



البنك الأهلي اليمني

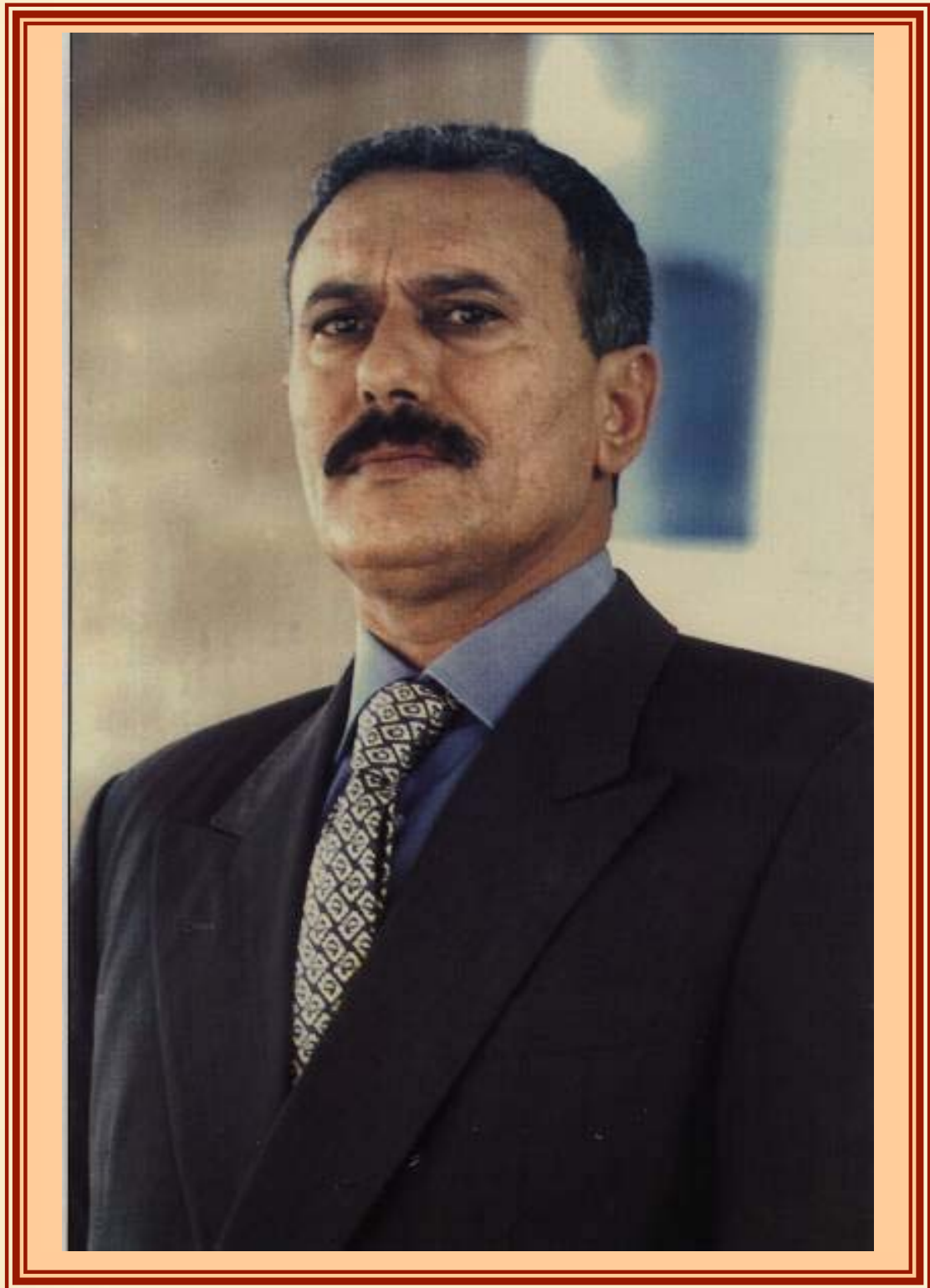
National Bank Of Yemen

Trust & Experience



Annual Report

2003



His Excellency President
ALI ABDULLAH SALEH
President of the Republic

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Financial and Statistic highlights

YR millions unless otherwise indicated

	2003	2002	2001	2000	1999
Balance sheet					
Total assets	49,700	43,504	37,861	34,237	29,311
Owner's equity	3,798	3,330	2,856	2,658	2,528
Customers' deposits	44,497	38,891	33,847	30,958	26,411
Loans and advances (net)	2,203	1,774	1,573	1,091	870
Local investments	25,029	20,387	17,110	15,191	11,824
Due from banks	13,056	14,830	13,190	12,490	9,470
Statement of income					
Net interest income	1,675	1,489	1,486	1,223	969
Operating income	468	329	328	166	182
Profit before taxation	1,115	1,051	1,003	672	528
Net profit for the year	725	683	652	437	474
Indicators					
Earning per share	388YR	422YR	407YR	273YR	631YR
Return on average assets %	1.6	1.6	1.7	1.3	1.6
Return on average owner's equity %	21.5	23.6	22.8	16.4	18.8
Liquidity %	84	89	88	87	84
Capital adequacy %	46	46	46	46	46
US \$ rates	184.30YR	178.88YR	173.27YR	165.53YR	159.71YR
Number of branches	27	29	28	28	30
Number of employees	588	592	608	620	650

Board of Directors



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



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



*Mr. Khaled Ali Khaina
Member of the Board Second
Deputy General Manager*



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



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



*Mr. Abdulla S. Abadden
Representative/ Ministry of
planning*



*Mr. Salem A. Basabrain
Representative/ Ministry of
Industry & Trade*



BOARD OF DIRECTORS



BANK EXECUTIVE MANAGEMENT

Chairman's Message



Abdul Rahman Mohamed Al-Kohali
Chairman and General Manager

It gives me pleasure on behalf of the Board of Directors to present the annual report of the National Bank of Yemen for the financial year ending 2003.

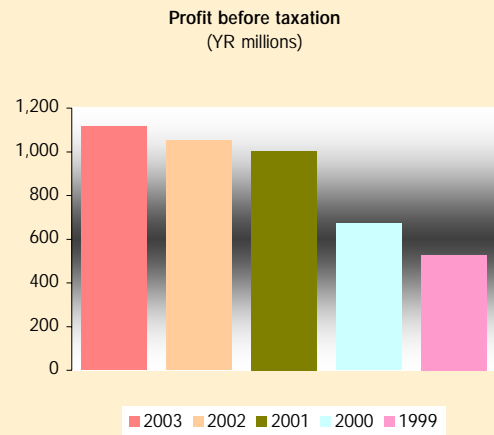
At a time in which the world economy witnessed severe instability and was marked by the decline of the US\$ against all major currencies and the reductions in interest rates-especially on US\$, the year 2003 ended by recording significant results for the Yemeni economy. The government- under the wise and dynamic leadership of His Excellency President Ali Abdullah Saleh, President of the Republic of Yemen, succeeded in achieving important goals and economic indicators which are confirmed by 3.8% growth in GDP in 2003, with the expectation of a growth between 7%-8% in 2004 according to knowledgeable sources in the Government.

