah Branch

Main Road,
Zarah,
Abyan
Republic of Yemen
Tel.: 967 6 572195
Fax: 967 6 572791

Ataq Branch

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

Al-Sheher Branch

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

Al-Ghaedhah Branch

Government Complex,
Al-Ghaedhah,
Al-Mahrh
Republic of Yemen
Tel.: 967 5 611467
Fax: 967 5 612054

Dahman RSM

Accountants • Auditors • Consultants

P.O. Box 16146

Villa 11, opposite to Supreme Comm. of Elections,
Nouakchott St., Aser Zone, Sana'a, Republic of Yemen

Tel: (967)1- 214 355

Fax: (967)1- 214 360

E-mail: dahmanco@yemen.net.ye

admin@dahman-rsm.net

<http://www.dahman-rsm.com>

AUDITORS' REPORT TO H.E DEPUTY PRIME MINISTER THE MINISTER OF FINANCE

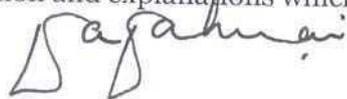
THE NATIONAL BANK OF YEMEN

We have audited the accompanying financial statements of the National Bank of Yemen (The Bank) consisting of the balance sheet as of 31 December 2005 and the related statements of income, cash flows and changes in owner's equity for the year then ended and the notes to the financial statements set out on pages 15 to 39. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of its operations, its cash flows and changes in owner's equity for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements and the contents of the report of the Board of Directors relating to these financial statements are in agreement therewith. We have obtained all the information and explanations which we required for the purpose of our audit.



Dahman Awadh Dahman, FCCA
Registered Licensed Accountant No. 384
of **DAHMAN RSM**

29 January 2006,
Aden, Republic of Yemen

Balance Sheet

For the year ended 31 December 2005

	Note	2005 YR' 000	2004 YR' 000
ASSETS			
Cash in hand and reserve balances with the Central Bank of Yemen	5	10,661,214	7,679,564
Due from banks	6	15,545,162	13,760,213
Treasury bills, net	7	26,865,043	25,390,209
Certificates of deposit with the Central Bank of Yemen	8	5,480,000	5,480,000
Loans and advances to customers and banks, net of provision	9	3,841,047	3,320,654
Available for sale investments	10	77,993	18,324
Debit balances and other assets	11	332,112	314,191
Property, plant and equipment, net of accumulated depreciation	12	1,776,959	1,664,283
TOTAL ASSETS		64,579,530	57,627,438
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	13	97,914	117,102
Customers' deposits	14	56,709,029	51,283,595
Credit balances and other balances	15	1,191,630	1,121,775
Income tax payable	16	704,870	473,617
TOTAL LIABILITIES		58,703,443	52,996,089
OWNER'S EQUITY			
Capital	17	4,000,000	2,700,000
Surplus on revaluation of property reserve	17	639,762	639,762
Reserves	17	1,218,057	1,274,464
Cumulative changes in the fair value reserve	17	18,268	17,123
TOTAL OWNER'S EQUITY		5,876,087	4,631,349
TOTAL LIABILITIES AND OWNER'S EQUITY		64,579,530	57,627,438
CONTRA ACCOUNTS AND OTHER COMMITMENTS, net	18	14,860,392	11,310,751

Auditors' report attached,



Arwa Ali Suleiman Al-Koori
Manager Statistic & Research



Sami Abdul Hamid Mackawee
First Deputy General Manager



Abdul Rahman Mohammed Al - Kuhali
Chairman and General Manager

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

Statements of Income And Profit Appropriation

For the year ended 31 December 2005

STATEMENT OF INCOME	<i>Note</i>	<i>2005</i> <i>YR' 000</i>	<i>2004</i> <i>YR' 000</i>
Interest on loans and due from banks	19	1,375,608	924,825
Interest on treasury bills		3,680,899	3,069,669
Interest on certificates of deposit with the Central Bank of Yemen		779,848	763,203
		<u>5,836,355</u>	<u>4,757,697</u>
Less: Cost of deposits	20	<u>3,182,867</u>	<u>2,710,550</u>
Net interest income		<u>2,653,488</u>	<u>2,047,147</u>
Commissions and fee income on banking services	21	419,930	364,056
Income on available for sale investments		716	692
Gain on foreign currency transactions	22	36,941	50,467
Other operating income	23	<u>168,394</u>	<u>176,218</u>
NET OPERATING INCOME		<u>3,279,469</u>	<u>2,638,580</u>
OPERATING EXPENSES			
Commissions and fee expenses on banking services		17,988	17,975
General and administration expenses	24	775,989	714,273
Provisions	25	<u>427,577</u>	<u>513,140</u>
TOTAL OPERATING EXPENSES		<u>1,221,554</u>	<u>1,245,388</u>
NET PROFIT BEFORE ZAKAT AND INCOME TAX		2,057,915	1,393,192
Zakat	26	<u>(44,000)</u>	<u>(40,000)</u>
NET PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		2,013,915	1,353,192
Provision for income tax	16	<u>(704,870)</u>	<u>(473,617)</u>
NET PROFIT FOR THE YEAR		<u>1,309,045</u>	<u>879,575</u>
Earnings per share	27	<u>YR 485</u>	<u>YR 419</u>
STATEMENT OF PROFIT APPROPRIATION			
Transfer to statutory reserve	17	(196,357)	(131,936)
Transfer to general reserve	17	(196,357)	(131,936)
Government's share in net profit for the year	15 (c)	(850,879)	(571,724)
Employees' share in net profit for the year		<u>(65,452)</u>	<u>(43,979)</u>
Balance at 31 December		<u>-</u>	<u>-</u>

