

البنك الأهلي اليمني
National Bank Of Yemen



Trust & Experience

Annual Report **2006**



Clarity in Vision
Excellence in Performance

www.nbyemen.com



OUR VISION

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

Embarking on such development and updating project the bank aims at providing to its customers high standard banking services and products outweighing traditional services rendered by banks to their customers. National Bank of Yemen seeks always to strengthen its financial position in the social circles in order to pace with competition in Arab and international banking markets and work dedicatedly in one team spirit to satisfy the customers and give care to the staff, and open opportunities for them to develop and encourage distinction in performance and achievement of satisfactory proceeds to owners.





His Excellency
ALI ABDULLAH SALEH

President of the Republic

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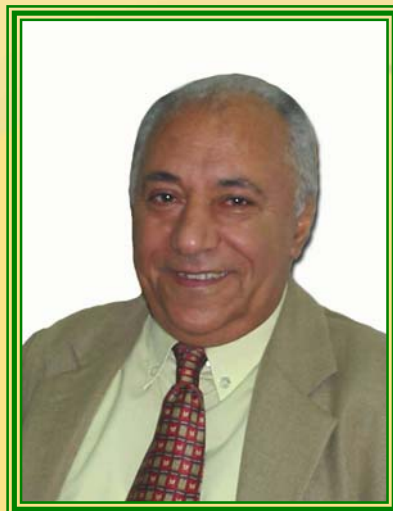
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Financial and Statistic highlights

YR millions unless otherwise indicated

	2006	2005	2004	2003	2002
Balance sheet					
Total assets	81,862	64,579	57,627	49,700	43,504
Owner's equity	7,496	5,876	4,631	3,798	3,330
Customers' deposits	71,666	56,709	51,284	44,497	38,891
Loans and advances (net)	7,092	3,841	3,321	2,203	1,774
Local investments	38,155	32,345	30,870	25,029	20,387
Due from banks	24,013	15,545	13,760	13,056	14,830
Statement of income					
Net interest income	3,470	2,653	2,047	1,673	1,489
Operating income	1,243	626	591	469	329
Profit before taxation	2,621	2,014	1,353	1,115	1,051
Net profit for the year	1,704	1,309	880	725	683
Indicators					
Earning per share	426 YR	485 YR	419 YR	392 YR	422YR
Return on average assets %	2.3	2.0	1.5	1.5	1.6
Return on average owner's equity %	28.3	27.6	22.8	21.5	23.6
Liquidity %	81	80	85	84	89
Capital adequacy %	43	50	46	46	46
US \$ rates	198.51 YR	195.08 YR	185.84 YR	184.30 YR	178.88 YR
Number of branches	27	27	27	27	29
Number of employees	629	585	597	588	592

Board of Directors



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



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



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

Board of Directors



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



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



*Mr. Dr. Samir A. Razack Talep
Representative/ Ministry of planning
& International Cooperation*

Board of Directors



Executive Management of the Bank





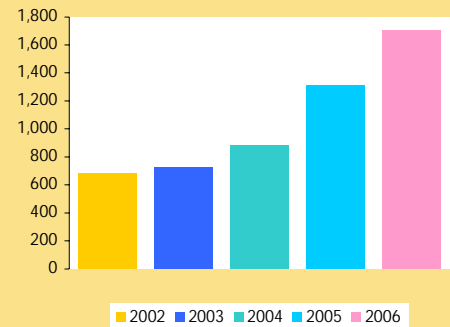
Chairman's Message

It gives me pleasure on behalf of my self and members of the board of National Bank of Yemen to present the Annual Report of the Bank for the year 2006.

During 2006 the world economy recorded continues growth for the forth year, and all indicators show that this grow will continue during the year 2007. Consequently, the world is still witnessing the strongest period of economic growth at the rate of 5%, for the last four years, since the beginning of the seventies. Moreover, this international economic growth was unaffected even by the increase of the oil prices which reached, in summer, an unusual level of US\$ 80, per barrel.