The Government managed also to control the deficit in the budget by reducing expenditure in some areas and take necessary measures to stabilize inflation, the exchange rate of the YR against the US\$ and to achieve a surplus in the balance of payments of US\$ 288 million, thus increasing the foreign reserves of the country to cover sixteen months of imports. As for the foreign debt, Yemen is considered to be one of the least countries burdened by the foreign debt which amounts to US\$ 5 billion and represents less than 50% of GDP.

The year 2003 witnessed also the issuance of the Money Laundering Law in continuation with the Government efforts to comply with the international measures and rules governing the struggle against the money laundering operations. And in an effort to strengthen the role of the Central Bank of Yemen and increase its supervisory powers over Banks, the Government presented to the Counsel of Deputies a draft of amendments to the Banking Law.

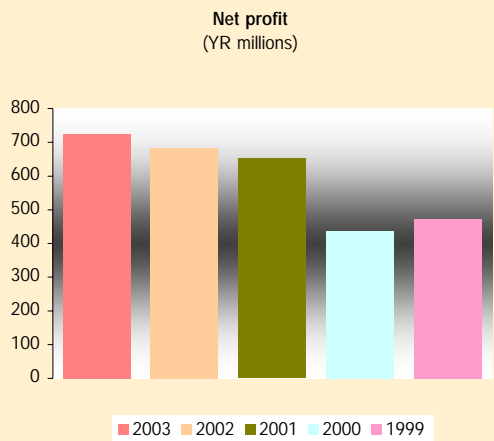


As for the National Bank of Yemen and despite the continuation in the reduction of interest rates on the currencies which have a major impact on the Bank's investments, and the increase of the statutory reserve on deposits in foreign currencies by the Central Bank from 10% to 20% with no interest, the NBY ended another successful year by accomplishing good rates of growth in most of its financial ratios and recording YR 1115 million in profit before taxation with an increase of 6.1% over last year's profit. The Bank continued also to strengthen its financial position by increasing the owner's equity by YR 250 million from the owner's share in the net profit of the year.



On the other hand, it is my pleasure to announce that due to the strength of the Bank's assets and the relations it enjoys with correspondent banks and customers, Capital Intelligence has upgraded the Bank's foreign currency ratings to (-B) long term, (B) short term, the financial rating increased to (-BB) and the rating Outlook as "stable", and this rating is close to the ratings of some of the major Banks in the Gulf States.

Also, in its efforts to accompanying the acceleration in the information technology services in the banking industry, the Bank adopted in 2003, a set of programs to revise and modernize its general policy, redraft the Bank's systems and manuals, simplifying procedures in branches, set up a program to complete the upgrading of the Bank's information technology and to adopt a program to updating the H/R management including training programs for all levels of employments.



As it was the case in the previous years, we are confident of our capability to accomplish our worked goals for the next year due to the continued development policy which the Bank pursue to enhance the ability of our employees and to increase their productivity, strengthening further the relationship with customers, enhancing and diversifying our banking services and products, speeding up services and the overall promotion of the Bank's IT.



In conclusion, it gives me great pleasure to express on behalf of the Board of Directors, our gratitude and appreciation to His Excellency President Ali Abdullah Saleh, the President of Republic of Yemen, for his continued attention and support to the banking sector, which comes from his belief in the significant role of this sector in financing and developing our national economy of which have the greatest effect on the economical growth that our country is witnessing. We also extend our gratitude to and appreciation to the Prime Minister, the Deputy Prime Minister the Minister of Finance-under whose supervision the Bank operates- and to the Governor of the Central Bank of Yemen for their continued support to put the Bank in high standing, for the trust they put in us and for their continued assistance for the banking sector in Yemen.

I would also like to take this opportunity to thank our esteemed customers and correspondent banks for their valuable confidence and business relations.

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



Abdul Rahman Mohamed Al-Kohali
Chairman & General Manager



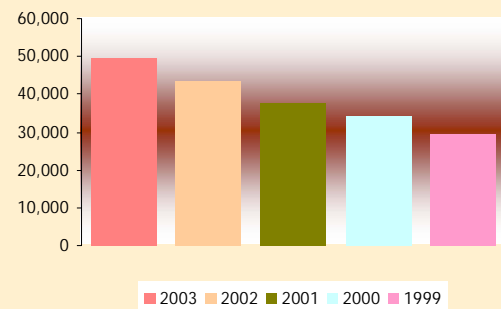
Board of director's report

The National Bank of Yemen continued in 2003 to register growth in its financial indicators, in spite of the prevalent circumstances which affected the banking business, mainly, severe competition between the banks in the Yemeni banking sector, the decline of the US\$ against major currencies and an increase by the Central Bank of the statutory reserve on the foreign currencies deposits to 20% from 10% without paying interest.

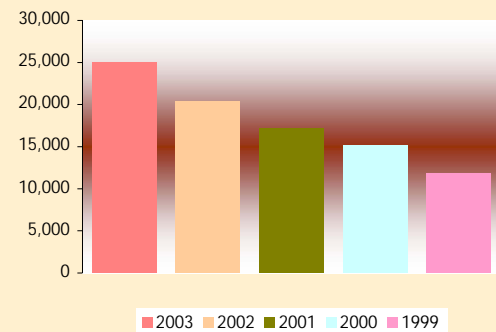
During the year the total assets of the Bank as at 31 December 2003 increased by YR 6.196 million or 14.2% compared to 31 December 2002. The increase in total assets of YR 6.196 million was mainly due to the increase in local investments (treasury bonds and CDS issued by the Central Bank) of YR 4.642 million. Net loans and advances in 2003 increased by 24.2% in line with the cautious and conservative credit policy of the Bank. Net Contra accounts and other commitments was YR 10.502 million compared to YR 6.230 million in 2002 an increase of YR 4.272 million or 68.6%.

And despite a continues drop in interest rates on deposits in foreign currencies and severe challenges from other banks, the Bank's total deposits increased to YR 44.497 million in 2003 or 14.4% as compared to YR 38.891 million in the previous year.

Total assets
(YR millions)



Local investments
(YR millions)

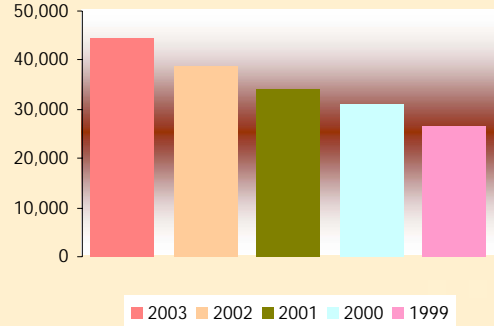


This situation reflects clearly a continued trust from depositors in the Bank and provides the Bank with stable sources of funds which are generated by these deposits. This is due to the fact that most of these deposits are characterized by their stability and continuity. The growth in customers' deposits shows also the ability of the Bank to diversify and increase its sources of funds despite the steep decline in interest rates especially the US Dollar interest rates.