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

Statement of Cash Flows

For the year ended 31 December 2005

	2005 YR 000	2004 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before zakat and income tax	2,057,915	1,393,192
Adjustments for:		
Provision for losses on loans and on contra accounts made during the year	403,823	298,980
Provision for losses on loans and contra accounts written back during the year	(151,940)	(161,236)
Amount utilized during the year from provision for losses on loans	(119)	(19,560)
Revaluation of provision for losses on loans and on contra accounts	22,103	2,808
Income tax paid	(473,617)	(390,392)
Changes in fair value and exchange rates	1,145	(2,410)
Zakat	(44,000)	(40,000)
Depreciation of property, plant and equipment	48,394	45,628
Operating profit before changes in assets and liabilities related to operating activities: (1)	<u>1,863,704</u>	<u>1,127,010</u>
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	(3,099,959)	(298,437)
Due from banks maturing after three months	19,000	842,135
Treasury bills maturing after three months	-	50,100
Loans and advances to customers and banks	(798,621)	(1,221,007)
Debit balances and other assets	(17,921)	(59,999)
Net (increase) in Assets (2)	<u>(3,897,501)</u>	<u>(687,208)</u>
Due to banks	(19,188)	81,497
Customers' deposits	5,425,434	6,786,377
Credit balances and other liabilities	74,216	125,239
Net increase in liabilities (3)	<u>5,480,462</u>	<u>6,993,113</u>
CASH FLOWS (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(161,070)	(41,654)
(Increase)/decrease in available for sale investments	(59,669)	2,410
Net Cash flows (used in) investing activities (4)	<u>(220,739)</u>	<u>(39,244)</u>
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Government's share in the net profit for the year	(850,879)	(571,724)
Increase in the capital	850,879	571,724
Employees' share in the net profit for the year	(65,452)	(43,979)
Net Cash flows (used in) financing activities (5)	<u>(65,452)</u>	<u>(43,979)</u>
Net increase in cash and cash equivalents (1+2+3+4+5)	3,160,474	7,349,692
Cash and cash equivalents at 1 January	44,209,035	36,859,343
Cash and cash equivalents at 31 December	<u>47,369,509</u>	<u>44,209,035</u>
Consist of:		
Cash in hand and reserve balances with the Central Bank of Yemen	10,661,214	7,679,564
Due from banks	15,545,162	13,760,213
Treasury bills and certificates of deposit with the Central Bank of Yemen	32,345,043	30,870,209
Reserve balances with the Central Bank of Yemen	(9,621,270)	(6,521,311)
Due from banks maturing after three months	(1,560,640)	(1,579,640)
Cash and cash equivalents at 31 December	<u>47,369,509</u>	<u>44,209,035</u>

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

Statement of Changes in Owner's Equity

For the year ended 31 December 2005

	Capital YR'000	Revaluation Reserve YR'000	Statutory Reserve YR'000	General Reserve YR'000	Cumulative Changes in Fair value Reserve YR'000	Net Profit for the Year YR'000	Total YR'000
At 31 December 2003	2,100,000	639,762	476,883	561,985	19,533	-	3,798,163
Net movement in fair value for the year	-	-	-	-	(2,410)	-	(2,410)
Net profit for the year	-	-	-	-	-	879,575	879,575
Transfer to statutory reserve	-	-	131,936	-	-	(131,936)	-
Transfer to general reserve	-	-	-	131,936	-	(131,936)	-
Government's share in net profit transferred to capital	571,724	-	-	-	-	(571,724)	-
Transfer to capital	28,276	-	-	(28,276)	-	-	-
Employees' share in net profit	-	-	-	-	-	(43,979)	(43,979)
At 31 December 2004	2,700,000	639,762	608,819	665,645	17,123	-	4,631,349
Net movement in fair value for the year	-	-	-	-	1,145	-	1,145
Net profit for the year	-	-	-	-	-	1,309,045	1,309,045
Transfer to statutory reserve	-	-	196,357	-	-	(196,357)	-
Transfer to general reserve	-	-	-	196,357	-	(196,357)	-
Government's share in net profit transferred to capital	850,879	-	-	-	-	(850,879)	-
Transfer to capital	449,121	-	-	(449,121)	-	-	-
Employees' share in net profit	-	-	-	-	-	(65,452)	(65,452)
At 31 December 2005	<u>4,000,000</u>	<u>639,762</u>	<u>805,176</u>	<u>412,881</u>	<u>18,268</u>	-	<u>5,876,087</u>

The Bank's Board of Directors, in its meeting held on 08 January 2005, resolved to comply with the instructions of Central Bank of Yemen in its circular no (12) dated 08 December 2004 to the banks licensed to operate in the Republic of Yemen to increase their capital to YR 6,000 million beginning from the year 2005 and by the end of 2009. H.E the Deputy Prime Minister, Minister of Finance, accepted the recommendation of the Bank management to start increasing the capital from the Government's share of profit at the end of each year beginning from 2004 as the Board will decide at each year end. As a result, the Board of Directors in its meeting No. (1) held on 3 January 2006 resolved to increase the capital of the Bank to YR 4,000 million by transferring the Government share of net profit for the year and YR 449,121 thousand from the general reserve to capital.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

1 INCORPORATION AND ACTIVITIES

The National Bank of Yemen (The Bank), which was incorporated in Aden in 1969, is wholly owned by the Government of Yemen. The Head Office of the Bank is at Queen Arwa Street, P. O. Box No. 5, Crater, Aden, Republic of Yemen and is registered under Registration Number 1748. The Bank undertakes all banking activities through its head office and 27 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, and one in Hodeidah. The Bank had 585 employees as on 31 December 2005 (31 December 2004: 597 employees).

