

البنك الأهلي اليمني

**National Bank Of Yemen**

*Trust & Experience*



# *Annual Report* **2007**

**Clarity in Vision**  
**Excellence in Performance**



*Best Bank in the Year 2007  
in Yemen*



*Best Bank in the Year 2006  
in Yemen*

[www.nbyemen.com](http://www.nbyemen.com)

# البنك الأهلي اليمني

## National Bank Of Yemen



*Trust & Experience*



### **Vision:**

"We at the National Bank of Yemen are determined to fulfill our customers need, to be pioneers in providing in innovated banking products and services by relying on the best and latest technology in banking services , to become the customers first choice customers a distinguished bank in Yemen .

### **Mission:**

"The National Bank of Yemen is committed to attain quality in its services and products in accordance with international quality standards thus the National Bank of Yemen can satisfy its customers Needs and realize the goals and expectations of all key stakeholders , yet preserving the best interest of the society and the Yemeni economy "



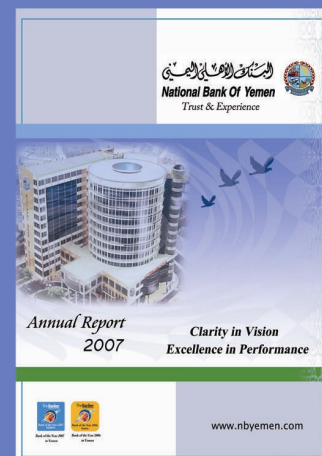
*His Excellency*  
**ALI ABDULLAH SALEH**  
*President of the Republic*





# Annual Report 2007

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## Financial and Statistic highlights

YR millions unless otherwise indicated				
	2007	2006	2005	2004
<b>Balance sheet</b>				
Total assets	95,103	83,268	64,579	57,627
Owner's equity	9,721	7,496	5,876	4,631
Customers' deposits	80,961	71,666	56,709	51,284
Loans and advances (net)	8,915	7,092	3,841	3,321
Local investments	42,773	38,155	32,345	30,870
Due from banks	26,741	24,013	15,545	13,760
<b>Statement of income</b>				
Net interest income	4,150	3,470	2,653	2,047
Operating income	1,898	1,243	626	591
Profit before taxation	3,600	2,621	2,014	1,353
Net profit for the year	2,340	1,704	1,309	880
<b>Indicators</b>				
Earning per share	360 YR	359 YR	485 YR	419 YR
Return on average assets %	2.5	2.0	2.0	1.5
Return on average owner's equity %	30.5	28.3	27.6	22.8
Liquidity %	74	81	80	85
Capital adequacy %	43	39	50	46
US \$ rates	199.51 YR	198.51 YR	195.08 YR	185.84 YR
Number of branches	28	27	27	27
Number of employees	613	629	585	597

## **Chairman and Members of the Board Directors of National Bank of Yemen**

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



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



*Mr. Dr. Samir A. Razack Talep  
Representative of the Ministry of Planning,  
Ministry of Representative & International Cooperation*



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



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



*Mr. Hussein Mackawee  
Representative of the Ministry of Industry & Trade*



**Board of Directors OF  
National Bank of Yemen**





## Executive Management of the Bank



### Chairman of the Bank & the Executive Management of the Bank

#### Sit in from the right :-

Sakina Abdulhussein . Alawi Munassar .  
Sami Abdulhamid Mackawi . Abdulqawe Alsaehg .  
Arwe Ali Suleman . Arwe Saleh Saif

#### Standing from the right

Ali Moosa Ali . Mohsin Saeed Ali . Saleh Salem  
Subait Salem Ba – Saroor . Abdul Al Naser Qeyed Mohammed . Ziad Basnaid  
Saleh Salem Alshatri . Abdul Wasa Mohamed .  
Esam Ahmed Alsaqqaf . Dr. Ahmed Bin Sunker



**Abdul Rahman Mohamed Al-Kohali**  
Chairman and General Manager

## *Chairman's Message*

A bank possessing a distinguishing vision, clear mission, pioneering strategy, continuous profitability, loyal clients and dedicated human resources; with these words, on behalf of myself and on behalf of my reverend brothers; members of the Board of Directors, I have the pleasure to present to you the annual report of the Board of Directors on the activities and results of the National Bank of Yemen for the financial year ending 31 December, 2007.

The year 2007 witnessed many outstanding events in the international economical field, the outstanding of which has been: the continuation of the rising of oil prices during the year, ending at US\$100 per barrel; the depression of the dollar value internationally and the recession of the American estate market resulting in changes in the investment trends, such as investing extensively in secured funds, private closed equity funds and the sovereign funds in the commodities markets, combined with temporary seasonal causes, such as draughts; floods and heavy rains, besides other commercial factors, such as the vital fuel industry which all resulted in raising up the cost of food and agricultural material.

At the same time, the uprising economies continued to grow in exceptional ratios, at the forth front comes China and India. During 2007, the world economy recorded a growth rate of 3.7% , however, the forecast indicate that the world economy will witness a decline in 2008 and would not reach to more than 3.4%. This is mainly due to the great slowing down in the American economy and the disability of the economies of the Japan and Western Europe to compensate this slowness, as it is expected that the shrinking in the American Economy would lead to reduce the growth of the exports of both China, Japan and Europe which would consequently reduce their demands of the developing countries' products.

On the domestic level, the national economy in 2007 achieved a growth rate of 4.5% whereas in the general concentration was on the sustainable development as was the case in the previous year. In addition , the budget of 2008 aims at reinforcing the economical and social stability and embarking development in the different fields of development, economy and administration, which ensures raising the





standard of living, reducing the phenomenon of poverty and preparing an environment which attracts investment. It also aims at achieving sustainable development, realizing the general activities of the third five year plan, especially, where it relates to achieving a real rate of growth in the gross domestic product realizing to 5.4%, as well as curtail the rate of inflation and keeping them at reasonable which disaffects the performance of the national economy.

The year 2007 witnessed a distinguished stability of the Y Riyal against the US Dollar because of the adopting by the Central Bank of Yemen of numerous wise monetary policies, especially, the open market operation, deposit certificates, treasury bill, the requirement of mandatory reserves and lucrative interest granted on Riyal Deposits in comparison with interest rates granted on other currencies. The policies that the Central Bank of Yemen follows resulted in achieving stability in the Riyal exchange rate, as the Riyal did not fell against the Dollar throughout the year 2007 but by less than 1% ,besides the conversion of the depositors from foreign currency deposits to Riyal deposits which led to its increase enormously.

The money supply has increased from YR1297.4 billion in November 2006 to YR1485.1 billion at the end of November 2007 with an increase of YR 187.7 billion a percentage of 14.5%.

The net external assets of the banking sector amounted to YR1719.7 billion at the end of November 2007 compared to YR1653.1 billion at the end of November 2006 with an increase of YR66.6 billion and a rate of 4%. The external assets of the Central Bank of Yemen amounted to US Dollar 7709.2 million covering 14.1 months of imports compared with US\$7522.5 million at the end of November 2006. In addition, the gross conciliated balance sheet of the Islamic and Commercial banks increased at the end of November 2007 to 1229, 9 billion compared with YR1011.3 billion at the end of November 2006, with an increased rate of 21.6% .

The year 2007 has also witnessed several essential achievements implemented by the concernment within the framework of the agenda of national reforms, the election program of His Excellency the President of the Republic of Yemen the third economical and social plan to alleviate poverty which will help improve the level of the economical performance, raise the efficiency of the specialization and employment of the available economic resources and the evaluation of the good governance indicators. Within this framework the laws of the declaration of financial obligation, fighting corruption, general auction and bidding and financial leasing have issued, besides the establishment of the national authority for fighting corruption and the inauguration of implementing the general financial strategy, in addition to the inauguration of an additional package of reforms that enhances the investment environment concerning the effectiveness and development of the legislative and institutionalization requirements of joining the World Trade Organization and the unified laws of the states of the Gulf Cooperation Council in a way that contribute to the enhancing and developing the horizons of partnership and integration to reach to the incorporation of Yemen in the Cooperative Council of the Arabian Gulf States.







As for the National Bank of Yemen, the performance in 2007 was a continuation of the successive increasing growth, year after year, where the bank was enabled to continue achieve distinguished achievements and results, the most important of which was the best quality of the bank's assets, the increasing of profitability from operation, net profit and the strong owners' equality base. These results came in harmony with the strategic objectives outlined, confirming the bank's success in dealing with all the changes taking place in the Yemen banking market. They also provide additional rewards to the Yemen government (the owner) and the bank clients equally.

The Board of Directors went ahead, with caution, to enhance and strengthen the bank's financial position and resolved – with the approval of the owner (the government)- the transfer of the government's net share of the profits of 2007 to the bank's capital so as to reinforce the rights of the owner's equity and thus enhance the ability of the bank to compete and to enhance its ability to carry out the loan and investment operations. Thus, the bank's equity right was raised to YR 9,720 million due to the profits made this year. The capital adequacy rate at the end 2007- according to the International Settlement Bank Standards and the requirements of the local regulatory authority – reached 43%.



In addition to that, the year 2007 witnessed the continuation of the bank's targeted policy to keep up with the latest techniques in the field of information technology. The bank dispatched RFP of IT prepared by an international consultant firm to international IT selected systems in compliance with the bank's strategy and to lay down comprehensive technical solutions for banking services and products to be offered to the clients within reasonable cost and within limited time, in addition to the automation procedures. We expect to begin the application of this essential strategic project simultaneously with the restructuring of the bank and its branches early next year in order to create an innovation that is in line with clients' requirements and suitable within the services presented to them. It also aims at providing all means of comfort to the clients in order to perform their banking transactions with convenience and at ease.

In confirmation of the pioneer rule of the bank among the operative banks in the Yemeni banking market, in terms of issuing quarterly received financial statements based audit and disclosure standards, relying on the transparency while preparing and presenting its annual financial statements which are prepared according to the standards of the International Financial Reports, the bank has in 2007 and for the purpose of preparing the financial statements made adjustments to the standards of the International Financial Reports currently prevalent and mandatory applicable from 1 January, 2007.

This continuous success and these distinguished achievements and results, which accompanied the bank's path during the past year, has contributed in the bank winning -for the second

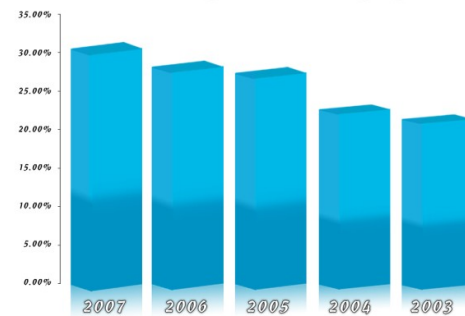




consecutive year- the Best Bank in Yemen Award for the year 2007 awarded by the Bankers British magazine, one of Financial Times Magazines for the second the highest rating for its strong financial position among the Yemeni banks from the International capital Intelligence for 2007.

Regarding the bank's future plan, our strategy aims at advancing the bank and place it in the position of the modern, advanced banks and attract the qualified and experienced bankers and give top priority to the development of human resources, and offer the best and latest level of banking developed products, in addition to continuing the growth in a profitable manner, maintaining the best level of operating efficiency and developing the assets by targeting towards the high quality assets, with concentrating on adding great value to the owner's equity as a comprehensive goal.

Returns average on owner's equity%



I have the pleasure, on this occasion to express on my behalf and on behalf of the members of the Board of Directors, profound gratitude and appreciation to His Excellency Ali Abdullah Saleh, the president of the Republic of Yemen, and to the Prime Minister, the Minister of Finance, the Governor of the Central Bank of Yemen, the ministers, and the authorities in the ministries for their continuous support and encouragement. We, especially, thank both the Ministry of Finance and the Central Bank of Yemen for their wise directives and support to our efforts.

Finally, I would like thank our esteemed customers for their trust and loyalty, the executive management of the bank and our staff of the bank for their dedication and efforts in serving the bank.