At the national level, and as a result of the generous and great efforts extended by His Excellency Ali Abdullah Saleh, The President of the Republic of Yemen, the year 2006 witnessed the success of our country in obtaining grants and soft loans for approximately US\$ 4.7 billion from the donor's conference meetings which held in London in August 2006. These grants and soft loans will help in achieving the total economic development; that the Election Program of His Excellency Ali Abdullah Saleh, The President of the Republic of Yemen has defined its future directions. This success coincided with the continuous economic stability enjoyed by the Yemeni economy. Moreover, and after achieving modest rate of growth of 4% in the past years, the Yemeni economy, as expected, will grow during the year 2007, by a rate of 5% at the average. This growth is due to the continuous efforts of the government of Yemen to implement the economic reform program. In addition, the government is continuing its efforts to improve government financing, and to maintain the budget deficit at safe levels. Moreover, the growth in the Yemeni economy is due also to the existence of stable currency, and the increasing surplus of the balance of payment, and low percentage of local and foreign loans as a percentage to GDP.

Net profit
(YR Millions)



As for National Bank of Yemen the year 2006 formed a series of distinguished achievements in the successful path of the Bank, as shown in the financial results achieved by the Bank. The financial results of the Bank reflect unprecedented growth in all its financial indicators and rates of performance. Whereas the financial ratios of the Bank showed consistent, strong growth rates in assets, in the net profits of the Bank, and a noticeable increase in the volume of the Bank's operations. The Bank also continued in 2006 to grow strongly in comparison to previous years.

Whereas the balance sheet of the Bank at 31/12/2006 demonstrated continuous advancement of the Bank and its growth, and consolidating its position in the Yemeni banking sector by the growth of its profits, its assets and its deposits, as well as its investments.

Moreover, these positive results of the Bank has reflected on the shareholders equity which has increased by 27.6% compared to the year 2005, the profit of the bank before taxation also increased to YR 2,621 million, an increase of 30.2% over 2005.

The event that made the year 2006 so special for NBY is wining "Best Bank of the year 2006 – Yemen' award which is annually awarded by The Bankers Magazine to the best performing commercial banks in 137 country. This achievement reflects the advanced performance of National Bank of Yemen and its high competitive capability in all banking activities and operations.



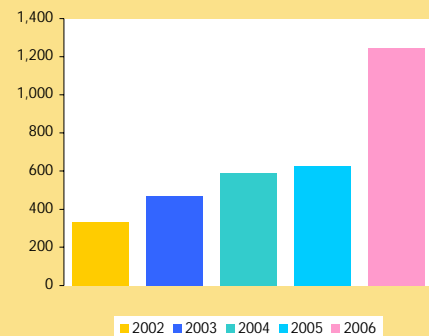
In addition, Capital Intelligence, the international rating agency confirmed for the second time, the Banks' ratings. Whereas it have rated the financial strength of the Bank as 'BB', and rated the outlook of the rating as 'STABLE'. This rating reflects the improvement of the Bank's financial indicators in general, and the high profitability of the Bank in particular; it reflects also the quality of its assets and its strong capital ratio.

Also the year 2006, witnessed the signing of the Bank a consultancy services contract with Delliott & Touche – Middle East – Bahrain, for the implementation of the Bank's Modernization and Development Project.

This project aims at restructuring the Bank's organization structure, and developing the banking, and financial and administrative manuals and procedures. The project will include also the implementation of advanced IT solution for the Bank to meet the latest developments in the banking industry, and to develop alternative channels to offer complete package of products and services to our esteemed customers and to the public.

In conclusion, I would like to take this opportunity to express on behalf of the Board of Directors, our profound gratitude and reverence to His Excellency Ali Abdullah Saleh, The President of the Republic of Yemen, for his prudent leadership, and his sound guidance for the accomplishment of the comprehensive economic development in our country, the stability of the investment environment, and to promote the Yemeni economy, and to the Prime Minister, the Finance Minister, and the Governor of the Central Bank of Yemen for their continuous support and cooperation.