In its meeting held on 29 January 2006, the Bank's Board of Directors approved the financial statement of the Bank and decided to submit them to the relevant authorities for approval to publish them.

2 PREPARATION BASIS OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Financial Reporting Standards Board (IASB) and the interpretations of the Standing Accounting Committee of the IASB, the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen.

There are no significant differences between International Financial Reporting Standards and those required by the Central Bank of Yemen except for the following:

- i) The adoption of minimum fixed percentages for losses on loans and advances in accordance with the Central Bank of Yemen circular no. (6) of 1996 and circular no. (5) of 1998;
- ii) The inclusion of the general provision for risk calculated on the performing loans in the general provision for loans and advances rather than including it within the Owner's equity.

The effect of these deviations is immaterial on the financial statements of the Bank as on 31 December 2005.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied on a consistent basis are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention as modified for their revaluation of land and buildings to market value and the measurement of available for sale investments to the fair value. The provisions of the International Accounting Standard (39) - Recognition and Measurement have been applied from January 2002.

Foreign currencies

- i) The Bank maintains its records in Yemeni Riyals. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the value dates of the transactions. Balances of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-valued at the prevailing exchange rates on that date. Gains or losses resulting from revaluation are taken to the statement of income.
- ii) The differences arising from the re-measurement of "available for sale" investments to fair value which relates to changes in foreign exchange rates are considered as part of the change in fair value. Accordingly, these differences are not taken to the statement of income, but are rather taken directly to the Owner's equity.
- iii) The Bank does not enter into forward exchange contracts.

Revenue recognition

- i) Revenues are recognized on the accrual basis. However, in order to comply with the Central Bank of Yemen 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, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest.
- ii) In accordance with the Central Bank of Yemen guideline no. (2) of 2002, any Provision written back are included under "other operating income".
- iii) Dividends on available for sale investments are recognized when declared.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury bills and certificates of deposit with the Central Bank of Yemen

Treasury bills issued by the Central Bank of Yemen on behalf of the Ministry of Finance are stated at their nominal value, adjusted for any unamortized discount. Certificates of deposit with the Central Bank of Yemen are stated at their nominal value.

Valuation of investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments which are classified as "available for sale" are measured at fair value. The gain or loss arising from a change in fair value of such investments is recognised directly in equity until the financial asset is sold, collected or otherwise disposed off, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

Provision for losses on loans and advances and contingent liabilities

In order to comply with the Central Bank of Yemen circulars no. (6) of 1996 and no. (5) of 1998, provision is made 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. The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is made in accordance with the following rates:

Performing loans including watch loans	2% (2004: 2%)
Performing contingencies including watch accounts	1% (2004: 1%)
Non-performing loans and contingencies:	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans and advances are written off by debiting the provision, if procedures taken towards their collection prove useless, or if directed by the Central Bank of Yemen upon review of the portfolio. Proceeds from loans and advances previously written off in prior years are credited to the provision. Loans and advances to customers are presented, in the balance sheet, net of provision and uncollected interest.

Property, plant and equipment, net of accumulated depreciation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment, net of accumulated depreciation (continued)

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

Real estate properties acquired from customers

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

Contingent liabilities and commitments

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

Cash and cash equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash in hand, cash balances with the Central Bank of Yemen other than statutory reserve balances, demand deposits with other banks and investments in treasury bills which are due within three months from the issuance date and certificates of deposit with the Central Bank of Yemen.

Taxation

Taxation for the year is provided for in accordance with the Income Tax Law no. (31) of 1991 and its amendments and the provision of article no. (85) of the Bank's Law no. (38) of 1998.

Zakat

The Bank pays zakat, in accordance with the relevant laws, to the government which decides on its allocation.

Related party transactions

Disclosures are made in the financial statements of loans and advances and contingent liabilities granted to related parties and in particular members of the Board of Directors and companies in which they own more than 25% of the capital.

Fiduciary assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

At each balance sheet date an assessment is made of whether there is objective evidence that a financial asset or portfolio of assets is impaired. If this evidence exists, the recoverable amounts of the assets or group of assets is determined and any impairment losses are recognised immediately in the statement of income based on the present value of the anticipated future cash flows.

Fair values

The estimated fair value of interest-bearing items is based on discounted cash flows using interest rates for items with similar remaining maturity. No fair values are estimated for deposits with no fixed maturity as their balances are payable on demand.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the investment.

Trade and settlement date accounting

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

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

4.1 Financial instruments

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

Fair value of financial instruments

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

Forward contracts

The Bank does not enter into forward foreign currency buy or sale contracts.

4.2 Managing related risks

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS (continued)

4.2 Managing related risks (continued)

Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due. In order to comply with the Central Bank of Yemen circular No. 10 of 1997 pertaining to the management of credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk.

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

- preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- obtaining sufficient collateral to minimize the credit risk exposure which may result from financial problems facing customers or banks.
- follow-up and 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.

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. The Bank attempts to maintain a balanced foreign currencies position in compliance with the Central Bank of Yemen instructions and the requirements of Central Bank of Yemen circular no. (6) of 1998 which specifies that individual foreign currency positions shall not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all currencies shall not exceed 25% of the Bank's capital and reserves, (note-34).