**Mr. Abdul Rahman Mohamed Al- Kohali**  
Chairman and General Manager  
Aden, 29, January, 2008.







## The Board of Directors' Report

The Board of Directors has great pleasure to present to you the annual report on the activities of the National Bank of Yemen for the financial year 2007 including the financial statements for the year ending 31st. December, 2007.

The National Bank of Yemen has continuously achieved consequent successes year after year. The year 2007 has embarked series of consecutive successes that the bank witnessed through the previous years. This success is closely linked to the new strategy of the bank set in the current year, of which its main titles were framing new mission and vision for the bank, resembled in restructure, investment in human resources, the efficient expansion in banking operations, development banking technologies to the latest modern banking industry standards and upgrading the policies and procedures of risk management, thus preparing the bank to set out the main fundamental structure to comply with the Basel II standards of capital adequacy. If the year 2007 was the year of the internal preparation and new beginning, the year 2008 will be the year of the qualitative transformation for the bank to improve effectively its activities with the aim to customize banking services and products to their needs and satisfactions according to the highest standards of competence and professionalism which are compatible with the latest technologies innovation in the banking industry.

### Governance:

The bank believes that prudent leadership and good governance will have a positive impact on staff, owners (The Yemeni Government), the regulatory authorities and depositors at the same level. The coming years would witness increasing initiatives and confirmation of principles of good governance to be more applicable in reality.

The board of directors of the National Bank of Yemen (the bank) Is obliged to support an integrated group of policies, procedures and rules relating to the organization and management of the bank according to the following details:

### The Owners:

The role of the owners (the Yemeni Government) is not only restricted -according to law – to the amendment of the bank law and the approval of the increase of capital, but also extends beyond that to the participation in making essential resolutions which concern the bank and its approval.

### The board of directors of the National Bank of Yemen:-

The bank is managed by a board of directors helped by a specialized team of executive management. The bank has no commercial relations with companies owned fully by members of the board of directors or hold shares in these companies. The board of directors, in general, supervises the performance of the bank and the functioning of activities through the periodical meetings which it holds during the year, sets the general policies and makes sure of their implementation. The bank also, periodically, reviews the performance of the bank the extent of the effectiveness of the systems applied and the internal supervision procedures. It controls the main operations in the bank to ensure the implementation of the general policies which have been set, reviews and identifies the risk levels and ensures its management in an acceptable manner.

The board of directors also –through the review and audit committee – reviews and audits the financial position of the bank with the external auditors to ensure compliance with the laws, regulations and accounting standards practiced in the Republic of Yemen which are not substantially different from the International Financial Reporting Standards.

The Board confirms its due responsibility of the correctness of the financial statements and that it reflects fairly the financial position of the bank and the results of its activities.

The Board of Directors is formed of the Chairman of the Board, who is appointed by a Republican Decree, independent members from outside the bank and executives appointed according to what has been stated in the council of ministers' Resolution No. (60) for the year 1990 concerning the formation of the Board of Directors of the bank. The Board held 14 meetings during the year 2007 (18 meetings during the year 2006). These meetings are held at the head office of the bank after distributing the agenda and the supporting memorandums to the members three days before the date of meeting.

Name	Position	Representing	Member's classification
A.Rahman M. Al-Kohali	Chairman	<b>The Owners</b>	Non-Executive
Sami A.H. Mackawee	Member	<b>The Owners</b>	Executive
Abdullah A. Saleh	Member	<b>Ministry of Finance</b>	Non-Executive
Dr. Samir A.Razack Thaleb	Member	<b>Ministry of Planning</b>	Non-Executive
Muqbel S. Alqosi	Member	<b>Central Bank of Yemen</b>	Non-Executive
Husain A. Mackawee	Member	<b>Ministry of Industry</b>	Non-Executive

Name	Membership in other committees of the Board	Membership in Boards of companies and institutions	Number of meeting attended
A.Rahman M. Al-Kohali	None	<b>2</b>	14
Sami A.H. Mackawee	None	<b>None</b>	13
Abdullah A. Saleh	Provision, audit	<b>3</b>	14
Dr. Samir A.Razack Thaleb	Provision, audit	<b>2</b>	13
Muqbel S. Alqosi	Provision, audit	<b>None</b>	12
Husain A. Mackawee	None	<b>1</b>	13

The Board has a secretarial which carries out the tasks of preparation of the meetings agenda and record the minutes and resolutions. These minutes are accessible for review by the concerned auditors. The board members strictly adhere to Central Bank of Yemen's instructions in respect of their supervisory activities. These activities are disclosed in the annual report. In compliance with the standards of governance, no member of the Board of Directors participates in a decision making entailing self benefit. The two following tables show the position of each member of the board according to the resolution of the formation of the board.

#### The Main Committees of the Board:

Complying with the requirements of the Central Bank of Yemen and in order to achieve the best performance, and to benefit from the various relative experiences of the members of the board, the board has formed two main committees to assist it in its governance; these are:





## 1. The Provision Committee:

The provision committee consists of three non-executive members of the Board of Directors, nominated by the Board of Directors, the assignments of which are specified according to the instructions of the Central Bank of Yemen.

The Provision Committee's responsibility includes reviewing the provision that are prepared by the executive management to make sure of their adequacy and calculation according to the standards and policies issued by the regulatory authorities. The committee meeting is attended regularly by the Manager of the Credit Department. The committee held four meetings during the year 2007 attended by its head and members as shown in the table below:

## 2. The Supreme Control Committee:

Name	Position	Number of meetings attended
Abdullah A. Saleh	Committee's Chairman	4
Muqbel S. Alqosi	Committee Member	4
Dr. Samir A.Razack Thaleb	Committee Member	4

This committee plays an essential and important role in assisting the Board of Directors to dedicate its accounting, financial and organizational duties as well as controlling of risk limits, in addition to accounts auditing and coordinating with the bank's external auditors. The committee carries out quarterly reviews of the financial figures and assists the Board of Directors in carrying out effective annual reviews of the efficiency of the internal control systems, defining the expected risks and outlining the suitable strategies in order to be put under control.

The Supreme Control Committee is presided by a non-executive member selected out of the Board members and two non-executive members from outside the bank. The committee meeting is attended regularly by the Manager of Audit Department. It held four meetings during the year 2007 attended by its president and members as shown in the table below:

## Internal Control:

Name	Position	Number of meetings attended
Abdullah A. Saleh	Committee Chairman	4
Muqbel S. Alqosi	Committee Member	4
Dr. Samir A.Razack Thaleb	Committee Member	4

Procedures and systems of internal control has been established to ensure the best levels of efficiency and protection of the bank interests. The Board of Directors and the executive management follows, in this respect, suitable practices as a standard to develop and supervise the efficiency of these systems.

The management also sticks on developing the governance of information technology to guarantee the existence of tenacious technologies and effective controlling systems, also modernizing the present managerial structure to clearly define the roles, responsibilities and authorities in the bank, in addition to modernizing the credit policy, financial control, internal audit and risk systems, etc.



Reports are regularly delivered to the Board of Directors on the activities, the operation results and the current situation of the bank, as well as the follow-up and control of the present performance achieved compared to the previously defined targets.

The bank follows the International Financial Report Standards (IFRS) in preparing its accounts and financial statements. The quarterly, half-yearly and annual results of the bank operations are published in the main Arabic and English newspapers in the Republic of Yemen.

The Board of Directors is presently getting assistance from one of the international consultancy firms as part of its responsibilities to modernize the internal control systems within the current framework of the internal control system of the bank.

### **Risk Management:**

The Board of Directors and the executive management bear full responsibility for the risks in the bank. Therefore, the board and management both work hard to create a balance between risks and the realization of revenues to ensure the achievement of the targets set out by the bank. The aim of risk management is the weighing, analyzing, reporting, managing and limiting risks independently within the standards set by the Board of Directors and the relating controlling authorities. The Board is currently working within the project of developing, modernizing and restructuring the bank to review the policies and systems manuals and the control procedures in the risk management according to different types of risks, with the assistance of an international consultancy firm.

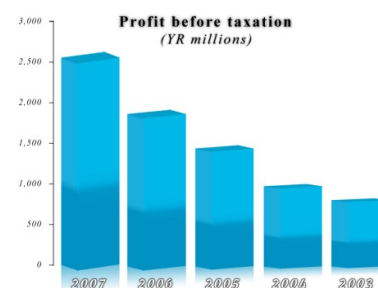
### **Bank's External Auditor:**

The external auditor for auditing the bank's accounts is appointed after a selection and evaluation process which takes into consideration the status of the external auditors and their reputation in terms of the professional skills they enjoy. The bank abides by all the necessary procedures for the appointment of the external auditors according to the instructions issued by the Central Bank of Yemen.

This appointment is based on yearly basis and takes place after the approval of the Central Bank of Yemen. The bank has appointed M/S Dahman RSM to audit its accounts for the year 2007 after the approval of the Central Bank of Yemen.

### **Operational and Financial Performance:**

The net profit of the bank amounted to YR 2,340 million in 2007, with an increase of YR 636 million over the profits gained in 2006, equivalent to 37.3%. The total increase in the operating income amounted to YR 2341 million, as it increased from YR 8,463 in 2006 to YR 10,804 million in 2007 a rate of 27.6%. The net income from interest in 2007 amounted to YR 4,150 million with an increase of YR 680 over 2006 equivalent to 19.6%. The commission and fees income and other operating income registered YR 1,898 million with an increase of YR 655 million over 2006, an increase rate of 52.7%.



The general and administration expenses increased by an amount of YR 221 million with an increase rate of 22.5% i.e. from YR 980 million in 2006 to an amount of YR 1,200 in 2007.

The introduced risk management procedures and the process related to the collection operations resulted in the recovery of YR 743 million in comparison to YR 571 million in the last year.

The earnings per share amounted to YR 360 in 2007 compared



to YR 359 in 2006, i.e. a slight increase of One Yemeni Riyal.

### Financial Position:

It is worth mentioning that total assets raised by YR 11,835 million, an increase of 14.2% over the previous year to reach YR 95,103 million in 2007. Also, cash in hand and reserve balances at the Central Bank of Yemen rose by a ratio of 28.1%.

The balances of local investments showed a raise of 12.1% and the balances with banks raised by 11.4%. Also, net loans and advances raised from YR 7,092 million in the year 2006 to YR 8,915 millions in the year 2007 with an increase of YR 1,823 million compared to the previous year, with an increase rate of 25.7%. The rate of inoperative loans and advances as at 31 December 2007 amounted to 25% of total loans and advances, compared to a rate of 23% at the end of the previous year.

The provision ratio – without taking into consideration the general provision – amounted to 93% as at the end of 2007 compared to 96% by the end of 2006.

Customers deposits registered YR 80,961 millions as at the end of 2007 with an increase of YR 9,295 million compared to the previous year, with a ration of 13%. Despite the modest growth of deposits within the year 2007, it is realized that the real growth is reflected in reducing the dependence on costly deposits and depending more on demand deposits and cash margins which had a big impact on increasing the profitability by reducing costs of financing. The demand deposits and cash margins rates have increased from 29.2% to 33.4% between the years 2006 and 2007.

### Owners' Equity:

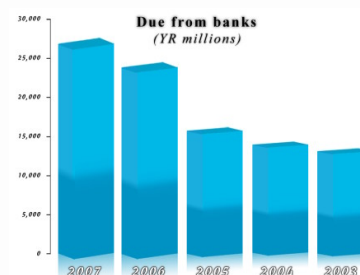
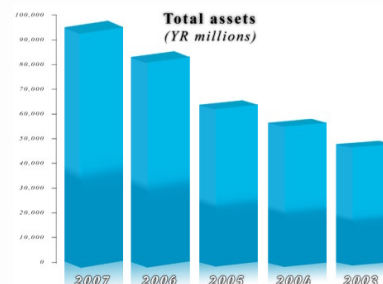
The positive results of the financial and operational performance reflected on the owners' equity which raised with a rate of 39.7% compared to year 2006 to reach YR 9,721 million with an increase of YR 2,225 million, enabling the bank to finance many of the big projects. This increase in the owners' equity reinforced the financial solvency of the bank and, consequently, raised the essential capital adequacy rate to 43% and total working capital to 46% compared to 39% and 43% respectively in the year 2006 according to both Basel Committee resolutions and Central Bank of Yemen directives. In 2007, the bank also achieved the best return on average owners' equity, as it raised from 28.3% to 30.5% in 2007.