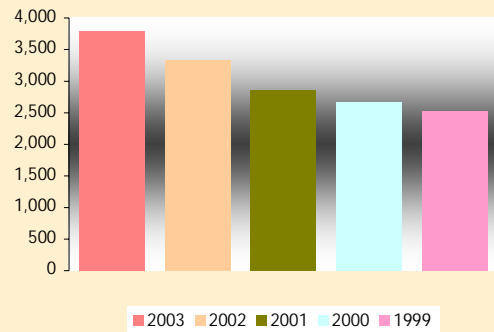
Moreover, the Bank has always been cautious in selecting low risk investments with acceptable return, consolidating the owner's equity against any potential risks and to concentrate on strengthening the financial position of the Bank by capitalizing profits and/or increasing reserves.

As a result the Bank has been successful in increasing the owner's equity by YR 468 million or 14.1% to YR 3.798 million. The Bank's capital adequacy ratio calculated according to international guidelines was 46% as at 31 December 2003. While the international requirement as per BIS and Central Bank of Yemen regulations stipulate that banks maintain a BIS ratio of 8%.

Customers' deposits
(YR millions)



Owner's equity
(YR millions)



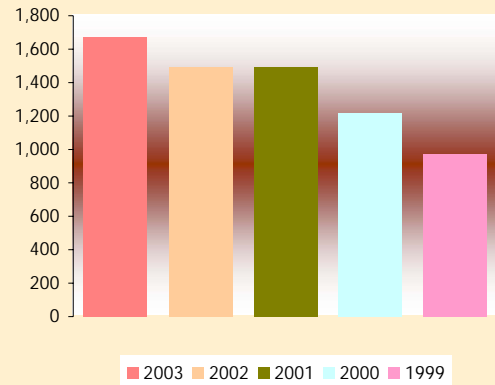
In addition to that, the Bank made a net profit of YR 725 million in 2003, an increase of YR 42 million, or 6.1% over 2002 and a net interest income of YR 1675 million which was higher by 12.5% over 2002. This rate is considered satisfactory when compared with what was achieved in the Yemeni banking sector as a whole, and reflects the good ability of the Bank in managing interest rate margin while maintaining high liquidity ratio during the year.

Furthermore, the policy adopted by the Board of Directors to diversify the Bank's business activities to increase revenues, due to the decline in the return from the loan portfolio, contributed to increase the operating income to YR 397 million thus registering a growth of 36.4% over 2002 and other operating income has also grown by 82.1% in 2003 and recording an increase of YR 33 million over 2002.

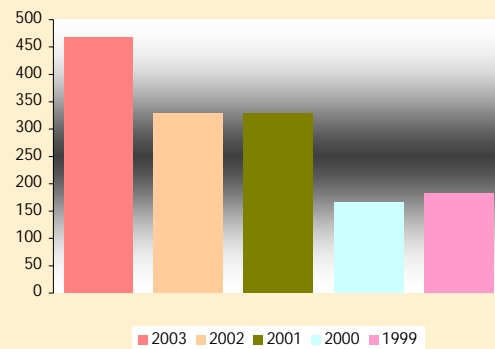
And in keeping with the Bank's policy and the international and local banking standards and requirements, the Bank has made specified and general provisions against classified assets in anticipation of the potential future risks of these assets and to strengthen the financial position of the Bank. This action is inline with the Bank's policy of supporting the making of necessary provisions against all potential risks.

Also, as a realization from the Bank to the important role of H/R in the development of the Bank's business activities and enhancing its competitive position, and that the experience of its staff and their dedication to fulfill the needs of the Banks' customers is their distinguished mark.

Net interest income
(YR millions)



Operating income
(YR millions)



The Bank continued its policy to support the business by providing, to its staff, continues internal and external training which encompass all areas of modern banking services and technology thus enabling them to enhance further the quality of services to customers. As a result of this policy 191 staff attended 51 training programs covering a wide area of topics such as IT, internal audit, treasury operations, branch management and credit operations.

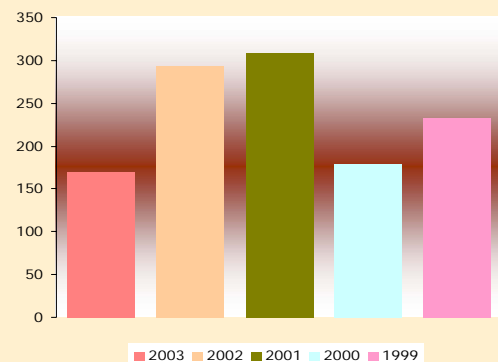
Furthermore, in response to the Board of Directors devotion to achieve its commitments towards the local society, the Bank, received during the year, 89 students from local universities and institutions to help them select their future line of work and to assist them with there scientific searches to enable them to get acquainted with the business of banking and the world of business as a whole.

The Bank in its quest to enhance the competence of the management and to meet the changes in the management of banks held a seminar in corporate governance which attended by Members of the Board and head of departments under the supervision and management of Dhman/RSM International.

On the other hand, the Bank made every effort to enhance its relations with Correspondent Banks and gained more access to their indirect operations, increase credit limits and to secure more training programs to its staff. In line with this trend, delegates from more than 14 banks and financial institutions visited the Bank in 2003. And delegates from the Bank also made visits to various Banks in the Gulf and Europe.

The issue of developing and enhancing our relations with Correspondent Banks will continue to be one of the important activities of the Bank in the feasible future.

Number of trainees
(staff)



Moreover, the rates of growth in the overall volume and results of the Bank achieved in 2003, reflects the great success of the Bank's management in developing its banking operations and the ability to offer a range of financial products to its customers. It also, expresses the soundness of the Bank's strategy, the trust and the good reputation which the Bank enjoys among its customers and the general public, or among the local, regional and international banking markets.

In order to enhance these achievements and to strengthen the Bank's position as one of the best banks in Yemen through the offering of comprehensive products and services, and enhance the quality of services to the customers, the Bank's management has drawn a future vision for the Bank based on the following strategy:

- ✦ To complete the restructuring program and the modernization of the Bank's IT aiming mainly on products and services to customers and to increase the Bank's market share;
- ✦ To introduce the Banks' products and services to a larger and more diversified base of clients as a contribution to support the Yemeni economy and the banking sector;
- ✦ To increase the efficiency of the management of the Bank's financial resources and enhance the productivity of its staff in order to increase profitability;
- ✦ To open new branches in selected locations, merger and/or shift existing branches to new locations in order to improve services and facilitate its delivery to customers in a simple and easy manner;
- ✦ The adoption of local and international training courses to develop and increase the efficiency of the Bank's staff; and
- ✦ To continue the advertisement campaign which started by the Bank in previous years through a series of external advertisements on the roads, in TV and local newspapers according to a well established marketing plan aiming at the introduction of the Bank's name and marketing its services and products.