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

	2005	2004
	YR'000	YR'000
Cash in hand		
- In local currency	484,548	508,298
- In foreign currencies	539,606	398,612
- Cheques purchased, net	15,790	251,343
Total cash in hand	<u>1,039,944</u>	<u>1,158,253</u>
Reserve balances with the Central Bank of Yemen		
- In local currency	3,345,156	3,231,757
- In foreign currencies	6,276,114	3,289,554
Total reserve balances with the Central Bank of Yemen	<u>9,621,270</u>	<u>6,521,311</u>
Total cash in hand and reserve balances with the Central Bank of Yemen	<u>10,661,214</u>	<u>7,679,564</u>

In accordance with the Yemeni Banks Law, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at 10% in local currency and 30 % on foreign currencies (2004: 10% in local currency and 20% on foreign currencies) of its demand, time and other deposits. Deposits in local currency carry interest at rates determined by the Central Bank of Yemen.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

6 DUE FROM BANKS

	2005 YR'000	2004 YR'000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with the Central Bank of Yemen		
- In local currency	2,488,747	1,385,318
- In foreign currencies	222,092	297,525
Total current accounts with the Central Bank of Yemen	2,710,839	1,682,843
Less: Provision for outstanding reconciling items	(29,507)	(18,115)
Net current account balances with the Central Bank of Yemen	2,681,332	1,664,728
Current account balances with local banks	1,974	2,274
Total due from the Central Bank of Yemen and other local banks	2,683,306	1,667,002
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	2,061,206	2,159,699
Less: Provision for outstanding reconciling items	(25,200)	(24,943)
Time deposits	10,825,850	9,958,455
Total due from foreign banks and other financial institutions	12,861,856	12,093,211
Total due from banks	15,545,162	13,760,213

Time deposits include

- a) An investment linked deposit made with a foreign bank for US \$ 1,000,000 (YR 195,080 thousand) to be held for five years and carries a fixed interest rate of 5.5% for year three, thereafter the interest rate is indexed to LIBOR and is calculated based on a predetermined formula which has an upper and lower barrier.
- b) An investment linked deposit made with a foreign bank for US \$2,000,000 (YR 390,160 thousand) to be held for five years and carries a interest rate of 5.50 % for year two, thereafter the interest rate is indexed to LIBOR and is calculated based on a predetermined formula which has an upper and lower barrier.
- c) An investment linked deposit made with a foreign bank for US \$2,000,000 (YR 390,160 thousand) to be held for four years and carries a fixed interest rates of 2.5% for year one, 3.25% for year two, 4.0% for year three and 4.5% for year four.

7 TREASURY BILLS, net

	2005 YR'000	2004 YR'000
Treasury bills due within 90 days	27,317,015	25,756,602
Less: Unamortized discount	(451,972)	(366,393)
Net book value	26,865,043	25,390,209

The treasury bills and repurchased treasury bills have maturity of three months and carry interest rates ranging from 14% to 15.5% (2004: 13.0% to 14.0%). In accordance with the instructions of the Central Bank of Yemen, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalent assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

8 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	2005 YR'000	2004 YR'000
Certificates of deposit – 91 days	5,480,000	5,480,000

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of three months and carry interest rates of 15% to 15.5% (2004: 14%). In accordance with the instruction with the Central Bank of Yemen, such certificates of deposit are considered as part of cash and cash equivalent assets.

9 LOANS AND ADVANCES TO CUSTOMERS AND BANKS, net of provision

	2005 YR'000	2004 YR'000
<i>Loans and advances to customers:</i>		
Overdraft facilities	2,201,362	1,587,795
Term loans	2,862,743	2,657,703
Commercial papers discounted	44,262	59,191
Total amounts due from private sector customers (i)	5,108,367	4,304,689
<i>Loans and advances to Banks</i>		
Subordinated loan to UBAF-US\$ 588,094 (note - a)	114,726	109,292
Total amounts due from Banks (ii)	114,726	109,292
Total loans and advances to customers and banks (i) + (ii)	5,223,093	4,413,981
Provision for losses on loans and advances (note - b)	(1,345,726)	(1,067,498)
Suspended interest (note - c)	(36,320)	(25,829)
Total provision for losses on loans and advances and suspended interest	(1,382,046)	(1,093,327)
Net loans and advances to customers and banks	3,841,047	3,320,654

Gross non-performing loans and advances at 31 December 2005 amounted to YR 1,908,933 thousand (31 December 2004 - YR 1,157,716 thousand)

(a) Subordinated loan to UBAF

The loan of US \$ 588,094 represents the Bank's participation in a subordinated loan extended to UBAF (Paris) by its shareholders and carries an interest rate of LIBOR +1%. Although the interest on this loan is being paid regularly on time, part of the principal amount had been rescheduled for four years to 4 June 2007 and the remaining part to 4 March 2008. The Bank's management decided to approve the request of UBAF (Paris) to reschedule the loan for four years with the same previous conditions.

As a result the Bank's management, taking a conservative and prudent view, has fully provided for the principal of the loan. The balance of the loan as on 31 December 2005, is stated using the exchange rate prevailing at that date.

(b) Provision for losses on loans and advances

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

9 LOANS AND ADVANCES TO CUSTOMERS AND BANKS, net of provision (continued)

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

	2005			2004		
	Specific YR'000	General YR'000	Total YR'000	Specific YR'000	General YR'000	Total YR'000
Balance at 1 January	1,015,205	52,293	1,067,498	921,462	43,030	964,492
Revaluation of opening balance in foreign currencies	17,669	1,401	19,070	2,197	271	2,468
Amount utilized during the year.	(119)	-	(119)	(19,560)	-	(19,560)
Adjusted opening balance	1,032,755	53,694	1,086,449	904,099	43,301	947,400
Amounts recovered of loans previously written off (note 23)	(124,155)	(5,625)	(129,780)	(143,011)	(6,691)	(149,702)
Provision for the year (note 25)	372,567	16,490	389,057	254,117	15,683	269,800
Charged to the income statement	248,412	10,865	259,277	111,106	8,992	120,098
Balance at end of year	1,281,167	64,559	1,345,726	1,015,205	52,293	1,067,498

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2004 – 2%).