### Main Operating Sectors:

The bank performs its activities through three main operations – retail, corporate and investment through its 28 branches network spread throughout the main cities and the other governorates in the Republic.

### Retail Banking Services:

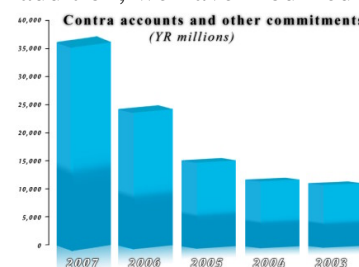
Retail Banking Services group to individuals focus on a number of main issues, as we introduced attractive conditions for the saving accounts product which continued attracting more





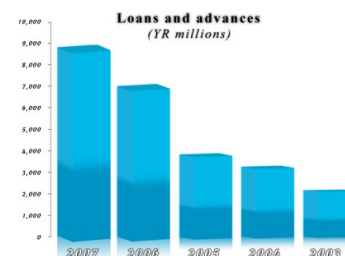


new customers. Also, the conditions of term deposits product has been amended to help customs save a specific amount repeatedly with an attractive interest rate, In addition, we have modified the personal loans policy in order to provide more flexibility for customers in terms of loans limits, interest rates and duration of loan. We have entered into co-operation agreements with many car agencies to provide car loans. We intend to introduce housing loans program with appropriate conditions. We have released this product in co-operation with a big organization in Yemen to finance housing loans for its staff. This real estate finance product is expected to result in attracting many job opportunities for the bank within the coming years benefiting from the strong growth of the real estate sector in our country. The bank has aggravated electronic equipments and computers finance program and other types of consumer finance with attractive conditions. These products have contributed remarkably in enhancing the personal loans portfolio within the year.



During the year 2008, and according to the new strategy of the retail services sectors, it is expected to open more new branches and extend new automatic teller machines (ATMs) in order to achieve the expansion of this banking service, releasing Credit Cards, point of sale (POS), insurance and other products which satisfy the needs of the different segments of customers and lead to growth of the bank profits in short and medium terms.

During 2008, there would also be more concentration on introducing products and services that satisfy customers needs and which comply with the policies and procedures of the bank, with the aim to motivate employees to devote and offer more efforts in order to retain their advanced professional skills in performing the operations and the continuous upgrading of the standard of the services and products.



### Commercial Banking Services:

The Management continued to focus on strengthening communication methods with present customers and widen the scope of its work through entering into new business relations with a number of companies and local business houses with the aim of holding a bigger market share in the banking operations and services and doubling the revenues through creating operation opportunities for direct and indirect finance.

The Management also concentrated on the promotion of diversification of the bank assets and improves customer service delivery techniques.

Also, the Financial Leasing Section has been established as a part of the Commercial Banking Services Group to provide a wide range of financing solutions in response with customers need to finance various types of machineries and equipments. This section would provide more advance and innovative products so as to override options of traditional finance.

In the year 2008, concentration shall be on projects finance and provide appropriate solutions for real estate finance with the financing of small and medium-sized work projects and income generated through fees by widening the base of customers and increasing the number of transactions from current customers.

According to the new bank strategy, we would pursue in the future to develop tradition sectors of our bank operations with a clear focus on strengthening relations and improve performance with corporate customers, providing them with the best services. We intend to focus significantly on financing development projects where we seek to increase our market share





through supporting the biggest companies currently active in such projects. In respect of commercial finance, we are working to expand our market share in order to support the activities of our customers in a better way. Thus, enabling them to benefit from the available economic circumstances.

Our new bank organization structure includes establishing a unit for development of products and services offered to acclaim their satisfaction through promotion of our competence in the dealings and upgrade effectiveness of distribution channels to secure highest possible standards in the field of customers' satisfaction and maintain close relationship with them.

#### **Treasury and Investment Department:**

The Treasury and Investment Department were able – in the year 2007 – to achieve several objectives, of which were:

Increase of return on assets in local and foreign investments and balances with banks, thus reducing its reliance on term deposits from companies, as a result of the bank working on increasing demand deposits balances and term deposits of individuals, and thus achieve diversification of sources of finance. The department of Treasury provides suitable solutions to our companies and institution customers to ensure their needs of foreign currency. It also operates actively in the field of liquidity management according to the policies and directives laid down by the Assets and Liabilities Committee. We look forward to develop new products and services in this field, according to the new bank strategy, to be released to customers shortly.

#### **International Banking Relations:**

Foreign Relations Department undertakes the tasks of supporting and facilitating trade and builds relations with international financial institutions. It also undertakes the management of the bank's international operations and the bank's relations with correspondent banks, as the

bank deals with more than 80 financial institutions all over the world. The department has been very active throughout the year in promoting foreign trade operations and coordinating with counter party banks relating to credit lines facilitated by the treasury.

#### **Credit Risk Management:**

Credit and risk management group work on setting the bank's Credit Policy to manage the various risks, such as credit risk, market risk, operation risk and liquidity risk. It works independently from the department of marketing services and products to customers, since it is responsible for defining, weighing and monitoring risks acceptable by the bank. This group co-operates with the internal audit department and the investigation unit for anti money laundering operations conforming to the bank's policies and procedures. The administration and monitoring of credit risks are exercised through the selection of customers who enjoy good reputation and through credit analysis and obtaining sufficient guarantees and continuous monitoring. Credit limits are set for customers, with analysis and evaluation of portfolio, in addition to setting credit concentration limits. Also, evaluation of total credit portfolio periodically is undertaken to avoid the risks of credit concentration in terms of type of facilities or sector or customer – wise level or geographical distribution. Besides, we are endeavoring, this year, to complete reform of policies, procedures and re-organization of credit, the preparation of which started during last year within the scope of the bank's comprehensive restructure to be implemented by an international consultancy firm. These reforms include credit operations analysis, risk evaluation and consumer credit, knowing that the bank depends on a conservative policy to weigh and monitor credit risks and the formation of sufficient provisions to cover doubtful assets. In addition, the policies and procedures of liquidity monitoring and administration confirmed by management,



ensures the bank's ability to finance its operations efficiently and fulfill its possible current and future obligations, such as loans and ad-hoc obligations and the operations of unexpected withdrawals from deposits.

The Treasury Department, in cooperation with other departments in the bank, undertakes the responsibility of administrating liquidity on a daily basis.

In respect of market risk, and in order to avoid getting involved in unreasonable risks in dealing with customers, the bank is obliged by controls set by the Central Bank of Yemen in respect of currencies open positions.

The bank also deals with interest rate risk through matching the re-pricing of assets and liabilities with the various means and operations within the defined limits of gaps.

In addition, the bank maintains the internal procedures systems and the human resources necessary to control operation risks and to ensure the existence of secure monitoring environment for internal monitoring procedures in the bank. Some of the procedures adopted by the bank to manage risk operations are summarized in effective training documentation of operations and procedures in addition to establishing adequate monitoring systems to safeguard the bank's assets and registers, with regular reconciliation of accounts and transactions and continuous monitoring of credit limits and the segregation between duties and the edition of administrative reports. In addition, the internal audit department carries out independent and regular evaluation of internal monitoring procedures of all branches and departments and submits its report to the Audit Committee formed by the Board.

The bank's risk strategy is based on understanding and evaluating the current risks in a clear manner, in addition to evaluating the level of efficiency of the internal monitoring system in mitigating these risks and provide continuous and effective control. The availability of governance of risk administration through various committees at the level of the Board of Director and the executive administration of the bank, such as the Credit Committee, the Investment Committee and the Assets and Liabilities Committee.

In addition, our effort was concentrated on the control of credit costs and reserves policies which resulted in provisioning the targeted ratio of classified loans.

We aim, within our project of the comprehensive restructuring of the bank to establish unified procedures in every unit of the bank, competitive to the best international practice according to the requirements of Basel II in order to identify, evaluate, analyze and report on the risks. All such processes would enable the bank to identify points of weakness in the internal control system, and establish imperative solutions in order to solve them and mitigate from their frequent occurrence

#### **Commitment:**

Great efforts in this respect include setting procedures competitive with the Legal requirements issued by the concerned authorities of the state, to identify and be acquainted with the customer, complete the policies and procedures pertaining to money laundering, and monitoring







customers' activities, in addition to establishing an investigation unit and redrafting the procedures and policies relating to the anti money laundering committee within the administrative manuals of the bank.

### Information Technology:

Within the year 2007, the bank has executed many initiatives to innovate information technology and programs integrated to information systems at head office departments and branches level. Also, the bank has started with procedures to reinforce information technology infrastructure in order to start with the application of the second phase of the bank's modernization and restructuring project.

In addition, SWIFT Systems and the banking system in branches witnessed new supportive to implement more operations by using automation systems. There had, also, been a preparation and design of a special strategy for automation and technology for the coming five years in assistance with an international consultancy firm, which includes the organization restructuring of the information systems management, establishing an information technology security unit with qualified manpower, identifying the specification of equipments and appropriate banking systems competitive with the general strategy of the bank and its practical application, prepare RFP for programs and banking systems according to the general strategy of the bank which aims at promoting work process technology of the bank to the standard of the international banking industry and shortening the time span of the transactions served to the customer. The bank has sent RFP to a limited number of qualified international companies specialized in the field of programming and banking core systems early 2008, during which the bank shall witness releasing a number of electronic payment methods, particularly the payment card, in addition to improving the delivery channels for these services and completing the preparation of the banking system to link with the Yemen Company for Financial services specialized in the field of electronic payment operations and the issuance of cards for electronic payment methods.

### Human Resources Development:

The bank concentrates on human resources development, in pursuance of its policies which aim to attract and train young national cadres. During the year, the bank has managed to attract a number of newly graduates from State universities, train them in administrative and technical training programs, and allow them to participate in a number of internal and external theoretical courses, in addition to practical on-job training in order to enhance their skills and make them productive and effective when joining their assignments. The bank management has transcribed this interest in developing the human resources from staff-participation in banking technical and financial courses and seminars organized by local Arabic and International Organizations. The number of trainees reached to (194) in the year 2007 participated in (54) local and foreign training programs in the fields of: sales, services, operations, credit and risks aimed at improving employees' skills and make them acquainted with the latest banking techniques.

On the other hand, the bank, within its strategy which aims at continuing growth, and in support with an international consultancy firm, within the framework of the bank's modernization and





development project, has prepared and designed an employment plan to meet the bank needs of human resources for the coming five years. The bank's management expects in this strategy to attract a number of local and Arab experts and highly specialized personnel and provide opportunities for bank staff improvement. The bank has established a specialized unit in job qualification within the human resources department in the new organizational structure of the bank to confirm our commitment to assist our staff to achieve their ambitious career and build a cadre with a feeling of loyalty and trust in an economic enterprise. In the next year, the bank shall enter into contracts, on a selective basis, with Arab banking candidates having experience which is not available in the local market.

### **Customers' Services:**

In order to preserve our leading position, the bank started, in the year 2007, in following different procedures aiming at promoting customers' services, through offering the bank's products and services to customers timely and with reasonable cost, in addition to automation procedures. The bank, during this year, and within its scope of modernization project and total restructuring, which is executed with the assistance of an international consultancy firm, has worked to restructure the branches as points of sale to customers, according to the specification of modern banking industry. In addition to performing the operation via the network and the increased effectiveness of distribution channels within the framework of technology and automation strategy currently implemented by the bank to ensure highest possible level in the field of customers' satisfaction.

Also, within the framework of preserving close relations with the customers, we continued keeping them well informed about our new initiatives and achievements, which lead to raise the level of our customers' satisfaction. We shall continue in future to strengthen the relations and improve its administration with corporate customers, providing them with better services in order to secure their loyalty.