Operating income
(YR millions)



Finally, I would like to express my appreciation and thanks to all our esteemed customers for their continuous trust and to the management of the Bank, and the Bank's staff for their dedication and effort in performing their duties.

Abdul Rahman Mohamed Al-Kohali
Chairman & General Manager

Board of Director's Report

The Board of Directors of the National Bank of Yemen (wholly owned by government) has great pleasure to present its report, which includes the Financial Statements for the year ending 31/12/2006.

National Bank of Yemen has proved since 1998, and year after year, a noticeable capability in achieving high percentages of growth. During those years, the Bank was able to achieve high rates of growth in all of its financial indicators, which reflects a sizable expansion in the volume of its operations and its solid position in the Yemeni Banking Sector.

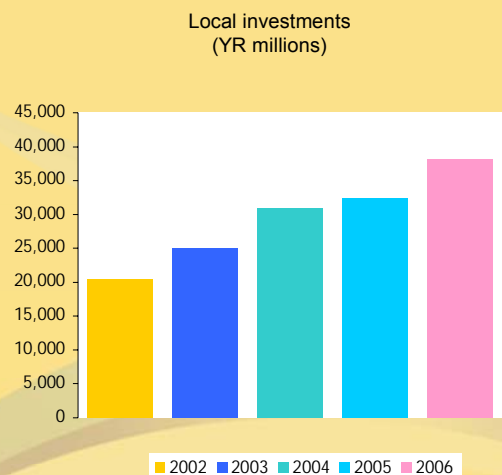
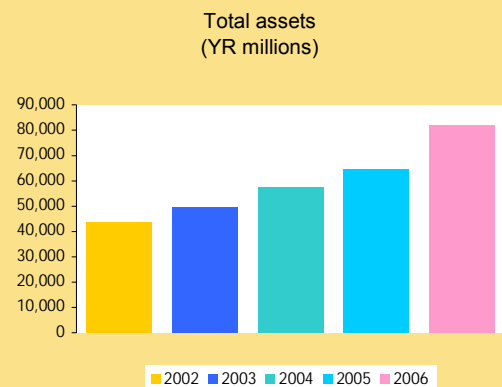
The year 2006 was another productive and distinguished year and full of achievements in the successful path of the Bank. A year in which, the Bank were able to achieve all the targets in its business plan, and to realize distinguished results and growth in various investment and banking fields by increasing the sources of the Bank's revenues, improving its profit and increasing its share value in the Yemeni banking market.

The performance of NBY during the year 2006 reflected an important success in increasing the volume of customers' deposits, as well as, increasing the Bank's paid up capital. This performance proved the Bank's capability to increase its size, the development of its services, the capability to compete while achieving its planned targets and fulfilling the various and different needs of its customers.

Moreover, in accordance with the financial results realized in 2006, the Bank has managed to maintain high growth ratios in all balance sheet items, whereas the Bank's assets grew by 26.8% compared to 2005 to reach YR 81,862 million by the end of 2006. The increase in assets occurred due, to the increase in balances due from banks, which reached YR 24,015 million in 2006 an increase of 54.5% over 2005, the increase in local investments by YR 38,155 million in 2006, where it increased by (18%), compared to 2005. Loans and advances grew by 84.6% where it increased from YR 3,841 million in 2005 to YR 7,092 million by the end of 2006. In addition, contra accounts and other commitments have registered a noticeable growth of 68.8% to reach YR 25,089 million in 2006.

These financial achievements were materialized as the Bank owns the best composition of assets, and by virtue of the credit policy adhered by the Bank which aims at the distribution of credit risks to a broad base of clients.

Just as previous years, the Bank continued in 2006 to maintain cash and balances with the Central Bank of Yemen to support its liquidity position, and subsequently the Bank's creditability, which forms the



first source of its trustworthiness. These funds which reached YR 10,113 million in 2006, do not represent any kind of investments for the Bank, rather it form the minimum balance of cash deposits to be maintained by the Bank according to CBY regulations. On the other hand, the Bank continued, in 2006, to maintain a liquidity ratio of 80%, thus enabling the Bank to meet all of its commitments at all times and under all unforeseen circumstances. Moreover, Bank continued, in 2006, the policy of diversification of its investment and saving portfolios thus increasing its ability to attract more customers. As such, customers' deposits increased from YR 56,709 million in 2005 to YR 71,666 million in 2006, an increase of 26.4%.