The Board of Directors

Aden 25 January 2004.





List of branches

Head office

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

Aidroos Branch

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

Queen Arwa Branch

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

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

Mukalla Branch

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

Hodeidah Branch

P. O. Box No.4851
Sana'a Street,
Hodeidah,
Republic of Yemen
Tel.: 967 3 210162
Fax: 967 3 232824
SWIFT: NBOYYESA034

Maalla Branch

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

Steamer Point Branch

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

A. Aziz A. Wali Branch

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

**Public Lending Branch**

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

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 502340

**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, 39
4th Street end of Algiers St.
Aser Zone, Sana'a
Republic of Yemen
Tel: (967) 1- 214355, Fax: (967) 1- 214360
Email: dahmanco@yemen.net.ye
<http://www.dahman-rsm.com>

AUDITORS' REPORT TO H.E VICE 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) composed of the balance sheet as of 31 December 2003 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 in the pages from (16) to (40) . 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 International Standards on Auditing. These 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 a 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 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 2003, and the results of its operations, its cash flows and changes in owner's equity for the year then ended in accordance with International Accounting 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**

25 January 2004,
Aden, Republic of Yemen

**BALANCE SHEET**

As of 31 December 2003

	Note	2003 YR '000	2002 YR '000
ASSETS			
Cash in hand and reserve balances with the Central Bank of Yemen	5	7,468,727	4,547,801
Due from banks	6	13,056,019	14,829,786
Treasury bills, net	7	19,649,346	14,936,545
Certificates of deposit with the Central Bank of Yemen	8	5,380,000	5,450,000
Loans and advances to customers and banks, net of provision	9	2,202,653	1,774,360
Available for sale investments	10	20,734	20,124
Debit balances and other assets	11	254,192	285,285
Property, plant and equipment, net of accumulated depreciation	12	1,668,257	1,660,457
TOTAL ASSETS		49,699,928	43,504,358
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	13	35,605	28,950
Customers' deposits	14	44,497,218	38,891,455
Credit balances and other balances	15	978,550	885,937
Income tax payable	16	390,392	367,967
TOTAL LIABILITIES		45,901,765	40,174,309
OWNER'S EQUITY			
Capital	17	2,100,000	1,850,000
Surplus on revaluation of property reserve	17	639,762	639,762
Reserves	17	1,038,868	821,364
Cumulative changes in the fair value reserve	17	19,533	18,923
TOTAL OWNER'S EQUITY		3,798,163	3,330,049
TOTAL LIABILITIES AND OWNER'S EQUITY		49,699,928	43,504,358
CONTRA ACCOUNTS AND OTHER COMMITMENTS, net	18	10,502,331	6,230,215

The attached notes 1 to 37 form an integral part of these financial statements

Auditors' report attached,

Khaled Ali Khaina
Deputy General Manager

Sami Abdul Hamid Mackawi
First Deputy General Manager

Abdul Rahman Mohammed. Al-Kohali
Chairman and General Manager



STATEMENTS OF INCOME & STATEMENT OF PROFIT APPROPRIATION

For the year ended 31 December 2001

STATEMENT OF INCOME

	Note	2003 YR' 000	2002 YR' 000
Interest on loans and due from banks	19	757,471	700,785
Interest on treasury bills		2,306,625	1,938,883
Interest on certificates of deposit with the Central Bank of Yemen		747,400	625,532
		3,811,496	3,265,200
Less: Cost of deposits	20	2,136,767	1,776,589
Net interest income		1,674,729	1,488,611
Commissions and fee income on banking services	21	316,589	236,613
Income on available for sale investments		-	1,046
Profit from disposal of available for sale investments		-	4,398
Gain on foreign currency transactions	22	79,708	48,510
Other operating income	23	71,347	38,581
NET OPERATING INCOME		2,142,373	1,817,759
OPERATING EXPENSES			
Commissions and fee expenses on banking services		18,322	15,788
General and administration expenses	24	643,702	611,362
Provisions	25	329,942	106,275
TOTAL OPERATING EXPENSES		991,966	733,425
NET PROFIT BEFORE ZAKAT AND INCOME TAX		1,150,407	1,084,334
Zakat paid	26	(35,000)	(33,000)
NET PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		1,115,407	1,051,334
Provision for income tax	16	(390,392)	(367,967)
NET PROFIT FOR THE YEAR	17	725,015	683,367
Earnings per share	27	YR 388	YR 422
STATEMENT OF PROFIT APPROPRIATION			
Transfer to statutory reserve	17	(108,752)	(102,505)
Transfer to general reserve	17	(108,752)	(102,505)
Government's share in net profit for the year	15(c)	(471,260)	(444,189)
Employees' share in net profit for the year		(36,251)	(34,168)
Balance at 31 December		-	-

The attached notes 1 to 37 form an integral part of these financial statements



STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	2003 YR 000	2002 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before zakat and income tax	1,150,407	1,084,334
Adjustments for:		
Provisions for loan loss and contra accounts made during the year	173,187	86,279
Provisions for loan loss and contra accounts written back during the year	(56,070)	(30,908)
Income tax paid	(367,967)	(251,009)
Zakat paid	(35,000)	(33,000)
Depreciation of property, plant and equipment	42,773	39,399
Operating profit before changes in assets and liabilities related to operating activities: (1)	907,330	895,095
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	(2,510,543)	(432,966)
Due from banks maturing after three months	770,142	(2,720,007)
Treasury bills maturing after three months	(50,100)	-
Loans and advances to customers and banks	(517,466)	(242,518)
Debit balances and other assets	31,093	(76,442)
Net (increase) in Assets (2)	(2,276,874)	(3,471,933)
CHANGES IN BANKING LIABILITIES		
Due to banks	6,655	(45,096)
Customers' deposits	5,605,763	5,044,223
Credit balances and other liabilities	64,669	53,745
Net increase in liabilities (3)	5,677,087	5,052,872
CASH FLOWS (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(50,573)	(52,418)
Net Cash flows (used in) investing activities (4)	(50,573)	(52,418)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Government's share in the net profit for the year	(471,260)	(444,189)
Increase in the capital	250,000	250,000
Employees' share in the net profit for the year	(36,251)	(34,168)
Net cash flows (used in) financing activities (5)	(257,511)	(228,357)
Net increase in cash and cash equivalents (1+2+3+4+5)	3,999,459	2,195,259
Cash and cash equivalents at 1 January	32,859,884	30,664,625
Cash and cash equivalents at 31 December	36,859,343	32,859,884
Consist of:		
Cash in hand and reserve balances with Central Bank of Yemen	7,468,727	4,547,801
Due from banks	13,056,019	14,829,786
Treasury bills and certificates of deposit with the Central Bank of Yemen	25,029,346	20,386,545
Reserve balances with the Central Bank of Yemen	(6,222,874)	(3,712,331)
Due from banks maturing after three months	(2,421,775)	(3,191,917)
Treasury bills maturing after three months	(50,100)	-
Cash and cash equivalents at 31 December	36,859,343	32,859,884

The attached notes 1 to 37 form an integral part of these financial statements.



STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2003

	Capital YR '000	Revalua tion 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 2001	1,600,000	639,762	265,626	350,728	-	-	2,856,116
Restatement in accordance with IAS 39	-	-	-	-	16,392	-	16,392
Realised profits from the disposal of available for sale investments	-	-	-	-	(4,398)	-	(4,398)
Net movement in fair value for the year	-	-	-	-	6,929	-	6,929
Net profit for the year	-	-	-	-	-	683,367	683,367
Transfer to statutory reserve	-	-	102,505	-	-	(102,505)	-
Transfer to general reserve	-	-	-	102,505	-	(102,505)	-
Government's share in net profit	-	-	-	-	-	(444,189)	(444,189)
Transfer to capital	250,000	-	-	-	-	-	250,000
Employees' share in net profit	-	-	-	-	-	(34,168)	(34,168)
At 31 December 2002	1,850,000	639,762	368,131	453,233	18,923	-	3,330,049
Restatement in accordance with IAS 39	-	-	-	-	-	-	-
Realised profits from the disposal of available for sale investments	-	-	-	-	-	-	-
Net movement in fair value for the year	-	-	-	-	610	-	610
Net profit for the year	-	-	-	-	-	725,015	725,015
Transfer to statutory reserve	-	-	108,752	-	-	(108,752)	-
Transfer to general reserve	-	-	-	108,752	-	(108,752)	-
Government's share in net profit	-	-	-	-	-	(471,260)	(471,260)
Transfer to capital	250,000	-	-	-	-	-	250,000
Employees' share in net profit	-	-	-	-	-	(36,251)	(36,251)
At 31 December 2003	2,100,000	639,762	476,883	561,985	19,533	-	3,798,163

The Bank's Board of Directors, in its meeting held on 30 December 2002, resolved to comply with the instructions of H.E the Deputy Prime Minister, Minister of Finance in his letter dated 4 September 2002 to the Bank's management to increase the capital of the Bank by YR 500 million in two equal installments from the Government's share of net profit of the Bank for the years 2002 and 2003 (note 15-c).

The attached notes 1 to 37 form an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

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 Hudidah. The Bank had 588 employees as on 31 December 2003 (31 December 2002: 592 employees).

In its meeting held on 25 January 2004, the Bank's Board of Directors approved the financial statements 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 Accounting Standards issued by the International Accounting 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 Accounting 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 2003.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a) 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.

b) 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 Owner's equity.
- iii) The Bank does not enter into forward exchange contracts.

c) 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 provisions 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 2003

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

d) 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 unamortised discount. Certificates of deposit with the Central Bank of Yemen are stated at their nominal value.

e) 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.

f) 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%
• Performing contingencies including watch accounts	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.



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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:

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.

g) 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.

h) 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.

j) 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.

k) 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.

l) Zakat

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

m) 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.



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

n) 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.

o) 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.

p) 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.

q) 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

a) The Bank's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, current accounts and deposits with banks, treasury bills, 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.

b) 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.

c) Forward contracts

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

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS (*continued*)

4.2 Managing related risks

a) 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.

b) 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 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.

c) 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).





NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

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

	2003	2002
	YR '000	YR '000
Cash in hand		
- In local currency	518,277	435,292
- In foreign currencies	479,779	266,108
- Cheques purchased, net	247,797	134,070
Total cash in hand	<u>1,245,853</u>	<u>835,470</u>
Reserve balances with the Central Bank of Yemen		
- In local currency	2,608,198	2,127,275
- In foreign currencies	3,614,676	1,585,056
Total reserve balances with the Central Bank of Yemen	<u>6,222,874</u>	<u>3,712,331</u>
Total cash in hand and reserve balances with the Central Bank of Yemen	<u>7,468,727</u>	<u>4,547,801</u>

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

6 DUE FROM BANKS

	2003	2002
	YR '000	YR '000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with Central Bank of Yemen		
- In local currency	711,037	852,751
- In foreign currencies	309,659	231,673
Total current accounts with the Central Bank of Yemen	<u>1,020,696</u>	<u>1,084,424</u>
Less: Provision for outstanding reconciling items	(18,115)	(18,115)
Net current account balances with Central Bank of Yemen	<u>1,002,581</u>	<u>1,066,309</u>
Current account balances with local banks	1,194	510
Total due from the Central Bank of Yemen and other local banks	<u>1,003,775</u>	<u>1,066,819</u>
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	1,614,133	2,153,392
Less: Provision for outstanding reconciling items	(27,894)	(31,504)
Time deposits	10,466,005	11,641,079
Total due from foreign banks and other financial institutions	<u>12,052,244</u>	<u>13,762,967</u>
Total due from banks	<u>13,056,019</u>	<u>14,829,786</u>

Time deposits include an investment-linked deposit made with a foreign bank for US \$ 1,000,000 (YR 184,300 thousand) to be held for five years and carries a fixed interest rate at 4.5% for year one. Thereafter, the interest rate is indexed to LIBOR and is calculated based on a predetermined formula which has an upper and a lower barrier.



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

7 TREASURY BILLS, net

	2003 YR '000	2002 YR '000
Treasury bills due within 90 days	19,890,381	15,165,821
Treasury bills due within 182 days	50,260	-
Less: Unamortised discount	(291,295)	(229,276)
Net book value	<u>19,649,346</u>	<u>14,936,545</u>

The treasury bills have maturity of three to six months and carry interest rates ranging from 13.0% to 14.0% (2002: 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.

8 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	2003 YR '000	2002 YR '000
Certificates of deposit – 91 days	<u>5,380,000</u>	<u>5,450,000</u>

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

	2003 YR '000	2002 YR '000
<i>Loans and advances to customers:</i>		
Overdraft facilities	1,039,590	860,709
Term loans	1,830,546	1,497,164
Commercial papers discounted	204,656	204,046
Total amounts due from private sector customers (i)	<u>3,074,792</u>	<u>2,561,919</u>
<i>Loans and advances to Banks</i>		
Subordinated loan to UBAF-US\$ 588.094 (note - a)	108,386	105,198
Total amounts due from Banks (ii)	<u>108,386</u>	<u>105,198</u>
Total loans and advances to customers and banks (i) + (ii)	<u>3,183,178</u>	<u>2,667,117</u>
Provision for losses on loans and advances (note - b)	(964,492)	(876,627)
Suspended interest (note - c)	(16,033)	(16,130)
Total provisions for losses on loans and advances and suspended interest	<u>(980,525)</u>	<u>(892,757)</u>
Net loans and advances to customers and banks	<u>2,202,653</u>	<u>1,774,360</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

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

Gross non-performing loans and advances at 31 December 2003 amounted to YR 1,048,218 thousand (2002 - YR 902,519 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 recently to 4 June 2007 and the remaining part to 3 March 2008. The Bank's management decided to approve the request of UBAF (Paris) to reschedule the loan 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 2003, 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 provisions for losses on loans and advances made by a bank in compliance with the regulations of the Central Bank of Yemen in this respect, are not subject to the provisions of any income tax law and are allowable as a deduction in arriving at the taxable income. In accordance with the Central Bank of Yemen, these allowable deductions also include suspended interest.