### **Social Responsibility:**

The bank practices a number of activities in the social field that reflected in its continuous support to the humanitarian issues. It continued in distributing donations to needy individuals and organizations as a contribution in charity work and humanitarian activities.

The bank supported the social activities of a number of charity associations and some of the financial institutions interested in developing human resources working in local banks.

The bank also continued encouraging and supporting the events and school, cultural, professional, educational and sports activities through its direct participation and patronage for these events and activities. The most prominent was supporting of the School Day event and the traffic administration campaign under the organization of the bank of using safety belts for safety and prevention from traffic accidents. It organized and supported a number of sports events, like arranging the five-year President of the Republic football championship and contributes in supporting Aden Marine Festival held under patronage of His Excellency, the President of the Republic. These events witnessed intensive presence of the public and acclaimed great success.

### **Bank Strategy 2007-2011**

In order to keep up with the continuous change which formed part of the current work environment, every institution has to re-evaluate and re-design its strategy and systems every five years, as it necessary in order to encounter the banking market development. As a result, the



bank adopted a large project in the year 2007, which included the bank's five-year strategy, the implementation of which started in the year 2007.

One of the biggest consultancy firms has worked with us to provide us with its distinguished vision of our position from an outside view. We carried out a comprehensive strategic analysis of our present activities in view of our competitive position in the market, to motivate every

activity and evaluate our capabilities. This has assisted us, simultaneously, with an overall study of the bank re-structure, and the expectations of the local banking market growth trends, to arrive to a number of strategic objectives which aim remarkably at reinforcing the economic value of the bank throughout the next five years. Our comprehensive strategy does not only

cover the geographic domain, development of products and services and pricing, but it also covers sources of competitive peculiarities.

Lastly, but not the least, we are pleased to take this opportunity to express our sincere gratitude and appreciation to our prudent government under the leadership of His Excellency, Ali Abdullah Saleh, President of the Republic, bank customers and correspondents on their great trust. We also express our sincere gratitude and appreciation to the bank's management and its employees who, without the dedication, loyalty and sincere concentrated efforts in their work, the achievement of these good results would not be possible.

*Board of Directors,  
National Bank of Yemen  
Aden, 29 January, 2008*





**INDEPENDENT AUDITOR'S REPORT  
TO H.E. THE MINISTER OF FINANCE  
ON THE NATIONAL BANK OF YEMEN**

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](mailto:dahmanco@yemen.net.ye)  
[admin@dahman-rsm.net](mailto:admin@dahman-rsm.net)  
<http://www.dahman-rsm.com>

**Report on the Financial Statements**

We have audited the accompanying financial statements of the National Bank of Yemen (The Bank) which comprises the balance sheet as of 31 December 2007, the related income statement, statement of changes in owners' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and related Yemeni laws and regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and of its financial performance, the changes in owners' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and related Yemeni laws and regulations.

**Report on other Legal and Regulatory Requirements**

We have obtained all the information and explanations which we required for the purpose of our audit. We also confirm that, in our opinion, proper accounting records have been kept by the Bank and the accompanying financial statements are in agreement therewith. According to our knowledge and belief no violations to the provisions of the Banks Law no. 38 of 1998, Commercial Companies Law no. 22 of 1997 as amended, the Public Companies and Establishments Law no. 35 of 1991 or guidelines of Central Bank of Yemen have occurred during the year ending 31 December 2007.

  
Dahman Awadh Dahman, FCCA  
Registered Licensed Accountant No. 384  
For **DAHMAN**  
A Member of **RSM International**

29 January 2008,  
Aden, Republic of Yemen

Dahman  
is a member firm of  
RSM International,  
an affiliate of independent  
accounting and consulting firms





**ASSETS**

	Note	31 December 2007 YR' 000	31 December 2006 YR' 000
Cash on hand and reserve balances with the Central Bank of Yemen	5	12,950,745	10,112,819
Due from banks	6	26,740,642	24,013,103
Treasury bills, net	7	33,423,127	28,954,836
Certificates of deposit with the Central Bank of Yemen	8	9,350,000	9,200,000
Loans and advances to customers, net of provision	9	8,914,584	7,092,222
Available for sale investments, net	10	144,604	140,485
Debit balances and other assets	11	1,661,402	1,882,923
Property, plant and equipment, net of accumulated depreciation	12	1,917,874	1,871,837
<b>TOTAL ASSETS</b>		<b>95,102,978</b>	<b>83,268,225</b>

**LIABILITIES AND OWNER'S EQUITY****LIABILITIES**

Due to banks	13	572,858	99,598
Customers' deposits	14	80,961,204	71,666,203
Credit balances and other liabilities	15	2,587,898	3,089,047
Income tax payable	16	1,260,109	917,415
<b>TOTAL LIABILITIES</b>		<b>85,382,069</b>	<b>75,772,263</b>

**OWNER'S EQUITY**

Capital	17	7,500,000	5,500,000
Surplus on revaluation of property reserve	17	639,762	639,762
Reserves	17	1,559,832	1,336,640
Cumulative changes in the fair value reserve	17	21,315	19,560
<b>TOTAL OWNER'S EQUITY</b>		<b>9,720,909</b>	<b>7,495,962</b>

**TOTAL LIABILITIES AND OWNER'S EQUITY****CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET**

18	36,125,309	23,682,842
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Independent Auditor's Report attached (page 1).

Notes 1 to 38 form an integral part of these financial statements.

Arwa Ali Suleiman Al-Koori  
Manager Statistic & Research

Sami Abdul Hamid Mackawee  
First Deputy General Manager

Abdul Rahman Mohammed AlKuhali  
Chairman and General Manager

INCOME STATEMENT  
For The Year Ended 31 December 2007



	Note	2007 YR' 000	2006 YR' 000
OPERATING INCOME			
Interest on loans and advances and due from banks	19	2,674,370	1,920,572
Interest on treasury bills		4,729,607	4,353,372
Interest on certificates of deposit with the Central Bank of Yemen		1,501,680	945,975
Total interest income		8,905,657	7,219,919
Cost of deposits	20	(4,755,558)	(3,749,932)
Net interest income		4,150,099	3,469,987
Commissions and fee income on banking services	21	724,567	522,663
Income on available for sale investments		2,359	884
Gain on foreign currency transactions	22	71,936	82,039
Other operating income	23	1,099,469	637,559
NET OPERATING INCOME		6,048,430	4,713,132
OPERATING EXPENSES			
Commissions and fee expenses on banking services		77,296	31,511
General and administration expenses	24	1,200,402	979,583
Provisions	25	1,105,420	1,030,853
TOTAL OPERATING EXPENSES		2,383,118	2,041,947
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		3,665,312	2,671,185
Zakat	26	(65,000)	(50,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		3,600,312	2,621,185
Provision for income tax	16	(1,260,109)	(917,415)
PROFIT FOR THE YEAR		2,340,203	1,703,770
Basic earnings per share	27	YR 360	YR 359

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 2007

	<b>Capital</b>	<b>Revaluation</b>	<b>Statutory</b>	<b>General</b>	<b>Cumulative</b>	<b>Profit for</b>	<b>Total</b>
	<b>YR '000</b>	<b>Reserve</b>	<b>Reserve</b>	<b>Reserve</b>	<b>Changes in Fair</b>	<b>the Year</b>	<b>YR '000</b>
		<b>YR '000</b>	<b>YR '000</b>	<b>YR '000</b>	<b>Value Reserve</b>	<b>YR '000</b>	
					<b>YR '000</b>		
Balance at 31 December 2005	4,000,000	639,762	805,176	412,881	18,268	-	5,876,087
Net movement in fair value for the year	-	-	-	-	1,292	-	1,292
Profit for the year	-	-	-	-	-	1,703,770	1,703,770
Transfer to statutory reserve	-	-	255,566	-	-	(255,566)	-
Transfer to general reserve	-	-	-	255,566	-	(255,566)	-
Government's share in profit transferred to capital	1,107,451	-	-	-	-	(1,107,451)	-
Transfer from general reserve to capital	392,549	-	-	(392,549)	-	-	-
Employees' share in profit	-	-	-	-	-	(85,187)	(85,187)
Balance at 31 December 2006	5,500,000	639,762	1,060,742	275,898	19,560	-	7,495,962
Net movement in fair value for the year	-	-	-	-	1,755	-	1,755
Profit for the year	-	-	-	-	-	2,340,203	2,340,203
Transfer to statutory reserve	-	-	351,030	-	-	(351,030)	-
Transfer to general reserve	-	-	-	351,030	-	(351,030)	-
Government's share in profit transferred to capital	1,521,132	-	-	-	-	(1,521,132)	-
Transfer from general reserve to capital	478,868	-	-	(478,868)	-	-	-
Employees' share in profit	-	-	-	-	-	(117,011)	(117,011)
Balance at 31 December 2007	<u>7,500,000</u>	<u>639,762</u>	<u>1,411,772</u>	<u>148,060</u>	<u>21,315</u>	<u>-</u>	<u>9,720,909</u>

The Bank's Board of Directors, in its meeting held on 15 April 2007, resolved to increase the capital of the Bank to YR 10,000,000 thousands. H.E the Minister of Finance has approved the increase in the capital. The capital will be raised from the Government's share of profit at the end of each year as the Board of Directors will decide until the amount of the capital reaches YR 10,000,000 thousands. As a result, the Board of Directors in its meeting held on 29 January 2008 has resolved to increase the capital of the Bank by YR 2,000,000 thousands by transferring of the Government share of profit for the year 2007 amounting to YR 1,521,132 thousands and the balance amount of YR 478,868 thousand from the general reserve. Details of the transfer to reserves are given in note no.17.

Notes 1 to 38 form an integral part of these financial statements



STATEMENT OF CASH FLOWS  
For The Year Ended 31 December 2007



	2007 YR 000	2006 YR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year before the Zakat and provision for Income tax	3,665,312	2,671,185
Adjustments for:		
Provision for losses on loans and advances and on contra accounts made during the year	1,083,975	968,051
Provision for losses on loans and advances and contra accounts written back during the year	(782,387)	(607,799)
Amount utilized during the year from provision for losses on loans and advances	(7,406)	(1,025)
Revaluation of balances of provision for losses on loans and advances and on contra accounts	4,864	10,938
Income from sale of property, plant and equipment	(5,290)	-
Income tax paid	(917,415)	(704,870)
Zakat paid	(65,000)	(50,000)
Depreciation of property, plant and equipment	67,832	58,128
<b>Net operating profit before changes in assets and liabilities related to operating activities (1)</b>	<b>3,044,485</b>	<b>2,344,608</b>
<b>CHANGES IN BANKING ASSETS AND LIABILITIES</b>		
Reserve balances with the Central Bank of Yemen	(1,877,906)	272,742
Treasury bills maturing after three months, net of unamortized discount	(4,145,848)	-
Due from banks maturing after three months	(2,106,043)	514,889
Loans and advances to customers before provision but after suspended interest	(1,990,275)	(3,542,485)
Debit balances and other assets	221,521	(144,618)
<b>Net (increase) in assets (2)</b>	<b>(9,898,551)</b>	<b>(2,899,472)</b>
Due to banks	473,260	1,684
Customers' deposits	9,295,001	14,957,174
Credit balances and other liabilities	(632,281)	412,369
<b>Net increase in liabilities (3)</b>	<b>9,135,980</b>	<b>15,371,227</b>
<b>CASH FLOWS FROM/ (USED IN) INVESTMENT ACTIVITIES</b>		
Purchase of property, plant and equipment	(113,870)	(153,006)
Sale proceeds from sale of property, plant and equipment	5,290	-
Purchase of available for sale investments	(2,364)	(61,200)
<b>Net cash flows (used in) investing activities (4)</b>	<b>(110,944)</b>	<b>(214,206)</b>
<b>CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES</b>		
Government's share in the profit for the year	(1,521,132)	(1,107,451)
Increase in the capital	1,521,132	1,107,451
Employees' share in the profit for the year	(117,011)	(85,187)
<b>Net cash flow (used in) financing activities (5)</b>	<b>(117,011)</b>	<b>(85,187)</b>
<b>Net increase in cash and cash equivalents (1+2+3+4+5)</b>	<b>2,053,959</b>	<b>14,516,970</b>
Cash and cash equivalents at 1 January	61,886,479	47,369,509
<b>Cash and cash equivalents at 31 December</b>	<b>63,940,438</b>	<b>61,886,479</b>
<b>Represented by:</b>		
Cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	10,112,819
Due from banks	26,740,642	24,013,103
Treasury bills and certificates of deposit with the Central Bank of Yemen	42,773,127	38,154,836
Reserve balances with the Central Bank of Yemen	(11,226,434)	(9,348,528)
Treasury bills maturing after three months, net of unamortized discount	(4,145,848)	-
Due from banks maturing after three months	(3,151,794)	(1,045,751)
<b>Cash and cash equivalents at 31 December</b>	<b>63,940,438</b>	<b>61,886,479</b>

Notes 1 to 38 form an integral part of these financial statements.