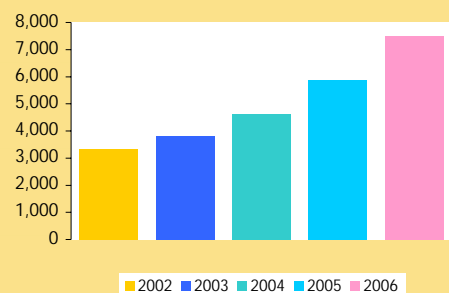
These increasing activities were coupled with strengthening the capital of the Bank, where it increased from YR 4,000 million in 2005, to YR 5,500 million in 2006 an increase of 37.5%, and due to the increase in capital and reserves, total shareholders equity was also raised by an average of 27.6% for the same period. The strength of the financial position of the Bank is confirmed by its capital adequacy ratio, which reached 43% by the end of 2006, and equals many times the ratio required locally and internationally, a policy, which is adhered by the Bank to support the increasing growth in the Bank's businesses and enhance its competitive ability.

The excellent performance that all the financial indicators have witnessed during the year 2006 resulted in an increase in the net interest income from YR 2,653 million in 2005 to YR 3,470 million in 2006 a growth of 30.8%. This increase is contributed to the growth in the local investment portfolio, the increase in the spreads and the improvements in interest rates. As for the other income, which mounted for YR 1,243 million, in 2006, it showed an increase of 98.7% compared to 2005. On the side of expenses, the total operating expenses have increased from YR 1,221 million in 2005, to YR 2,042 million in 2006 because of supporting loans provisions the fact, which reflects the concern of the Bank's management to the quality of the Bank's assets, and the coverage of provisions for non-performing loans.

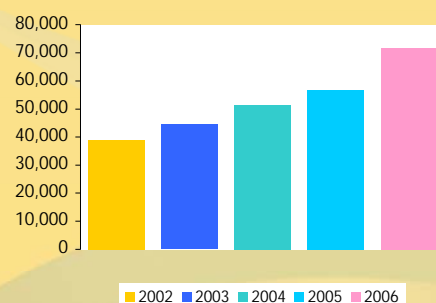
Further more the Bank continued the path of increasing profits, and managed to achieve, during the year ended 31/12/2006, a net profit of YR 1,704 compared with YR 1,309 at the of 31/12/2005, thus registering a rate of growth of 30.2%. On the other hand, return on average assets improved from 2% in 2005 to 2.3% in 2006, where as the return on shareholders equity improved from 27.6% in 2005 to 28.3% in 2006.

These financial accomplishments which the Bank has achieved participated in strengthening and consolidating its financial position, improving its profitability ratios and confirming its position in the banking market as an effective financial institution capable of growing continuously and to perform in a distinguish manner, and increase it profits at the same time. Because of that, National Bank of Yemen was acclaimed in many occasions for its achievements, and received the Bank of the Year 2006- Yemen- Award from The Banker magazine, part of the Financial Times group.

Owner's equity
(YR millions)



Customers' deposits
(YR millions)



The advanced credit and financial rating awarded to National bank of Yemen by the International Rating Agency Capital Intelligence, in October 2006, came to emphasis the continuous success in the various activities and businesses of the Bank. Whereas it have rated the Bank for the long-term foreign currency as "-B", the short-term foreign currency as "B" which equals the sovereign rating of the Republic of Yemen and which cannot be surpassed because of the sovereign rating of the Republic of Yemen.. The agency also rated the financial strength of the Bank as 'BB', and rated the outlook as 'stable'. These ratings are considered one of the highest ratings given to any bank in Yemen and reflect the standing and profitability of the Bank and the ability to outline its goals within a developed strategy for expansion in all its activities and banking operations.