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

	----- 2003 -----			----- 2002 -----		
	<i>Specific YR'000</i>	<i>General YR'000</i>	<i>Total YR'000</i>	<i>Specific YR'000</i>	<i>General YR'000</i>	<i>Total YR'000</i>
Balance at 1 January	841,335	35,292	876,627	699,323	30,918	730,241
Revaluation of opening balance in foreign currencies	4,892	656	5,548	99,838	664	100,502
Amount utilized during the year.	(7,671)	-	(7,671)	(2,435)	-	(2,435)
Adjusted opening balance	838,556	35,948	874,504	796,726	31,582	828,308
Amounts recovered of loans previously written off (note 23)	(41,630)	(9,589)	(51,219)	(19,833)	(4,046)	(23,879)
Provision for the year (note 25)	124,536	16,671	141,207	64,442	7,756	72,198
Charged to the income statement	82,906	7,082	89,988	44,609	3,710	48,319
Balance at 31 December	921,462	43,030	964,492	841,335	35,292	876,627

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2002 - 2%).



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

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

(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.

	2003 YR '000	2002 YR '000
Balance at 1 January	16,130	13,762
Amounts written off during the year	(328)	(235)
Recovered during the year	(568)	-
Suspended during the year	799	2,603
Balance at 31 December	<u>16,033</u>	<u>16,130</u>

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	2003 YR '000	2002 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	<u>528,250</u>	<u>6,344</u>	<u>6,344</u>
Total investment in shares in UBAF Group		<u>2,260,100</u>	<u>27,144</u>	<u>27,144</u>
<i>Other unquoted investments</i>				
Arab Banking Group – Bahrain	0.344		2,067	2,067
Arab Financial Services Company – Bahrain (note – a)	0.167		20,734	20,124
Total other unquoted investments			<u>22,801</u>	<u>22,191</u>
Total available for sales investments			49,945	49,335
Less: Provision for impairment (note –b)			<u>(29,211)</u>	<u>(29,211)</u>
Net book value of investments available for sale			<u>20,734</u>	<u>20,124</u>

(a) Arab Financial Services Company – Bahrain

The fair value of the investment in Arab Financial Services Company – Bahrain was calculated based on the net present value of the estimated future cash flows represented in the dividends received from the company which have consistent nature using a discount rate of 3%. The fair value of the investment in Arab Financial Services Company – Bahrain as of 31 December 2003 amounted to US\$ 11.25 per share (2002: US\$ 11.25 per share).

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

10 AVAILABLE FOR SALE INVESTMENTS (continued)

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

	2003 YR'000
Balance at 1 January	20,124
Exchange difference	610
Fair value at 31 December	<u>20,734</u>

(b) 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.

11 DEBIT BALANCES AND OTHER ASSETS

	2003 YR '000	2002 YR '000
Prepaid expenses and other debit balances	2,044	4,512
Interest receivable	187,439	212,514
Capital costs of new branches	7,228	2,891
Real estate properties acquired from customers, net of provision	29,234	29,234
Sundry debit balances, net of provision	<u>28,247</u>	<u>36,134</u>
Total debit balances and other assets	<u>254,192</u>	<u>285,285</u>

The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2002 – YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.





NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

12 PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation

	<i>Freehold Land and buildings</i>	<i>Leasehold Improve- ments</i>	<i>Furniture & Equipment</i>	<i>Motor Vehicles</i>	<i>Swift & Computers</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<i>Cost or valuation:</i>						
At 31 December 2002	1,517,485	24,705	138,389	49,289	99,831	1,829,699
Additions during the year	-	4,366	28,427	5,539	12,241	50,573
At 31 December 2003	1,517,485	29,071	166,816	54,828	112,072	1,880,272
<i>Depreciation</i>						
At 31 December 2002	21,223	6,307	50,308	34,683	56,721	169,242
Charge for the year	7,564	2,691	12,200	6,377	13,941	42,773
At 31 December 2003	28,787	8,998	62,508	41,060	70,662	212,015

Net book amount

At 31 December 2003	1,488,698	20,073	104,308	13,768	41,410	1,668,257
At 31 December 2002	1,496,261	18,398	88,081	14,606	43,111	1,660,457

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

a) 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.

13 DUE TO BANKS

	2003 YR'000	2002 YR'000
<i>Current and demand accounts</i>		
Local banks	6,564	8,847
Foreign banks	29,041	20,103
Total due to banks	35,605	28,950

14 CUSTOMERS' DEPOSITS

	2003 YR'000	2002 YR'000
Current accounts	9,040,736	8,073,888
Savings accounts	19,703,299	17,225,730
Term deposits	13,478,627	12,000,608
Other deposits	360,671	472,629
Deposits for documentary letters of credit, guarantees and others	1,913,885	1,118,600
Total customers' deposits	44,497,218	38,891,455



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

15 CREDIT BALANCES AND OTHER BALANCES

	2003 YR'000	2002 YR'000
Accrued interest payable	231,809	154,807
Unclaimed balances (note - a)	179,395	170,101
Provision for employees' leave pay	25,939	21,474
Provision for off-balance sheet items (note - b)	57,790	29,846
Due to the Owner (the Government) (note - c)	221,260	417,189
Employees bonus in net profit	18,672	15,067
Employees share in net profit	48,245	45,533
Provision for contingent liabilities (note-33)	138,000	-
Sundry credit balances	57,440	31,920
Total credit balances and other balances	<u>978,550</u>	<u>885,937</u>

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.

b) Provision for off-balance sheet items

	2003 YR'000	2002 YR'000
Balance at 1 January	29,846	21,972
Revaluation of opening balance in foreign currencies	815	822
Provision charged during the year (note -25)	31,980	14,081
Provision written back during the year (note -23)	(4,851)	(7,029)
Balance at 31 December	<u>57,790</u>	<u>29,846</u>

c) Due to the owner (the Government)

	2003 YR'000	2002 YR'000
Balance at 1 January	417,189	423,719
Add:		
Government's share in the profit for the year	471,260	444,189
Transferred to capital	(250,000)	(250,000)
Net Government's share of the profit for the year	<u>221,260</u>	<u>194,189</u>
Less: amounts paid during the year	(417,189)	(200,719)
Balance at 31 December	<u>221,260</u>	<u>417,189</u>

The Bank's Board of Directors, in its meeting held on 30 December 2002, resolved to comply with the instructions of H.E the Deputy Prime Minister the Minister of Finance in his letter dated 4 September 2002 to the Bank's management to increase the capital of the Bank by YR 500 million in two equal installments from the Government's share of net profit of the Bank for the years 2002 and 2003.