## 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 Bank undertakes all banking activities through its head office and 28 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, one in Hodeidah and Taiz each. The bank is registered under Registration Number 1748 and its Head Office is at Queen Arwa Street, P. O. Box no. 5, Crater, Aden, Republic of Yemen.

In its meeting held on 29 January 2008, the Bank's Board of Directors approved these financial statements and decided to submit them to the relevant authorities for approval to publish them.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation of Financial Statements

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, financial assets and financial liabilities held at fair value through profit or loss and that have been measured at fair value. The financial statements are presented in Yemeni Riyals and all values are rounded to the nearest one thousand Yemeni Riyal except when otherwise is indicated.

#### Statement of Compliance

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force at 31 December 2007 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB in force at 31 December 2007, the requirements of the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen including those covered by the Central Bank of Yemen circular no. 2 of 2002 regarding the format of the financial statements.

#### *a) Amendments to published standards and interpretations effective 1 January 2007:*

For the preparation of these financial statements, the following new standards and interpretations became mandatorily applicable and were not early adopted last year:

- IFRS 7: Financial Instruments - Disclosures and IAS 1 (Amendment): Capital Disclosures, effective from 1 January 2007. IFRS 7 introduces new disclosures to improve the information about financial instruments and the Bank has disclosed additional qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures and risk management policies. IFRS 7 adds certain new disclosures about financial instruments to those currently required by IAS 32 and replaces the disclosure requirement for banks currently required by IAS 30.

The other interpretations listed below became mandatory for annual periods beginning on or after 1 March 2006. The application of these interpretations did not result in substantial changes to the Bank's accounting policies or disclosures.

- IFRIC 7: Applying the Restatement Approach under IAS 29, effective from 1 March 2006;
- IFRIC 8: Scope of IFRS 2, effective from 1 May 2006;
- IFRIC 9: Reassessment of embedded derivatives, effective from 1 June 2006;
- IFRIC 10: Interim Financial Reporting and Impairment, effective from 1 November 2006;
- IFRIC 11: IFRS 2-Group and Treasury Share Transactions, effective from 1 March 2007.

#### *b) Standards and interpretations issued but not yet effective:*

For the avoidance of doubt, the following standards and interpretations, which were issued by IASB before 31 December 2007 and are not yet in effect, have not been adopted early:

- IFRS 8: Operating Segments, effective from 1 January 2009;
- IAS 1: Presentation of Financial Statements (as revised in 2007), effective from 1 January 2009;
- IAS 23: Borrowing Costs (as revised in 2007), effective from 1 January 2009;
- IFRIC 12: Service Concession Arrangements, effective from 1 January 2008;
- IFRIC 13: Customer Loyalty Programmes, effective from 1 July 2008;
- IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective from 1 January 2008.

The Bank does not foresee that the application of these standards/interpretations will result in a significant impact on figures and disclosures on the reporting period they will be adopted.

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of Preparation of Financial Statements (Continued)**Statement of Compliance (Continued)

The exceptions to International Financial Reporting Standards in compliance with local laws and regulations issued by the Central Bank of Yemen are:

- i) The adoption of minimum fixed percentages for losses on non performing 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 and advances 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 2007.

**2.2 Significant Accounting Judgments and Estimates**

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of policies and reported amounts of the financial assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates considered by the management of the Bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The Bank takes into consideration the following factors when determining the provisions for loans and advances and contingent liabilities:

- The overall customer's financial position;
- Risk percentage i.e. the ability of the customer to conduct profitable business activities and collect enough money to pay the debt;
- Value of the collateral and possibility of transferring ownership to the Bank; and
- Cost of settling the debt.

Management Estimates

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

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**2.3 Summary of Principal Accounting Policies**

The following accounting policies have been applied consistently by the Bank in dealing with significant items of the financial statements:

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 bank 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.

Foreign currencies

- (i) The Bank maintains its records in Yemeni Riyals which are the Bank's functional and presentation currency.
- (ii) Transactions denominated in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the value date of the transactions. Balances of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Yemeni Riyals at the rate of exchange rate ruling on that date. All realized and unrealized gains or losses resulting from revaluation are taken to "other operating income" or "other operating expense" in the income statement.
- (ii) The Bank does not deal in forward foreign exchange contracts.





## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Summary of Principal Accounting Policies (Continued)

#### Revenue Recognition

- (i) Interest income is recognized in the income statement on the accrual basis using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. However, in order to comply with the requirements of the Central Bank of Yemen circular no. 6 of 1996, the Bank does not accrue interest income on non-performing loans and credit facilities. When an account is classified 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 income. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established.
- (ii) In accordance with the Central Bank of Yemen circular no. 2 of 2000, any provisions written back are included under "other operating income".
- (iii) Commission and other fee income are recognized when earned.

#### Cash and Cash Equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand, cash balances with the Central Bank of Yemen other than statutory reserve balances, demand deposits with other banks, treasury bills and certificates of deposit with the Central Bank of Yemen maturing within three months from the date of acquisition.

#### Due from Banks and other Money Market Placements

Deposits and balances due from banks are presented at cost after deducting any amount that has been written off and any impairment in their value. All money market and customer deposits are carried at amortised cost.

#### Treasury Bills

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 outstanding at the balance sheet date.

#### Certificates of Deposits

Certificates of deposit issued by the Central Bank of Yemen and are stated at cost. The accrued interest on certificates of deposit is included under "debit balances and other assets".

#### Provision for Losses on Loans and Contingent Liabilities

In order to comply with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998, provision is made for specific loans, overdrafts, advances 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, 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%

When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, or if directed by the Central Bank of Yemen upon review of the portfolio, it will be written off by debiting the provision. Loans to customers are presented in the balance sheet net of provision and uncollected interest. Proceeds from loans and advances previously written off in prior years are credited to "other operating income".

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For The Year Ended 31 December 2007



## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.3 Summary of Principal Accounting Policies (Continued)**

#### Investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

As of the financial statements date, non trading investments are classified either as available for sale or held for maturity.

#### i) *Available for sale investments:*

After initial recognition, investments, which are classified as "available for sale", are re-measured at fair value. Fair value changes are included in equity in the period in which they arise, except for changes in impairment losses and in the case of monetary items, foreign exchange gains and losses. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

#### ii) *Held to maturity investments:*

Where the Bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses. Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and taken to interest income.

#### Property, plant and equipment, net of accumulated depreciation

Property comprising land and buildings are recorded at their revalued amounts. Other plant and 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 or revalued amount, 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.

#### Real Estate Properties Acquired from Customers in Settlement of Loans Pending Sale /Collateral Pending Sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. In accordance with the Banks Law no. 38 of 1998 and the Central Bank of Yemen instructions assets 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 assets were acquired less any decline in their value. Any decline is charged to the statement of income.

#### Social Security Provision

The employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law no. 25 of 1991.

#### Contingent Liabilities and Commitments

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

#### Acceptances

Under IAS 39 (revised), acceptances are disclosed on the balance sheet under "debit balances and other assets" with corresponding liability disclosed under "credit balances and other liabilities". As a result, there is no off balance sheet commitment for acceptances.

#### Financial Assets at Fair Value Through Income Statement

This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Summary of Principal Accounting Policies (Continued)

#### Taxation

Taxation for the year is provided for in accordance with the Income Tax Law no. 31 of 1991 as amended by the Republican Decree Law no. 12 of 1999 and the provision of article no. 85 of the Banks Law no. 38 of 1998.

#### Zakat

The Bank pays zakat, in accordance with the Zakat Law no. 9 of 1999 to the Zakat Authority that decides on its allocation.

#### Related Party Transactions

Disclosures are made in the financial statements of loans and advances and contingent liabilities to related parties and in particular to members of the board of directors, senior management and their families and companies in which they own 25% or more of its 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

#### Impairment of Assets

The Bank assess at each balance sheet date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash generation unit's fair value less costs to sell and its value in use and determined for an individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement consistent with the function of the impaired asset.

- An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.
- A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systemic basis over its remaining useful life.

#### Offsetting the financial assets and liabilities

Financial assets and financial liabilities are only offset and the resultant net balance is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

## 3 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.

## 4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

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

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



**4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (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 above-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 period reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans;
- distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.

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

	31 December 2007 YR '000	31 December 2006 YR '000
<b>Assets:</b>		
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	11,240,202	9,388,281
Due from Bank	26,740,642	24,013,103
Treasury bill	33,423,127	28,954,836
Certificate of deposits with Central Bank of Yemen	9,350,000	9,200,000
Loans and advances to customers, net of provision	8,914,584	7,092,222
Available for sale investments, net	144,604	140,485
Debit balances and other assets	1,661,402	1,882,923
<b>Total assets</b>	<b>91,474,561</b>	<b>80,671,850</b>
<b>Contra accounts and other commitments</b>	<b>44,655,854</b>	<b>27,076,732</b>
<b>Total credit risk exposure</b>	<b>136,130,415</b>	<b>107,748,582</b>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 31 shows the distribution of financial instruments over different economic sectors and note no. 32 shows the distribution of financial instruments based on geographical locations.

**Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal circumstances. To limit this risk, the bank's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.



#### 4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Liquidity risk (continued)

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

As at 31 December 2007

	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
LIABILITIES					
Due to banks	572,858	-	-	-	572,858
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	80,961,204
Income tax payable	-	1,260,109	-	-	1,260,109
Total liabilities	50,181,363	10,746,648	20,399,413	1,466,747	82,794,171

As at 31 December 2006

	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
LIABILITIES					
Due to banks	99,598	-	-	-	99,598
Customers' deposits	47,554,119	7,656,869	16,377,365	77,850	71,666,203
Income tax payable	-	917,415	-	-	917,415
Total liabilities	47,653,717	8,574,284	16,377,365	77,850	72,683,216

In addition to the above, note no. 29 shows the maturity analysis of assets and liabilities and the net gap between the two.

##### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or 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)  
For The Year Ended 31 December 2007



#### 4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Interest rate risk (continued)

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

As at 31 December 2007	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR000	YR000	YR000	YR000	YR000	YR000
<b>ASSETS</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	4,779,268	-	-	-	8,171,477	12,950,745
Due from banks	16,213,741	2,673,410	398,580	-	7,454,911	26,740,642
Treasury bills, net	29,277,279	-	4,145,848	-	-	33,423,127
Certificates of deposit with Central Bank of Yemen	9,350,000	-	-	-	-	9,350,000
Loans and advances to customers, net of provision	2,269,069	1,470,377	2,045,873	3,129,265	-	8,914,584
Available for sale Investments, net	-	-	-	-	144,604	144,604
Debit balances and other assets	340,363	14,792	1,849	925	1,303,473	1,661,402
Property plant and equipments	-	-	-	-	1,917,874	1,917,874
Total assets	62,229,720	4,158,579	6,592,150	3,130,190	18,992,339	95,102,978
<b>LIABILITIES AND OWNER'S EQUITY</b>						
Due to banks	-	-	-	-	572,858	572,858
Customers' deposits	29,734,897	8,777,278	16,705,107	-	25,743,922	80,961,204
Credit balances and other liabilities	521,058	70,413	112,662	-	1,883,765	2,587,898
Income tax payable	-	-	-	-	1,260,109	1,260,109
Owner's equity	-	-	-	-	9,720,909	9,720,909
Total liabilities and owner's equity	30,255,955	8,847,691	16,817,769	-	39,181,563	95,102,978
Interest rate sensitivity gap	31,973,765	(4,689,112)	(10,225,619)	3,130,190	(20,189,224)	-
Cumulative interest rate sensitivity gap	31,973,765	27,284,653	17,059,034	20,189,224	-	-
 As at 31 December 2006						
	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Non Interest Sensitive	Total
	YR000	YR000	YR000	YR000	YR000	YR000
<b>ASSETS</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	3,929,006	-	-	-	6,183,813	10,112,819
Due from banks	21,039,568	-	-	1,045,751	1,927,784	24,013,103
Treasury bills, net	28,954,836	-	-	-	-	28,954,836
Certificates of deposit with Central Bank of Yemen	9,200,000	-	-	-	-	9,200,000
Loans and advances to customers, net of provision	1,696,691	482,742	1,956,461	2,956,328	-	7,092,222
Available for sale Investments, net	-	-	-	-	140,485	140,485
Debit balances and other assets	338,658	-	-	3,200	1,541,065	1,882,923
Property plant and equipments	-	-	-	-	1,871,837	1,871,837
Total assets	65,158,759	482,742	1,956,461	4,005,279	11,664,984	83,268,225
<b>LIABILITIES AND OWNER'S EQUITY</b>						
Due to banks	-	-	-	-	99,598	99,598
Customers' deposits	26,516,495	7,166,620	15,049,903	-	22,933,185	71,666,203
Credit balances and other liabilities	430,463	26,904	112,662	-	2,519,018	3,089,047
Income tax payable	-	-	-	-	917,415	917,415
Owner's equity	-	-	-	-	7,495,962	7,495,962
Total liabilities and owner's equity	26,946,958	7,193,524	15,162,565	-	33,965,178	83,268,225
Interest rate sensitivity gap	38,211,801	(6,710,782)	(13,206,104)	4,005,279	(22,300,194)	-
Cumulative interest rate sensitivity gap	38,211,801	31,501,019	18,294,915	22,300,194	-	-

In addition to the above note no. 30 shows the average interest rates on assets and liabilities applied during the years ended 31 December 2007 and 31 December 2006.





#### 4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Exchange rate risk

Due to the nature of the Bank's activities, the Bank deals in different foreign currencies; hence it is exposed to exchange rate risk. The Bank strives to maintain a balanced foreign currencies positions in compliance with the Central Bank of Yemen instructions and the requirements of the 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. In order to comply with the Central Bank of Yemen circular no. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies to the Central Bank of Yemen at the prevailing rates on the dates of sale. The significant foreign currency positions of the Bank are shown in note no. 35.

The Bank had the following significant net exposures to foreign currencies:

<u>2007December 31As at</u>	<i>United States Dollar</i>	<i>Pound Sterling</i>	<i>Euro</i>	<i>Saudi Riyal</i>	<i>Other currencies</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>
Assets	28,285,131	2,034,353	2,699,212	1,473,800	137,956	34,630,452
Liabilities	(27,522,604)	(1,738,606)	(2,402,699)	(1,188,063)	(111,866)	(32,963,838)
Net currency position	<u>762,527</u>	<u>295,747</u>	<u>296,513</u>	<u>285,737</u>	<u>26,090</u>	<u>1,666,614</u>
 <u>200cember De 31As at 6</u>	 <i>United States Dollar</i>	 <i>Pound Sterling</i>	 <i>Euro</i>	 <i>Saudi Riyal</i>	 <i>Other currencies</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>
Assets	30,448,258	1,751,656	589,860	1,127,675	58,807	33,976,256
Liabilities	(29,565,286)	(1,523,230)	(439,002)	(1,004,431)	(43,905)	(32,575,854)
Net currency position	<u>882,972</u>	<u>228,426</u>	<u>150,858</u>	<u>123,244</u>	<u>14,902</u>	<u>1,400,402</u>

##### Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with external imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios. The capital adequacy are monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the Central Bank of Yemen for supervisory purposes. The required information is filed with the Central Bank of Yemen on a quarterly basis.

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

The total capital of the Bank is divided in two tiers:

Tier 1 capital: which comprises the share capital, statutory reserves and general reserve.

Tier 2 capital: which comprises the revaluation reserves and unrealized gains arising from any changes in fair value of available for sale investments.

Investment in any local bank or finance company is deducted from the Tier 1 and Tier 2 capital. The balance of general provision for loans and advances is added to the Tier 1 and Tier 2 capital.

The risk - weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of potential losses.

The Bank complied with all the externally imposed capital requirements to which they are subject.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For The Year Ended 31 December 2007



#### 4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Capital management (continued)

The capital adequacy is calculated as follows:

	31 December 2007 YR 'millions	31 December 2006 YR 'millions
Tier 1 capital		
Capital	7,500	5,500
Statutory reserve	1,411	1,061
General reserve	148	276
Total Tier 1 capital	9,059	6,837
Tier 2 capital		
Property revaluation reserve	640	640
Fair value reserve	21	20
Total Tier 2 capital	661	660
Investment in any local banks or financial companies	(62)	-
General provision balance as at year end	132	64
Total qualifying capital	9,790	7,562
Risk weighted assets		
On balance sheet	14,024	12,306
Off Balance sheet	7,218	5,216
Total risk - weighted assets	21,242	17,522
Capital adequacy ration		
Tier 1 capital	43%	39%
Total capital	46%	43%

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

	31 December 2007 YR '000	31 December 2006 YR '000
Cash on hand:		
In local currency	864,470	346,860
In foreign currencies	846,073	377,678
Cheques purchased, net	13,768	39,753
Total cash on hand	1,724,311	764,291
Reserve balances with the Central Bank of Yemen:		
In local currency	4,779,268	3,929,006
In foreign currencies	6,447,166	5,419,522
Total reserve balances with the Central Bank of Yemen	11,226,434	9,348,528
Total cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	10,112,819

In accordance with the Yemeni Banks Law no. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at 10% on local currency and 20 % on foreign currencies of its demand, time and other deposits. The rate of interest income is determined by the Central Bank of Yemen from time to time. The reserve balances in local currency carry an effective interest rate of 13% (2006: 13 %) and the balances in foreign currency are non- interest bearing deposits.



## 6 DUE FROM BANKS

	31 December 2007 YR '000	31 December 2006 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	5,833,799	1,400,300
In foreign currencies	886,127	351,246
Total due from the Central Bank of Yemen	6,719,926	1,751,546
Current account balances with local banks	1,974	1,974
Total due from the Central Bank of Yemen and other local banks	6,721,900	1,753,520
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	3,520,168	2,480,384
Provision for outstanding reconciling items	(22,775)	(24,602)
Time deposits	16,521,349	19,803,801
Total due from foreign banks and other financial institutions	20,018,742	22,259,583
Total due from banks	26,740,642	24,013,103

Current accounts and time deposits with foreign banks carry variable interest rates while current accounts with the Central Bank of Yemen and local banks do not carry any interest.

Time deposits include an investment-linked deposit made with a foreign bank for US \$2,000,000 (YR 399,020 thousand) to be held for four years (16 June 2004 to 16 June 2008) and carries fixed interest rates of 2.50% for year one, 3.25% for year two, 4.00% for year three and 4.50% for year four.

## 7 TREASURY BILLS, NET

	31 December 2007 YR '000	31 December 2006 YR'000
Treasury bills due within 49 days	102,129	-
Treasury bills due within 90 days	29,750,402	29,439,881
Treasury bills due within 364 days	4,633,160	-
Total treasury bills	34,485,691	29,439,881
Unamortized discount due within 49 days	(1,785)	-
Unamortized discount due within 90 days	(573,466)	(485,045)
Unamortized discount due within 364 days	(487,312)	-
Net book value of treasury bills	33,423,127	28,954,836

The treasury bills and repurchased treasury bills carry interest rates ranging from 15.70% to 15.92% (31 December 2006: 15.30% to 15.80%). 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

	31 December 2007 YR '000	31 December 2006 YR'000
Certificates of deposit – 91 days	9,350,000	9,200,000

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of three months and carry interest rates of 15.88% to 15.90% (31 December 2006: 15.30% to 15.80%). In accordance with the instructions with the Central Bank of Yemen, such certificates of deposit are considered as part of cash and cash equivalent assets.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For The Year Ended 31 December 2007



### 9- LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

	31 December 2007 YR'000	31 December 2006 YR'000
Loans and advances to customers in the private sector:		
Overdraft facilities	6,568,294	5,415,766
Short term loans	4,241,227	3,325,186
Commercial papers discounted	-	41,687
Total loans and advances to customers in the private sector	10,809,521	8,782,639
Provision for losses on non performing loans and advances (note 9 - a)	(1,804,949)	(1,637,036)
Suspended interest (note 9- b)	(89,988)	(53,381)
Total provision for losses on non performing loans and advances and suspended interest	(1,894,937)	(1,690,417)
Net loans and advances to customers	8,914,584	7,092,222

Gross non-performing loans and advances at 31 December 2007 amounted to YR 2,715,490 thousand (31 December 2006: YR 2,040,318 thousand). The breakup of the above amount is as follows:

	31 December 2007 YR'000	31 December 2006 YR'000
Substandard debts	694,150	310,140
Doubtful debts	602,038	279,994
Bad debts	1,419,302	1,450,184
Total gross non performing loans and advances	2,715,490	2,040,318

#### 9-a Provision for losses on non-performing 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 provisions of any income tax law and are allowable as a deduction in arriving at the taxable income.

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

	-----31 December 2007-----			-----31 December 2006-----		
	Specific YR'000	General YR'000	Total YR'000	Specific YR'000	General YR'000	Total YR'000
Balance at 1 January	1,573,179	63,857	1,637,036	1,281,167	64,559	1,345,726
Revaluation of opening balance in foreign currencies	3,590	250	3,840	9,046	421	9,467
Amount utilized during the year.	(7,406)	-	(7,406)	(1,025)	-	(1,025)
Adjusted opening balance	1,569,363	64,107	1,633,470	1,289,188	64,980	1,354,168
Amounts recovered of loans previously written off (note 23)	(731,251)	(12,005)	(743,256)	(556,694)	(14,191)	(570,885)
Provision for the year (note 25)	835,221	79,514	914,735	840,685	13,068	853,753
Charged to the income statement	103,970	67,509	171,479	283,991	(1,123)	282,868
Balance at end of year	1,673,333	131,616	1,804,949	1,573,179	63,857	1,637,036

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2006: 2%).

The Bank has during the year written-off fully provided loans and advances amounting to YR 7,406 thousands (2006: YR 1,025 thousands) against impairment provisions where all possible actions for recoveries have been exhausted and the Bank's Management believes the possibility of recoveries is remote. The Bank's management, however, continues to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the income statement.



## 9 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION (CONTINUED)

### 9-b 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.

	31 December 2007 YR'000	31 December 2006 YR'000
Balance at 1 January	53,381	36,320
Exchange differences for the year	(277)	1,287
Amounts written-off during the year	-	(307)
Recovered during the year	-	(842)
Suspended during the year	36,884	16,923
Balance at end of year	89,988	53,381

## 10 AVAILABLE FOR SALE INVESTMENTS, NET

These comprise investments, available for sale, in the following Banks and financial institution:

	Ownership Percentage %	No. of shares of US\$ 1 each	31 December 2007 YR'000	31 December 2006 YR'000
Unquoted investments in UBAF Group:				
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
Other unquoted investments:				
Arab Banking Group - Bahrain	0.344		2,067	2,067
Arab Financial Services Company - Bahrain (note 10-a)	0.167		21,487	19,732
Yemen Financial Services Company - Yemen (note 10-b)	10.000		61,917	59,553
Yemen Mobile Company for Telecommunication - Yemen (note 10-c)	0.139		61,200	61,200
Total other unquoted investments			146,671	142,552
Total available for sale investments			173,815	169,696
Provision for impairment (note 10-d)			(29,211)	(29,211)
Net book value of investments available for sale			144,604	140,485

### 10-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 (i.e. for the year ended 31 December 2006) of the Company which amounted to US\$ 9.94 per share (2005: US\$ 9.94 per share).