(c) Suspended interest

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

	2005 YR'000	2004 YR'000
Balance at 1 January	25,829	16,033
Exchange differences	54	-
Amounts written-off during the year	(1,862)	-
Recovered during the year	(41)	(557)
Suspended during the year	12,340	10,353
Balance at end of year	36,320	25,829



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

10 AVAILABLE FOR SALE INVESTMENTS

These comprise investments, available for sale, in the following foreign companies:

	Ownership Percentage %	No. of shares of US \$ 1 each	2005 YR'000	2004 YR'000
<i>Unquoted investments in UBAF Group</i>				
UBAF – Curacao – A Shares of US \$ 1 each	0.788	1,497,200	17,982	17,982
UBAF – Curacao – B Shares of US \$ 1 each	0.783	234,650	2,818	2,818
UBAF – Curacao – C Shares of US \$ 1 each	1.371	528,250	6,344	6,344
Total investment in shares in UBAF Group		2,260,100	27,144	27,144
<i>Other unquoted investments</i>				
Arab Banking Group – Bahrain	0.344		2,067	2,067
Arab Financial Services Company-Bahrain (note-a)	0.167		19,469	18,324
Yemen Financial Services Company (note-b)			58,524	-
Total other unquoted investments			80,060	20,391
Total available for sales investments			107,204	47,535
Less: Provision for impairment - (note –c)			(29,211)	(29,211)
Net book value of investments available for sale			77,993	18,324

(a) Arab Financial Services Company – Bahrain

The fair value of the investment in Arab Financial Services Company – Bahrain is based on the book value of shares as per the latest audited financial statement of the Company which amounted to US\$ 9.98 per share (2004: US\$ 9.86 per share).

The following table shows the movement in the Arab Financial Services Company – Bahrain during the year:

	2005 YR'000	2004 YR'000
Balance at 1 January	18,324	20,734
Exchange difference	911	173
Increase in fair value/(Written down of fair value)	234	(2,583)
Fair value at 31 December	19,469	18,324

(b) Yemen Financial Services Company

During the period the Bank has paid the sum of USD 300,000 its participation in the Yemen Financial Services Company share capital of USD 3,000,000 (Closed Shareholding Company). The Board of Directors has in its meeting held on 22 July 2004 vide circular no (53) resolved to participate in this Company which was established in joint venture with a number of local banks

(c) Provision for impairment

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

11 DEBIT BALANCES AND OTHER ASSETS

	2005 YR'000	2004 YR'000
Prepaid expenses and other debit balances	4,133	4,246
Interest receivable	231,462	200,878
Capital costs of new branches	38,236	71,946
Real estate properties acquired from customers, net of provision	29,234	29,234
Al Amal Bank for Microfinance - Republic Of Yemen	10,000	-
Al-Tadhamon Microfinance – Republic of Yemen	1,000	-
Sundry debit balances, net of provision	18,047	7,887
Total debit balances and other assets	332,112	314,191

The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2004 – YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

12 PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation

	Freehold Land and buildings YR'000	Leasehold Improve- ments YR'000	Furniture & Equipment YR'000	Motor Vehicles YR'000	Swift & Computers YR'000	Total YR'000
<i>Cost or valuation:</i>						
At 31 December 2004	1,518,041	36,790	184,927	63,737	118,430	1,921,925
Additions during the year	114,385	2,830	36,741	1,655	5,459	161,070
At 31 December 2005	1,632,426	39,620	221,668	65,392	123,889	2,082,995
<i>Depreciation</i>						
At 31 December 2004	36,355	12,284	77,650	45,758	85,595	257,642
Charge for the year	7,597	3,802	16,874	6,191	13,930	48,394
At 31 December 2005	43,952	16,086	94,524	51,949	99,525	306,036
<i>Net book amount</i>						
At 31 December 2005	1,588,474	23,534	127,144	13,443	24,364	1,776,959
At 31 December 2004	1,481,686	24,506	107,277	17,979	32,835	1,664,283

Depreciation is calculated on the basis of the rates set out in the Council of Ministers' Resolution No. (144) of 1999.

Revaluation of property

Freehold land, land leased from the Government and buildings on freehold and leasehold were revalued at their open market value for existing use on 1 December 1999, effective from 31 December 1999, by an independent professional real estate firm. In accordance with International Accounting Standard no. (16), the method used to present the revalued amounts is that the cost and related accumulated depreciation as at 31 December 1999, were eliminated and the revalued amount has been considered to be the new gross carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

13 DUE TO BANKS

	2005 YR'000	2004 YR'000
<i>Current and demand accounts</i>		
Local banks	46,207	28,529
Foreign banks	51,707	88,573
Total due to banks	97,914	117,102

14 CUSTOMERS' DEPOSITS

	2005 YR'000	2004 YR'000
Current accounts	12,613,097	10,172,278
Savings accounts	23,063,501	22,108,618
Term deposits	18,460,530	16,510,335
Other deposits	466,593	592,983
Deposits for documentary letters of credit, guarantees and others	2,105,308	1,899,381
Total customers' deposits	56,709,029	51,283,595

15 CREDIT BALANCES AND OTHER BALANCES

	2005 YR'000	2004 YR'000
Accrued interest payable	395,471	360,230
Unclaimed balances (note – a)	188,021	183,248
Provision for employees' leave pay	23,849	24,387
Provision for off-balance sheet items (note - b)	71,415	75,776
Due to the Owner (the Government) (note – c)	-	-
Other provisions	10,922	18,837
Employees' share in net profit	77,326	54,587
Provision for contingent liabilities	326,000	326,000
Sundry credit balances	98,626	78,710
Total credit balances and other balances	1,191,630	1,121,775

a) Unclaimed balances

This amount represents balances that are over 15 years old and have not been claimed by the beneficiaries. Management is reviewing the likelihood of these amounts being claimed and based on the outcome of their review, it will consider the amount that should be transferred to the Ministry of Finance in accordance with the relevant article in the Banks Law.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