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

16 INCOME TAX PAYABLE

<i>Amounts due to the Tax Authority</i>	<i>2003</i> <i>YR '000</i>	<i>2002</i> <i>YR '000</i>
Balance at 1 January	367,967	251,009
Charged for the year in the Statement of Income	<u>390,392</u>	<u>367,967</u>
Total amounts due to the Tax Authority	758,359	618,976
Amount paid during the year	<u>(367,967)</u>	<u>(251,009)</u>
Total income tax payable	<u>390,392</u>	<u>367,967</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 22 April 2003, the final tax clearance for the income tax liability for the financial year ending 31 December 2002.

17 OWNER'S EQUITY

a) Authorized capital

The authorized share capital amounting YR. 2,100 million (2002 – YR 2,100 million) consists of 2,100 thousand shares of YR 1,000 par value each. (2002 – of 2,100 thousand shares of YR 1,000 par value each).

b) Declared and paid capital

The authorized share capital amounting YR. 2,100 million (2002 – YR 1,850 million) consists of 2,100 thousand shares of YR 1,000 par value each. (2002 – of 1,850 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



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

17 OWNER'S EQUITY (*continued*)

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 this account

e) Cumulative changes in fair value reserve

In accordance with the provisions of IAS 39 Financial Instruments – Measurement and Recognition, 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

<i>At 31 December 2003</i>	<i>Gross Commitments</i>	<i>Covered by margin</i>	<i>Net commitments</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR'000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	3,995,538	919,123	3,076,415
Letters of guarantees – customers	3,734,687	982,783	2,751,904
Letters of guarantees - correspondent banks	4,505,447	-	4,505,447
Customers' acceptances	160,271	-	160,271
Credit cards	20,273	11,979	8,294
Total contra accounts and other commitments	12,416,216	1,913,885	10,502,331

<i>At 31 December 2002</i>	<i>Gross Commitments</i>	<i>Covered by margin</i>	<i>Net commitments</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR'000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	2,646,435	494,160	2,152,275
Letters of guarantees – customers	2,103,936	621,757	1,482,179
Letters of guarantees - correspondent banks	2,190,554	-	2,190,554
Customers' acceptances	320,846	-	320,846
Travelers' cheques	79,889	-	79,889
Credit cards	7,155	2,683	4,472
Total contra accounts and other commitments	7,348,815	1,118,600	6,230,215



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

19 INTEREST ON LOANS AND DUE FROM BANKS

	2003 YR '000	2002 YR '000
<i>Interest on loans and advances to customer and banks</i>		
Interest on loans and advances to customers	246,020	189,610
Interest on commercial papers discounted	13,212	19,412
Interest on other facilities	1,353	2,052
Interest on loans to banks	2,881	3,226
Total interest on loans and advances to customers and banks	263,466	214,300
<i>Interest on deposits with foreign banks</i>		
Interest on current accounts	8,740	13,814
Interest on call accounts	2,309	4,754
Interest on deposits	177,365	208,474
Total interest on deposits with foreign banks	188,414	227,042
<i>Interest on deposits with local banks</i>		
Interest on reserves balances with the Central Bank of Yemen	305,591	259,443
Total interest on deposits with local banks	494,005	486,485
Total interest on loans and due from banks	757,471	700,785

20 COST OF DEPOSITS

	2003 YR '000	2002 YR '000
Interest on savings accounts	1,104,309	1,008,766
Interest on time deposits	1,032,458	767,823
Total interest	2,136,767	1,776,589

21 COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	2003 YR '000	2002 YR '000
Commissions on documentary letters of credits	59,131	40,323
Commissions on letters of guarantee	113,471	73,359
Commissions on transfer of funds	25,574	21,579
Commissions on acceptances	3,928	4,213
Commissions on cheques	82,987	66,537
Banking services fees	6,956	13,636
Other services fees	24,542	16,966
Total commissions and fee income on banking services	316,589	236,613



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

22 GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2003 YR '000	2002 YR '000
Revaluation differences on foreign currency transactions	56,523	28,992
Gain on foreign exchange trading transactions	23,185	19,518
Total gain on foreign exchange transactions	<u>79,708</u>	<u>48,510</u>

23 OTHER OPERATING INCOME

	2003 YR '000	2002 YR '000
Provision for loan losses no longer required (note 9-b)	51,219	23,879
Provision for off-balance sheet items no longer required (note 15-b)	4,851	7,029
Provision for outstanding reconciling items no longer required (BCCI)	6,099	-
Sundry income	9,178	7,673
Total other operating income	<u>71,347</u>	<u>38,581</u>

24 GENERAL AND ADMINISTRATION EXPENSES

	2003 YR '000	2002 YR '000
Salaries, wages and related costs	412,587	391,786
Depreciation of property and equipment (note 12)	42,773	39,399
Rent	28,172	27,598
Water and electricity	23,260	19,371
Repairs and maintenance	14,544	14,716
Telephone, telexes and postage	19,091	21,301
Transportation and communication	18,011	14,088
Promotions and publications	7,297	9,154
Computer maintenance expenses	14,349	13,841
Training	12,355	12,949
Taxes and fees	1,156	1,436
Donations	4,256	4,288
Stationery and printing supplies	13,260	11,999
Loss on disposal of properties acquired from customers	-	1,266
Other general and administration expenses	32,591	28,170
Total general and administration expenses	<u>643,702</u>	<u>611,362</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

25 PROVISIONS

	2003 YR '000	2002 YR '000
Provision for losses on loans and advances (note 9 - b)	141,207	72,198
Provision for off-balance sheet items (note 15 - b)	31,980	14,081
Provision for employees' leave pay	12,555	19,996
Provision for contingent liabilities (note-33)	138,000	-
Provision for old cheques stock	6,200	-
Total provisions	<u>329,942</u>	<u>106,275</u>

26 ZAKAT

	2003 YR '000	2002 YR '000
Zakat expense for the current year – paid	<u>35,000</u>	<u>33,000</u>

27 EARNINGS PER SHARE

	2003 YR'000	2002 YR'000
Net profit for the year	725,015	683,367
Weighted average of number of shares (due to the increase from December 2003)	1,870,833	1,620,833
Earnings per share	<u>YR 388</u>	<u>YR 422</u>

28 RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties (government entities, 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:

	2003 YR '000	2002 YR '000
<u>Board members and parties related to them</u>		
Loans and advances, gross	2,510	1,713
Customers' deposits	3,509	4,876
Interest income for the year	215	163
Interest expense for the year	377	585