### 10-b Yemen Financial Services Company - Yemen

The Bank has contributed a sum of USD 300 thousands to the capital of Yemen Financial Services Company (Closed Shareholding Company) (YFSC), which had been established in joint venture with a number of other local banks. The share capital of YFSC is USD 3,000,000. The Board of Directors has in its meeting held on 22 July 2004 resolved to invest in this Company to an extent of 25 % of the Company's share capital. The Bank has during the year increased its shareholding in the above company by purchasing part of the shares held by Al Watani Bank which is under liquidation.

### 10-c Yemen Mobile Company for Telecommunication - Yemen

The Bank has purchased 120,000 shares of YR 500 each for a sum of YR 60 million of Yemen Mobile Company for Telecommunication (Yemen Shareholding Company). The total share capital of this Company is YR 43,262 million. The Bank paid YR 1,200,000 as acquisition costs which have been added to cost in accordance with IAS 39: Financial Instrument - Recognition and Measurement.

### 10-d Provision for impairment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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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

	31 December 2007 YR '000	31 December 2006 YR'000
Prepaid expenses and other debit balances	4,149	4,224
Interest receivable	357,929	341,859
Capital costs of new branches under construction	256,855	81,653
Real estate properties acquired from customers, net of provision	123,604	29,234
Al Amal Bank for Microfinance -Yemen	10,000	10,000
Al Tadamon Microfinance - Yemen	1,000	1,000
Customer acceptances	867,485	1,406,193
Sundry debit balances, net of provision	40,380	8,760
Total debit balances and other assets	1,661,402	1,882,923

The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2006: YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen. During the year the Bank acquired real estate properties from customers amounting to YR 107,116 thousands in settlement of their loans. The Bank has sold, during the year, one of the properties acquired during the previous years amounting to YR 12,746 thousands.

The shareholdings in Al Amal Bank for Microfinance - Yemen and Al Tadamon Microfinance - Yemen have been included in the "debit balance and other assets" rather than "available for sale investments" as management is of the opinion that these amounts would be fully refundable in the future.

In accordance with IAS 39 (revised), acceptances are disclosed on the balance sheet under "debit balances and other assets" and the corresponding liability is disclosed under "credit balances and other liabilities".

# 12 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

	Freehold Land and Buildings YR'000	Leasehold Improvements YR'000	Furniture & Equipment YR'000	Motor Vehicles YR'000	Swift & Computers YR'000	Total YR'000
Cost or valuation:						
At 31 December 2006	1,683,313	51,491	247,679	103,444	142,613	2,228,540
Additions during the year	4,045	13,471	43,578	21,728	31,048	113,870
Disposal during the year	-	-	-	(15,118)	-	(15,118)
At 31 December 2007	1,687,358	64,962	291,257	110,054	173,661	2,327,292
Depreciation:						
At 31 December 2006	54,055	20,124	114,395	55,296	112,834	356,704
Charge for the year	11,062	7,153	22,379	14,842	12,396	67,832
On disposal for the year	-	-	-	(15,118)	-	(15,118)
At 31 December 2007	65,117	27,277	136,774	55,020	125,230	409,418
Net book amount:						
At 31 December 2007	1,622,241	37,685	154,483	55,034	48,431	1,917,874
At 31 December 2006	1,629,259	31,366	133,285	48,148	29,779	1,871,837

Property, plant and equipment depreciation is calculated on the basis of the rates set out in the Council of Ministers' Resolution no. 144 of 1999 in that regard. 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 IAS 16, 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 book carrying amount.





### 13 DUE TO BANKS

	31 December 2007 YR'000	31 December 2006 YR'000
Current and demand accounts:		
Local banks	10,026	66,570
Foreign banks	562,832	33,028
Total due to banks	572,858	99,598

### 14 CUSTOMERS' DEPOSITS

	31 December 2007 YR'000	31 December 2006 YR'000
Current accounts	18,492,575	17,540,930
Savings accounts	25,198,933	24,030,515
Term deposits	28,156,993	25,722,286
Other deposit margins	582,159	978,582
Deposits for documentary letters of credit, guarantees and others	8,530,544	3,393,890
Total customers' deposits	80,961,204	71,666,203

### 15 CREDIT BALANCES AND OTHER LIABILITIES

	31 December 2007 YR'000	31 December 2006 YR'000
Accrued interest payable	704,133	538,079
Unclaimed balances (note 15- a)	197,038	194,003
Provision for employees' leave pay	43,213	34,537
Provision for off-balance sheet items (note 15 - b)	281,403	150,270
Other provisions	-	21,435
Employees' share in profit	117,287	99,190
Provision for contingent liabilities (note 33)	58,107	358,942
Customer acceptances	867,485	1,406,193
Sundry credit balances	319,232	286,398
Total credit balances and other liabilities	2,587,898	3,089,047

#### 15-a Unclaimed balances

This amount represents balances that are over 15 years old and have not been claimed by the beneficiaries. The increase in the amount is due to the revaluation of the balances in foreign currencies at the year end rate. Management regularly reviews the likelihood of these amounts being claimed and based on the outcome of such review, it considers the amount that should be transferred to the Ministry of Finance in accordance with the relevant article in the Banks Law no. 38 of 1998.

#### 15-b Provision for off-balance sheet items

	31 December 2007 YR'000	31 December 2006 YR'000
Balance at 1 January	150,270	71,415
Revaluation of opening balance in foreign currencies	1,024	1,471
Provision charged during the year (note 25)	169,240	114,298
Provision written back during the year (note 23)	(39,131)	(36,914)
Balance at end of the year	281,403	150,270

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For The Year Ended 31 December 2007



## 16 INCOME TAX PAYABLE

	31 December 2007 YR'000	31 December 2006 YR'000
Amounts due to the Tax Authority		
Balance at 1 January	917,415	704,870
Charged for the year in the Statement of Income (note 16 - a)	1,260,109	917,415
Total amounts due to the Tax Authority	2,177,524	1,622,285
Amount paid during the year	(917,415)	(704,870)
Total income tax payable	1,260,109	917,415

### 16-a Charge for the year

The charge for the year has been calculated on the basis of 35% of the profit for the year.

### 16-b Prior year tax assessments

The Bank received on 19 May 2007 the final tax clearance for the income tax liability for the financial year ended 31 December 2006.

## 17 OWNER'S EQUITY

### 17-a Authorized capital

The authorized share capital amounting YR 10,000 million (2006: YR 6,000 million) consists of 10,000 thousand shares of YR 1,000 par value each (2006: of 6,000 thousand shares of YR 1,000 par value each).

### 17-b Declared and paid up capital

The declared and paid up share capital amounting YR 7,500 million (2006: YR 5,500 million) consists of 7,500 thousand shares of YR 1,000 par value each (2006: 5,500 thousand shares of YR 1,000 par value each).

### 17-c Profit distribution

In accordance with the provisions of the Public Corporations and Establishments Law no. 35 of 1991, the profit of the Bank 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; and
- 3% to employees' social fund.

### 17-d Surplus on revaluation of 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 and included in owner's equity.

### 17-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 recognized 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 recognized is included in the statement of income.

## 18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.



# 18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET (CONTINUED)

As of the balance sheet date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

As at 31 December 2007	Gross commitments YR '000	Covered by margin YR '000	Net commitments YR '000
Documentary letters of credit	29,527,323	7,151,094	22,376,229
Letters of guarantees - customers	5,554,043	1,361,825	4,192,218
Letters of guarantees - correspondent banks	9,489,936	-	9,489,936
Credit cards	65,439	14,759	50,680
Cheques purchased	19,113	2,867	16,246
Total contra accounts and other commitments	44,655,854	8,530,545	36,125,309

As at 31 December 2006	Gross commitments YR '000	Covered by margin YR '000	Net commitments YR '000
Documentary letters of credit	12,651,967	2,193,462	10,458,505
Letters of guarantees - customers	6,232,978	1,185,708	5,047,270
Letters of guarantees - correspondent banks	8,138,189	-	8,138,189
Credit cards	53,598	14,720	38,878
Total contra accounts and other commitments	27,076,732	3,393,890	23,682,842

# 19 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	2007 YR '000	2006 YR '000
Interest on loans and advances to customer and banks:		
Interest on loans and advances to customers	963,341	655,285
Interest on commercial papers discounted	752	3,057
Interest on other facilities	5,952	3,642
Interest on loans to banks	-	5,166
Total interest on loans and advances to customers and banks	970,045	667,150
Interest on deposits with foreign banks:		
Interest on current accounts	110,807	86,054
Interest on call accounts	1,041	1,203
Interest on deposits	1,051,061	691,902
Total interest on deposits with foreign banks	1,162,909	779,159
Interest on deposits with local banks:		
Interest on reserves balances with the Central Bank of Yemen	541,416	474,263
Total interest on deposits with banks	1,704,325	1,253,422
Total interest on loans and advances and due from banks	2,674,370	1,920,572

# 20 COST OF DEPOSITS

	2007 YR '000	2006 YR '000
Interest on current and savings accounts	1,867,915	1,546,211
Interest on time deposits	2,887,643	2,203,721
Total cost of deposits	4,755,558	3,749,932



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For The Year Ended 31 December 2007



**21 COMMISSIONS AND FEE INCOME ON BANKING SERVICES**

	2007 YR '000	2006 YR '000
Commissions on documentary letters of credits	168,880	125,220
Commissions on letters of guarantee	205,383	199,351
Commissions on transfer of funds	31,466	32,442
Commissions on acceptances	8,510	7,217
Commissions on cheques	260,505	107,151
Banking services fees	8,184	8,504
Other services fees	41,639	42,778
Total commissions and fee income on banking services	724,567	522,663

**22 GAIN ON FOREIGN CURRENCY TRANSACTIONS**

	2007 YR '000	2006 YR '000
Revaluation differences on foreign currency transactions	31,281	55,170
Gain on foreign exchange trading transactions	40,655	26,869
Total gain on foreign currency transactions	71,936	82,039

**23 OTHER OPERATING INCOME**

	2007 YR '000	2006 YR '000
Provision for losses on loans no longer required (note 9-a)	743,256	570,885
Provision for off-balance sheet items no longer required (note 15-b)	39,131	36,914
Provision for other assets no longer required	2,111	-
Provision for contingent liabilities no longer required	301,000	-
Provision for outstanding reconciling item no longer required (BCCI)	2,637	1,782
Sundry income	11,334	27,978
Total other operating income	1,099,469	637,559

During the previous year the legal case of the Head office land was decided in favour of the Bank. Hence the Bank has transferred the provision to other operating income as it is no longer required. In accordance with Central Bank of Yemen's circular no. 8 of 1999, any provisions written back should be included in "other operating income".

**24 GENERAL AND ADMINISTRATION EXPENSES**

	2007 YR '000	2006 YR '000
Salaries, wages and related costs	720,335	639,941
Depreciation of property and equipment (note 12)	67,832	58,128
Rent	35,010	32,081
Electricity and water	32,342	28,942
Repairs and maintenance	29,512	17,914
Telephone, telexes and postage	25,333	22,880
Transportation and allowances	31,262	33,627
Promotions and publications	22,407	28,196
Computer maintenance	11,697	11,617
Training	24,863	19,495
Taxes and government fees	1,649	1,019
Donations	9,648	7,188
Stationery and printing supplies	21,142	18,399
Consultancy charges for programme for development and improvement of the Bank	87,758	-
Other general and administration expenses	79,612	60,156
Total general and administration expenses	1,200,402	979,583

The Bank had 613 employees as on 31 December 2007 (31 December 2006: 629 employees).