15 CREDIT BALANCES AND OTHER BALANCES (continued)

b) Provision for off-balance sheet items

	2005 YR'000	2004 YR'000
Balance at 1 January	75,776	57,790
Revaluation of opening balance in foreign currencies	3,033	340
Provision charged during the year (note -25)	14,766	29,180
Provision written back during the year (note -23)	(22,160)	(11,534)
Balance at end of the year	<u>71,415</u>	<u>75,776</u>

c) Due to the owner (the Government)

	2005 YR'000	2004 YR'000
Balance at 1 January	-	221,260
Add:	-	-
Government's share in the profit for the year	850,879	571,724
Transferred to capital	(850,879)	(571,724)
Net Government's share payable	-	221,260
Less: amounts paid during the year	-	(221,260)
Balance at end of the year	<u>-</u>	<u>-</u>

16 INCOME TAX PAYABLE

	2005 YR'000	2004 YR'000
<i>Amounts due to the Tax Authority</i>	<i>YR'000</i>	<i>YR'000</i>
Balance at 1 January	473,617	390,392
Charged for the year in the Statement of Income (note a)	704,870	473,617
Total amounts due to the Tax Authority	<u>1,178,487</u>	<u>864,009</u>
Amount paid during the year	(473,617)	(390,392)
Total income tax payable	<u>704,870</u>	<u>473,617</u>

a) Charge for the year

The charge for the year has been calculated on the basis of the net profit for the year. In accordance with the letter of H. E. The Minister of Finance to the Tax Authority dated 17 April 2000, the tax assessment of the Bank for each year shall be based on the results as disclosed by the Bank's financial statements audited by an external auditing firm.

b) Prior year tax assessments

The Bank received on 4 May 2005, the final tax clearance for the income tax liability for the financial year ending 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

17 OWNER'S EQUITY

a) Authorized capital

The authorized share capital amounting YR 6,000 million (2004 – YR 6,000 million) consists of 6,000 thousand shares of YR 1,000 par value each (2004: of 6,000 thousand shares of YR 1,000 par value each).

b) Declared and paid up capital

The paid up share capital amounting YR 4,000 million (2004 – YR 2,700 million) consists of 4,000 thousand shares of YR 1,000 par value each (2004– of 2,700 thousand shares of YR 1,000 par value each).

c) Net profit distribution

In accordance with the provisions of the Public Corporations and Establishments Law No. (35) of 1991, the net profit, after income tax, shall be allocated as follows:

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

d) Surplus on revaluation property reserve

The difference between the revalued amounts of the freehold land and the buildings and their net book value as at 31 December, 1999 has been credited to owner's equity.

e) Cumulative changes in fair value reserve

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

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net

At 31 December 2005

	<i>Gross Commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	6,293,351	1,185,257	5,108,094
Letters of guarantees – customers	3,795,921	905,425	2,890,496
Letters of guarantees - correspondent banks	6,576,909	-	6,576,909
Customers' acceptances	256,016	-	256,016
Credit cards	43,503	14,626	28,877
Total contra accounts and other commitments	16,965,700	2,105,308	14,860,392

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net (continued)

<i>At 31 December 2004</i>	<i>Gross Commitments YR' 000</i>	<i>Covered by margin YR' 000</i>	<i>Net commitments YR' 000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	4,788,996	1,005,925	3,783,071
Letters of guarantees – customers	3,445,345	879,750	2,565,595
Letters of guarantees - correspondent banks	4,675,578	-	4,675,578
Customers' acceptances	267,691	-	267,691
Credit cards	32,522	13,706	18,816
Total contra accounts and other commitments	13,210,132	1,899,381	11,310,751

19 INTEREST ON LOANS AND DUE FROM BANKS

	<i>2005 YR' 000</i>	<i>2004 YR' 000</i>
<i>Interest on loans and advances to customer and banks</i>		
Interest on loans and advances to customers	539,691	329,750
Interest on commercial papers discounted	3,042	3,374
Interest on other facilities	1,156	1,181
Interest on loans to banks	4,717	2,729
Total interest on loans and advances to customers and banks	548,606	337,034
<i>Interest on deposits with foreign banks</i>		
Interest on current accounts	32,995	9,611
Interest on call accounts	2,928	2,290
Interest on deposits	359,110	192,765
Total interest on deposits with foreign banks	395,033	204,666
<i>Interest on deposits with local banks</i>		
Interest on reserves balances with the Central Bank of Yemen	431,969	383,125
Total interest on deposits with banks	827,002	587,791
Total interest on loans and due from banks	1,375,608	924,825

20 COST OF DEPOSITS

	<i>2005 YR' 000</i>	<i>2004 YR' 000</i>
Interest on savings accounts	1,339,977	1,234,677
Interest on time deposits	1,842,890	1,475,873
Total interest	3,182,867	2,710,550

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

21 COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	<i>2005</i> <i>YR'000</i>	<i>2004</i> <i>YR'000</i>
Commissions on documentary letters of credits	70,106	63,411
Commissions on letters of guarantee	153,518	114,890
Commissions on transfer of funds	27,796	25,869
Commissions on acceptances	4,145	4,163
Commissions on cheques	90,415	94,587
Banking services fees	8,486	6,861
Other services fees	65,464	54,275
Total commissions and fee income on banking services	419,930	364,056