In addition, with the increase in competition within the Yemeni banking sector, National Bank of Yemen is continuing its efforts to comply with the growing needs of its customers, and observe the leading role of the Bank in this sector. In this respect, the Bank is continuously strengthening its financial position, developing and expanding its services, relying on modern technology to provide technological solutions for customers in order to be one complete station where the customer can turn to, to acquire all the services he needs.

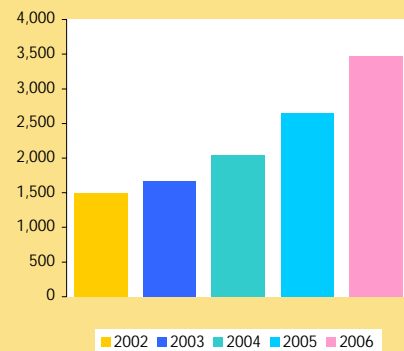
Also in 2006, the Bank signed a consultancy services contract with Delliott & Touche – Middle East – Bahrain, for the implementation of the Bank's Modernization and Development Project. The project, which consists of two overlapping stages, would be completed in 17 months according to the project work plan.

The first stage of the project aims at restructuring the Bank's organization structure, and developing the banking, and financial and administrative manuals and procedures, to prepare and design the Bank's strategy and business plan for the next five years, the Bank's corporate governance, and training and implementation.

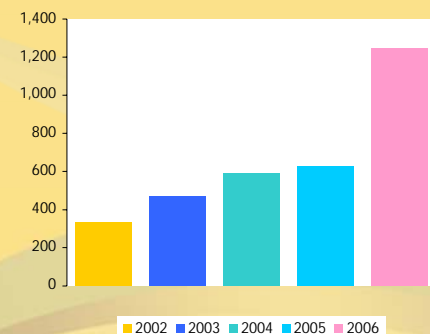
The second stage of the project which commences during the third month of the project work plan, will include the implementation of the IT strategy, which will define the organizational structure of the IT department, the required and qualified IT personnel, the software and equipments specifications suitable with the Bank's strategy and its implementation.

Moreover, with regard to HR development, the Bank is always committed to train and qualify its personnel while offering advanced professional opportunities and creating for the future an administrative team from the existing banking cadre capable of promoting the Bank's services and advancing it to optimal standards. In addition, from the Bank's viewpoint, the development of HR is considered a strategic option, which the management is adhered to accomplish, in intent to keep abreast with the continuous developments in the banking and financial fields locally and internationally.

Net interest income
(YR millions)



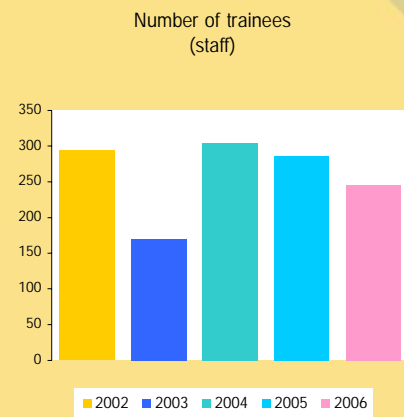
Operating income
(YR millions)



The observance of the Bank's management to the development of HR originates from the importance of the availability of human element with great deal of professional and practical skills to accompanying the latest developments in the banking industry and meeting the needs of the Banks' customers under the increased competition between the banks.

The Bank's management has translated this concern by means of qualifying the Bank's training centre to hold training courses and workshops in banking, finance, and IT in addition to foreign languages courses, whereas the centre has executed 23 training courses for 120 trainee in the fields of risk management, banking credit, Basel II compliance, money laundering, treasury and internal audit. The Bank also promoted the scope and volume of the participation of its staff in the training programs organized by local and international training agencies. In 2006, the number of trainees in these programs reached 126, participated in 25 programs locally, and abroad, aimed to promote the skills and knowledge of the Bank's employees and to get them aquatinted and to acquire the latest in modern banking.