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

29 MATURITIES OF ASSETS AND LIABILITIES

a) 31 December 2003

ASSETS	Less than	From 3 to	From 6	Over	Total
	3 months	6 months	months to	1 year	
	YR'000	YR'000	1 year	YR'000	YR'000
Cash in hand and reserve balances with the					
Central Bank of Yemen	7,468,727	-	-	-	7,468,727
Due from banks	10,634,244	2,237,475	-	184,300	13,056,019
Treasury bills	19,599,246	50,100	-	-	19,649,346
Certificates of deposit	5,380,000	-	-	-	5,380,000
Loans and advances to customers and banks, net of provision	779,934	346,306	364,291	712,122	2,202,653
Investments available for sale	-	-	-	20,734	20,734
TOTAL ASSETS	43,862,151	2,633,881	364,291	917,156	47,777,479
LIABILITIES					
Due to banks	35,605	-	-	-	35,605
Customers' deposits	25,071,540	6,385,980	12,824,200	215,498	44,497,218
TOTAL LIABILITIES	25,107,145	6,385,980	12,824,200	215,498	44,532,823

29 MATURITIES OF ASSETS AND LIABILITIES

b) 31 December 2002

ASSETS	Less than	From 3 to	From 6	Over	Total
	3 months	6 months	months to	1 year	
	YR'000	YR'000	1 year	YR'000	YR'000
Cash in hand and reserve balances with the					
Central Bank of Yemen	4,547,801	-	-	-	4,547,801
Due from banks	11,637,869	143,453	3,048,464	-	14,829,786
Treasury bills	14,936,545	-	-	-	14,936,545
Certificates of deposit	5,450,000	-	-	-	5,450,000
Loans and advances to customers and banks, net of provision	99,664	46,986	279,682	1,348,028	1,774,360
Investments available for sale	-	-	-	20,124	20,124
TOTAL ASSETS	36,671,879	190,439	3,328,146	1,368,152	41,558,616
LIABILITIES					
Due to banks	28,950	-	-	-	28,950
Customers' deposits	22,534,169	5,071,013	11,251,851	34,422	38,891,455
TOTAL LIABILITIES	22,563,119	5,071,013	11,251,851	34,422	38,920,405



NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2003

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

a) The average interest rates on assets and liabilities applied during the year 2003 were as follows:

	Yemeni Riyal	US Dollar	Saudi Riyal	Sterling Pound	Euro
Assets	%	%	%	%	%
Reserve balances with the Central Bank of Yemen	13.00	-	0	-	-
Due from banks:					
Current accounts	-	0.62	-	0.47	1.49
Time deposits	-	1.04	1.63	3.55	2.00
Treasury bills	13.99	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.00	-	-	-	-
Loans to customers	18.00	6.50	-	-	-
Liabilities					
Due to banks:	-	-	-	-	-
Customers' deposits	13.00	0.69	0.59	2.11	1.16

b) The average interest rates on assets and liabilities applied during the year 2002 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	-	0.85	-	1.41	2.80
Time deposits	-	1.64	2.40	3.92	2.73
Due to banks:	-	-	-	-	-
Treasury bills	13.99	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.00	-	-	-	-
Loans to customers	18.00	6.50	-	-	-
Liabilities					
Customers' deposits	13.00	1.20	-	2.79	-



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

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 2003 were as follows:

	<i>Manufacturing</i>	<i>Agriculture</i>	<i>Trade</i>	<i>Service</i>	<i>Finance</i>	<i>Personal</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
ASSETS							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	7,468,727	-	7,468,727
Due from banks	-	-	-	-	13,056,019	-	13,056,019
Treasury bills, net	-	-	-	-	19,649,346	-	19,649,346
Certificates of deposit	-	-	-	-	5,380,000	-	5,380,000
Loans to customers and banks, net of provision	50,111	-	1,652,577	520	-	499,445	2,202,653
Investments available for sale	-	-	-	-	20,734	-	20,734
Total Assets	50,111	-	1,652,577	520	45,574,826	499,445	47,777,479
LIABILITIES							
Due to banks	-	-	-	-	35,605	-	35,605
Customers' deposits	3,601,559	282,640	2,183,086	2,676,189	411,595	35,342,149	44,497,218
Total Liabilities	3,601,559	282,640	2,183,086	2,676,189	447,200	35,342,149	44,532,823
Contra accounts and other commitments	226,915	4,653,184	-	5,087,127	752,962	1,696,028	12,416,216

b) The distribution of the assets and liabilities and contingent liabilities and commitments as at 31 December 2002 were as follows:

	<i>Manufacturing</i>	<i>Agriculture</i>	<i>Trade</i>	<i>Service</i>	<i>Finance</i>	<i>Personal</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
ASSETS							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	4,547,801	-	4,547,801
Due from banks	-	-	-	-	14,829,786	-	14,829,786
Treasury bills, net	-	-	-	-	14,936,545	-	14,936,545
Certificates of deposit	-	-	-	-	5,450,000	-	5,450,000
Loans to customers and banks, net of provision	237,824	-	1,106,865	3,339	-	426,332	1,774,360
Investments available for sale	-	-	-	-	20,124	-	20,124
Total Assets	237,824	-	1,106,865	3,339	39,784,256	426,332	41,558,616
LIABILITIES							
Due to banks	-	-	-	-	28,950	-	28,950
Customers' deposits	821,378	93,115	2,729,113	1,818,216	-	33,429,633	38,891,455
Total Liabilities	821,378	93,115	2,729,113	1,818,216	28,950	33,429,633	38,920,405
Contra accounts and other commitments	223,708	703	4,117,130	1,446,270	711,787	849,217	7,348,815



NOTES TO THE FINANCIAL STATEMENTS (*continued*)

31 December 2003

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 provides for such cases in the financial statements.

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:

	2003		2002	
	%	YR '000	%	YR'000
United States dollar	2.96	112,423	5.24	174,408
Pound sterling	5.51	209,237	3.54	117,918
Swiss Franc	0.01	295	0.05	1,540
Euro	5.91	224,595	4.56	151,727
Saudi Riyal	3.16	120,065	6.01	200,202
Other	0.02	823	0.03	855
Aggregate foreign currency positions	<u>17.57</u>	<u>667,538</u>	<u>19.42</u>	<u>646,650</u>

The dollar exchange rate at 31 December 2003 was 184.30 YR/US\$ (31 December 2002: 178.88 YR/US\$).

35 CAPITAL COMMITMENT

Capital commitments at 31 December 2003 amounted to YR 54 million (2002-nil).

36 CAPITALISATION OF THE BANK

As part of the Government financial and administration Reform Programme and the preparation of the Bank for capitalization, the Council of Ministers issued in its meeting held on 25 July 2000, resolution No. (175) of 2000 which stipulated that capitalization of the Bank to be according to the Bank's latest financial statements and on the basis of 60% for a strategic investor, 20% for public subscription and 20% for the Government.

The Minister of Finance has subsequently issued a Ministerial Decision No (486) dated 4 September 2000 in which he appointed a committee, under the chairmanship of the Deputy Minister of Finance, and entrusted with it the responsibility for taking the necessary steps to implement the Council of Ministers' resolution.

37 COMPARATIVE FIGURES

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