22 GAIN ON FOREIGN CURRENCY TRANSACTIONS

	<i>2005</i> <i>YR'000</i>	<i>2004</i> <i>YR'000</i>
Revaluation differences on foreign currency transactions	7,581	25,095
Gain on foreign exchange trading transactions	29,360	25,372
Total gain on foreign exchange transactions	36,941	50,467

23 OTHER OPERATING INCOME

	<i>2005</i> <i>YR'000</i>	<i>2004</i> <i>YR'000</i>
Provision for losses on loans no longer required (note 9-b)	129,780	149,702
Provision for off-balance sheet items no longer required (note 15-b)	22,160	11,534
Provision for outstanding reconciling items no longer required (BCCI)	-	3,836
Sundry income	16,454	11,146
Total other operating income	168,394	176,218



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

24 GENERAL AND ADMINISTRATION EXPENSES

	<i>2005</i>	<i>2004</i>
	<i>YR'000</i>	<i>YR'000</i>
Salaries, wages and related costs	479,210	449,230
Depreciation of property and equipment (note 12)	48,394	45,628
Rent	31,638	28,521
Water and electricity	24,043	24,156
Repairs and maintenance	20,149	16,095
Telephone, telexes and postage	20,977	21,967
Transportation and communication	24,547	19,426
Promotions and publications	19,112	11,246
Computer maintenance expenses	11,173	14,479
Training	17,699	15,711
Taxes and fees	1,149	1,184
Donations	11,723	5,025
Stationery and printing supplies	15,944	14,237
Other general and administration expenses	50,231	47,368
Total general and administration expenses	<u>775,989</u>	<u>714,273</u>

25 PROVISIONS

	<i>2005</i>	<i>2004</i>
	<i>YR'000</i>	<i>YR'000</i>
Provision for losses on loans and advances (note 9 - b)	389,057	269,800
Provision for off-balance sheet items (note 15 - b)	14,766	29,180
Provision for employees' leave pay	12,362	6,861
Provision for contingent liabilities	-	188,000
Provision for outstanding reconciling items between banks	11,392	277
Other provision	-	19,022
Total provisions	<u>427,577</u>	<u>513,140</u>

26 ZAKAT

	<i>2005</i>	<i>2004</i>
	<i>YR'000</i>	<i>YR'000</i>
Zakat expense for the current year - paid	<u>44,000</u>	<u>40,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

27 EARNINGS PER SHARE

	2005 YR'000	2004 YR'000
Net profit for the year	1,309,045	879,575
Number of shares	2,700,000	2,100,000
Earnings per share	YR 485	YR 419

28 RELATED PARTY TRANSACTIONS

These represents transactions with certain related parties (directors and officers of the Bank, their families and companies of which they are principal owners) who were customers of the Bank during the year. The terms of these transactions are approved by the Bank's management.

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

	2005 YR'000	2004 YR'000
<u>Board members and parties related to them</u>		
Loans and advances, gross	3,803	3,491
Customers' deposits	3,756	3,840
Interest income for the year	533	472
Interest expense for the year	396	379

29 MATURITIES OF ASSETS AND LIABILITIES

a) 31 December 2005

ASSETS	<i>Less than 3 months YR'000</i>	<i>From 3 to 6 months YR'000</i>	<i>From 6 months to 1 year YR'000</i>	<i>Over 1 year YR'000</i>	<i>Total YR'000</i>
Cash in hand and reserve balances with the					
Central Bank of Yemen	10,661,214	-	-	-	10,661,214
Due from banks	13,984,522	-	585,240	975,400	15,545,162
Treasury bills	26,865,043	-	-	-	26,865,043
Certificates of deposit	5,480,000	-	-	-	5,480,000
Loans and advances to customers and banks, net of provision	1,408,846	423,565	884,172	1,124,464	3,841,047
Investments available for sale	-	-	-	77,993	77,993
TOTAL ASSETS	58,399,625	423,565	1,469,412	2,177,857	62,470,459
LIABILITIES					
Due to banks	97,914	-	-	-	97,914
Customers' deposits	33,708,805	7,075,092	15,806,227	118,905	56,709,029
TOTAL LIABILITIES	33,806,719	7,075,092	15,806,227	118,905	56,806,943

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

29 MATURITIES OF ASSETS AND LIABILITIES (continued)

b) 31 December 2004

ASSETS	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000	Total YR'000
Cash in hand and reserve balances with the					
Central Bank of Yemen	7,679,564	-	-	-	7,679,564
Due from banks	12,180,573	371,680	278,760	929,200	13,760,213
Treasury bills	25,390,209	-	-	-	25,390,209
Certificates of deposit	5,480,000	-	-	-	5,480,000
Loans and advances to customers and banks, net of provision	703,116	458,101	1,082,633	1,076,804	3,320,654
Investments available for sale	-	-	-	18,324	18,324
TOTAL ASSETS	51,433,462	829,781	1,361,393	2,024,328	55,648,964
LIABILITIES					
Due to banks	117,102	-	-	-	117,102
Customers' deposits	29,661,874	7,215,436	14,279,198	127,087	51,283,595
TOTAL LIABILITIES	29,778,976	7,215,436	14,279,198	127,087	51,400,697

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

a) The average interest rates on assets and liabilities applied during the year 2005 were as follows:

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %
Assets					
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:					
Current accounts	-	2.08	-	2.39	2.37
Time deposits	-	3.85	4.30	4.40	2.15
Treasury bills	14.60	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.23	-	-	-	-
Loans to customers	18.50	8.00	-	-	-
Liabilities					
Customers' deposits	13.00	2.00	2.00	2.19	1.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES (continued)

b) The average interest rates on assets and liabilities applied during the year 2004 were as follows:

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %
Assets					
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
<i>Due from banks:</i>					
Current accounts	-	1.07	-	3.65	1.59
Time deposits	-	1.99	1.99	4.63	2.03
Treasury bills	13.99	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.00	-	-	-	-
Loans to customers	18.50	6.50	-	-	-
Liabilities					
Customers' deposits	13.00	0.71	0.60	2.12	1.15

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

a) The distribution of the assets and liabilities and contingent liabilities and commitments as at 31 December 2005 were as follows:

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Service YR'000	Finance YR'000	Personal YR'000	Total YR'000
ASSETS							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	10,661,214	-	10,661,214
Due from banks	-	-	-	-	15,545,162	-	15,545,162
Treasury bills, net	-	-	-	-	26,865,043	-	26,865,043
Certificates of deposit	-	-	-	-	5,480,000	-	5,480,000
Loans to customers and banks, net of provision	403,948	-	1,836,460	8,678	71,467	1,520,494	3,841,047
Investments available for sale	-	-	-	-	77,993	-	77,993
Total Assets	403,948	-	1,836,460	8,678	58,700,879	1,520,494	62,470,459
LIABILITIES							
Due to banks	-	-	-	-	97,914	-	97,914
Customers' deposits	2,737,805	555,140	2,698,473	1,861,114	585,513	48,270,984	56,709,029
Total Liabilities	2,737,805	555,140	2,698,473	1,861,114	683,427	48,270,984	56,806,943
Contra accounts and other commitments	566,442	-	8,947,903	341,660	2,538,404	4,571,291	16,965,700

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

b) The distribution of the assets and liabilities and contingent liabilities and commitments as at 31 December 2004 were as follows:

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Service YR'000	Finance YR'000	Personal YR'000	Total YR'000
ASSETS							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	7,679,564	-	7,679,564
Due from banks	-	-	-	-	13,760,213	-	13,760,213
Treasury bills, net	-	-	-	-	25,390,209	-	25,390,209
Certificates of deposit	-	-	-	-	5,480,000	-	5,480,000
Loans to customers and banks, net of provision	87,775	-	2,302,787	2,074	-	928,018	3,320,654
Investments available for sale	-	-	-	-	18,324	-	18,324
Total Assets	87,775	-	2,302,787	2,074	52,328,310	928,018	55,648,964
LIABILITIES							
Due to banks	-	-	-	-	117,102	-	117,102
Customers' deposits	854,974	149,398	2,969,149	1,697,504	65,598	45,546,972	51,283,595
Total Liabilities	854,974	149,398	2,969,149	1,697,504	182,700	45,546,972	51,400,697
Contra accounts and other commitments	486,496	10,818	6,803,569	878,109	605,653	4,425,487	13,210,132

32 TRUST ACTIVITIES

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

33 CONTINGENT ASSETS AND LIABILITIES

The Bank has filed a number of legal cases with the Public Fund Court and the Commercial Preliminary Court against former employees and customers of the Bank relating to irregularities and default in settlements of amounts due respectively. Where there are legal cases filed against the Bank at the respective courts, management fully and/or partly provided for such cases in the financial statements. In some of the cases court decisions were made in favour of the Bank and the same are awaiting execution, whereas the other cases are still pending in the courts.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2005

34 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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

	2005		2004	
	%	YR'000	%	YR'000
United States dollar	6.90	407,522	6.26	290,468
Pound sterling	2.50	149,753	7.20	333,898
Swiss Franc	0.10	4,739	0.16	7,534
Euro	1.80	107,100	3.65	169,362
Saudi Riyal	5.40	317,843	1.13	52,531
Japan Yen	0.10	3,449	0.17	8,043
Other	0.10	4,102	0.00	13
Aggregate foreign currency positions	<u>16.90</u>	<u>994,508</u>	<u>18.57</u>	<u>861,849</u>

The dollar exchange rate at 31 December 2005 was 195.08 YR/US\$ (31 December 2004: 185.84 YR/US\$).

35 CAPITAL COMMITMENTS

Capital commitments at 31 December 2005 amounted to YR114 million (2004-YR 764 million).

36 REORGANISATION AND CAPITALISATION OF THE BANK

As part of the Government Financial and Administration Reform Program and the preparation of the Bank for reorganization and capitalization, the Council of Ministers issued in its meeting held on 15 March 2005, resolution No. (83) of 2005 which stipulated the reorganization, capitalization and increase in the share capital of the Bank, to enable to finance projects of economic development, deal with changing environment in the banking industry within and outside the country and which can guarantee animation of economical, trade and banking operations (activities). The Council of Ministers has appointed a committee, under the chairmanship of the Deputy Prime Minister Minister of Finance to implement the resolution. The Committee will supervise the reorganization and capitalization of the Bank by recourse and consultation from World Bank, Global Fund, companies and specialist expert houses. The operation will be carried out as under:

- Government share to be decided by the Council of Ministers later on.
- Searching for suitable and capable strategic investor that can help the Bank to achieve the aim of reorganization and capitalization.
- Decide regarding the percentage of public subscription.

37 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT OF THE BANK

The Bank has during the year 2004 issued a Request for Proposal from consulting firms to bid for the development and improvement of the Bank and has subsequently received tenders from a number of consulting firms. The Bank is still in the negotiation stage with the success bidder whose bid is in conformity with the tender documents. The program consists of two parts; the first is for the rendering of consulting services in administration, operations and banking fields and the second on the procurement, installation and running of advanced IT equipment and programs that would enhance the efficiency, competitiveness and maximize the profitability of the Bank. The Bank will finance the cost of both parts of this program from its own financial resources.

38 COMPARATIVE FIGURES

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

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