## 25 PROVISIONS

	2007 YR '000	2006 YR '000
Provision for losses on loans and advances (note 9 -a)	914,735	853,753
Provision for off-balance sheet items (note 15 - b)	169,240	114,298
Other provisions	21,445	62,802
Total provisions	1,105,420	1,030,853

## 26 ZAKAT

	2007 YR '000	2006 YR '000
Zakat	65,000	50,000

## 27 BASIC EARNINGS PER SHARE

	2007 YR '000	2006 YR '000
Profit for the year	2,340,203	1,703,770
Weighted average number of shares	6,500,000	4,750,000
Basic earnings per share	YR 360	YR 359

## 28 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its Directors, senior management and their families and companies in which they own 25% or more of its capital and who were customers of the Bank during the year. The terms of these transactions are approved by the Bank's management.

The amount of provision that has been recognised in respect of the loans given to related parties is YR 273 thousands.

The loans issued to related parties during the year amounted to YR 18,436 thousands are repayable or repaid as per the contract with them. The loans to the related parties are generally collateralised by salaries of the concerned related party, cash deposits and commercial charge over fixed assets.

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

	31 December 2007 YR '000	31 December 2006 YR '000
<i>Board members and parties related to them:</i>		
Loans and advances, gross	15,517	4,914
Customers' deposits	19,124	6,192
	2007 YR '000	2006 YR '000
Interest income for the year	902	230
Interest expense for the year	709	259

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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البنك الأهلي اليمني  
National Bank Of Yemen



29 MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2007	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
	YR000	YR000	YR000	YR000	YR000
<b>ASSETS</b>					
Cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	-	-	-	12,950,745
Due from banks	23,588,848	2,673,410	398,580	79,804	26,740,642
Treasury bills, net	29,277,279	-	4,145,848	-	33,423,127
Certificates of deposit with the Central Bank of Yemen	9,350,000	-	-	-	9,350,000
Loans and advances to customers, net of provision	2,269,069	1,470,377	2,045,873	3,129,265	8,914,584
Available for sale Investments, net	-	-	-	144,604	144,604
Total assets	77,435,941	4,143,787	6,590,301	3,353,673	91,523,702
<b>LIABILITIES</b>					
Due to banks	572,858	-	-	-	572,858
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	80,961,204
Total liabilities	50,181,363	9,486,539	20,399,413	1,466,747	81,534,062
Net Gap	27,254,578	(5,342,752)	(13,809,112)	1,886,926	9,989,640
 As at 31 December 2006	 Less than 3 months	 From 3 to 6 months	 From 6 months to 1 year	 Over 1 year	 Total
	YR000	YR000	YR000	YR000	YR000
<b>ASSETS</b>					
Cash on hand and reserve balances with the Central Bank of Yemen	10,112,819	-	-	-	10,112,819
Due from banks	22,967,352	-	-	1,045,751	24,013,103
Treasury bills, net	28,954,836	-	-	-	28,954,836
Certificates of deposit with the Central Bank of Yemen	9,200,000	-	-	-	9,200,000
Loans and advances to customers, net of provision	1,696,691	482,742	1,956,461	2,956,328	7,092,222
Available for sale Investments, net	-	-	-	140,485	140,485
Total assets	72,931,698	482,742	1,956,461	4,142,564	79,513,465
<b>LIABILITIES</b>					
Due to banks	99,598	-	-	-	99,598
Customers' deposits	47,554,119	7,656,869	16,377,365	77,850	71,666,203
Total liabilities	47,653,717	7,656,869	16,377,365	77,850	71,765,801
Net Gap	25,277,981	(7,174,127)	(14,420,904)	4,064,714	7,747,664





### 30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

30-a The average interest rates on assets and liabilities applied during the year ended 31 December 2007 were as follows:

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %
<b>ASSETS</b>					
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:					
Current accounts	-	3.94	-	3.42	3.77
Time deposits	-	4.86	3.41	6.10	3.85
Treasury bills	15.88	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	15.88	-	-	-	-
Loans to customers	17.00	7.50	-	-	-
<b>LIABILITIES</b>					
Customers' deposits	13.00	3.06	1.65	2.19	1.15

30-b The average interest rates on assets and liabilities applied during the year ended 31 December 2006 were as follows:

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %
<b>ASSETS</b>					
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:					
Current accounts	-	4.55	-	3.12	3.69
Time deposits	-	5.30	4.58	5.00	-
Treasury bills	15.69	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	15.72	-	-	-	-
Loans to customers	18.00	8.00	-	-	-
<b>LIABILITIES</b>					
Customers' deposits	13.00	2.66	1.65	2.18	1.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For The Year Ended 31 December 2007



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

As at 31 December 2007

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Service YR'000	Finance YR'000	Personal YR'000	Total YR'000
<b>ASSETS</b>							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	12,950,745	-	12,950,745
Due from banks	-	-	-	-	26,740,642	-	26,740,642
Treasury bills, net	-	-	-	-	33,423,127	-	33,423,127
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	9,350,000	-	9,350,000
Loans to customers, net of provision	42,725	-	6,556,716	105,854	49,546	2,159,743	8,914,584
Available for sale Investments, net	-	-	-	-	144,604	-	144,604
<b>Total assets</b>	<b>42,725</b>	<b>-</b>	<b>6,556,716</b>	<b>105,854</b>	<b>82,658,664</b>	<b>2,159,743</b>	<b>91,523,702</b>
<b>LIABILITIES</b>							
Due to banks	-	-	-	-	572,858	-	572,858
Customers' deposits	1,780,145	126,630	9,337,496	2,279,290	1,268,061	66,169,582	80,961,204
<b>Total liabilities</b>	<b>1,780,145</b>	<b>126,630</b>	<b>9,337,496</b>	<b>2,279,290</b>	<b>1,840,919</b>	<b>66,169,582</b>	<b>81,534,062</b>
Contra accounts and other commitments	14,878,784	-	23,045,638	198,939	1,900,813	4,631,681	44,655,854

As at 31 December 2006

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Service YR'000	Finance YR'000	Personal YR'000	Total YR'000
<b>ASSETS</b>							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	10,112,819	-	10,112,819
Due from banks	-	-	-	-	24,013,103	-	24,013,103
Treasury bills, net	-	-	-	-	28,954,836	-	28,954,836
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	9,200,000	-	9,200,000
Loans to customers, net of provision	48,125	-	5,072,914	20,800	102,051	1,848,332	7,092,222
Available for sale Investments, net	-	-	-	-	140,485	-	140,485
<b>Total assets</b>	<b>48,125</b>	<b>-</b>	<b>5,072,914</b>	<b>20,800</b>	<b>72,523,294</b>	<b>1,848,332</b>	<b>79,513,465</b>
<b>LIABILITIES</b>							
Due to banks	-	-	-	-	99,598	-	99,598
Customers' deposits	2,276,554	473,913	7,278,416	1,818,972	862,077	58,956,271	71,666,203
<b>Total liabilities</b>	<b>2,276,554</b>	<b>473,913</b>	<b>7,278,416</b>	<b>1,818,972</b>	<b>961,675</b>	<b>58,956,271</b>	<b>71,765,801</b>
Contra accounts and other commitments	636,199	-	21,264,442	531,570	2,389,703	2,254,818	27,076,732



### 32 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS

As at 31 December 2007

	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
<b>ASSETS</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	12,950,745	-	-	-	-	12,950,745
Due from banks	6,721,900	3,707,555	13,152,401	3,098,103	60,683	26,740,642
Treasury bills, net	33,423,127	-	-	-	-	33,423,127
Certificates of deposit with Central Bank of Yemen	9,350,000	-	-	-	-	9,350,000
Loans to customers, net of provision	8,914,584	-	-	-	-	8,914,584
Available for sale Investments, net	123,117	-	-	21,487	-	144,604
<b>Total assets</b>	<b>71,483,473</b>	<b>3,707,555</b>	<b>13,152,401</b>	<b>3,119,590</b>	<b>60,683</b>	<b>91,523,702</b>
<b>LIABILITIES</b>						
Due to banks	10,026	-	-	562,832	-	572,858
Customers' deposits	80,961,204	-	-	-	-	80,961,204
<b>Total liabilities</b>	<b>80,971,230</b>	<b>-</b>	<b>-</b>	<b>562,832</b>	<b>-</b>	<b>81,534,062</b>

As at 31 December 2006

	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
<b>ASSETS</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	10,112,819	-	-	-	-	10,112,819
Due from banks	1,753,520	5,957,668	12,417,643	3,849,408	34,864	24,013,103
Treasury bills, net	28,954,836	-	-	-	-	28,954,836
Certificates of deposit with Central Bank of Yemen	9,200,000	-	-	-	-	9,200,000
Loans to customers, net of provision	7,092,222	-	-	-	-	7,092,222
Available for sale Investments, net	120,753	-	-	19,732	-	140,485
<b>Total assets</b>	<b>57,234,150</b>	<b>5,957,668</b>	<b>12,417,643</b>	<b>3,869,140</b>	<b>34,864</b>	<b>79,513,465</b>
<b>LIABILITIES</b>						
Due to banks	66,570	-	-	33,028	-	99,598
Customers' deposits	71,666,203	-	-	-	-	71,666,203
<b>Total liabilities</b>	<b>71,732,773</b>	<b>-</b>	<b>-</b>	<b>33,028</b>	<b>-</b>	<b>71,765,801</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For The Year Ended 31 December 2007



### 33 TRUST ACTIVITIES

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

### 34 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, although court decisions were made in favour of the Bank, their executions have not been effected, whereas the other cases are still pending in the courts.

### 35 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:

	31 December 2007		31 December 2006	
	%	YR'000	%	YR'000
United States Dollar	7.84	762,527	11.80	882,972
Pound Sterling	3.04	295,747	3.00	228,426
Euro	3.05	296,513	2.00	150,858
Saudi Riyal	2.94	285,737	1.60	123,244
Swiss Franc	0.15	14,569	0.10	5,209
Japan Yen	0.04	3,787	0.10	1,350
United Arab Emirates Dirham	0.08	7,719	0.10	8,330
Other	0.00	15	0.00	13
Aggregate foreign currency positions	17.14	1,666,614	18.70	1,400,402

The dollar exchange rate at 31 December 2007 was 199.51 YR/USD (31 December 2006: 198.51 YR/USD).

### 36 CAPITAL COMMITMENTS

Capital commitments at 31 December 2007 amounted to YR 72 million (31 December 2006: YR 65 million).

### 37 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT OF THE BANK

The Bank has signed, on 20 December 2006, a contract with one of the international consulting firms for the development and improvement of the Bank. 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 total duration of the programme is 17 months. During 2007, the first part of the program has commenced. 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.





## 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](mailto:nby.ho@y.net.ye)  
 WEB Site: [www.nbyemen.com](http://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  
 Fax: 967 2 255724  
 SWIFT: NBOYYESA002

### Sana'a Branch

Sana'a Zubairy Street.  
 P.O. Box No. 198309  
 Republic of Yemen  
 Tel.: 967 1 517771  
 Fax: 967 1 517773  
 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 233123  
 Fax: 967 3 233125  
 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 432845  
Fax : 967 2 434066

Labaus Branch

Main Road,  
Labaus,  
Lahej  
Republic of Yemen  
Tel.: 967 2 554111  
Fax : 967 2 554112

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 640022  
Fax : 967 2 640406

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 2 672195  
Fax : 967 2 672791

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  
Al-Ghaedhah,  
Al-Mahrh  
Republic of Yemen  
Tel.: 967 5 612156  
Fax : 967 5 612137

Tiaz Branch  
Jamal St.  
Tiaz  
Republic of Yemen  
Tel.: 967 4 266010  
Fax.: 967 4 266012

البنك الأهلي اليمني  
**National Bank Of Yemen**



Head office P. O. Box No. 5  
Crater Aden Republic of Yemen  
E-mail: [nby.ho@y.net.ye](mailto:nby.ho@y.net.ye)  
WEB Site: [www.nbyemen.com](http://www.nbyemen.com)



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