On the other hand, the Bank's management, continued in 2006 to recruit qualified young graduates in various specializations, and train them in high quality training programs in banking, finance, and information technology.



In addition, the Bank will continue its efforts to develop and improve the level of its services; and in conformity with the work plan of the Bank's Modernization and Development Project that aims to promote the size of the Bank and to develop its services and increase its capabilities, in terms of the Bank's funds or as to its HR and its modern technology installations. The Bank's plan for 2007 will focus on achieving the expected goals from the Bank's restructuring project, and will focus on fulfilling the increasing needs of the Bank's customers. Moreover, the plan of the Bank for 2007 is to accomplish the latest advancement in the banking and finance worlds, with the intent of changing the Bank to become a modern bank capable of rendering its services to the Yemeni economy and a major participant in the economical development process, which our country needs.

In conclusion, the Board of Directors would like to express their pleasure and pride with what positive results the Bank have achieved in 2006.

On this occasion, the Board of Directors of NBY would like to convey their profound gratitude and sincere thanks to the Ministry of Finance and to the Central Bank of Yemen for their continuous cooperation and support to develop the financial and banking sector in our country.

In addition, the Board of Directors would like to express their gratitude and appreciation to the Bank's esteemed customers and correspondent banks for their confidence and support, which had the greatest impact on the Bank's prosperity and advancement.

The Board of Directors would like also to convey their gratitude and sincere thanks to the staff of the Bank for their fruitful efforts and dedication and total commitment while carrying their duties.

**The Board of Directors
Aden 25 January 2007**



List of Branches

Head office

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

Aidroos Branch

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

Queen Arwa Branch

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

Dahman RSM

Accountants • Auditors • Consultants

P.O. Box 16146
Villa 11, opposite to Supreme Comm. of Elections,
Nouakchott St., Aser Zone, Sana'a, Republic of Yemen
Tel: (967)1- 214 355
Fax: (967)1- 214 360
E-mail: dahmanco@yemen.net.ye
admin.office@dahman-rsm.net
<http://www.dahman-rsm.com>

AUDITOR'S REPORT

**TO H.E. THE MINISTER OF FINANCE
THE NATIONAL BANK OF YEMEN**

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 2006, the related statements of income and profit appropriation, cash flows and changes in owners' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes for the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The 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 entity'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 2006, and of its financial performance, its cash flows and changes in owners' equity 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 for 1998, Commercial Companies Law no. 22 of 1997 or guidelines of Central Bank of Yemen have occurred during the year ending 31 December 2006.



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

25 January 2007,
Aden, Republic of Yemen



BALANCE SHEET
As of 31 December 2006

ASSETS	<i>Note</i>	<i>2006</i> YR' 000	<i>2005</i> YR' 000
Cash in hand and reserve balances with the Central Bank of Yemen	5	10,112,819	10,661,214
Due from banks	6	24,013,103	15,545,162
Treasury bills, net	7	28,954,836	26,865,043
Certificates of deposit with the Central Bank of Yemen	8	9,200,000	5,480,000
Loans and advances to customers and banks, net of provision	9	7,092,222	3,841,047
Available for sale investments, net	10	140,485	77,993
Debit balances and other assets	11	476,730	332,112
Property, plant and equipment, net of accumulated depreciation	12	1,871,837	1,776,959
TOTAL ASSETS		81,862,032	64,579,530
 LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	13	99,598	97,914
Customers' deposits	14	71,666,203	56,709,029
Credit balances and other liabilities	15	1,682,854	1,191,630
Income tax payable	16	917,415	704,870
TOTAL LIABILITIES		74,366,070	58,703,443
 OWNER'S EQUITY			
Capital	17	5,500,000	4,000,000
Surplus on revaluation of property reserve	17	639,762	639,762
Reserves	17	1,336,640	1,218,057
Cumulative changes in the fair value reserve	17	19,560	18,268
TOTAL OWNER'S EQUITY		7,495,962	5,876,087
TOTAL LIABILITIES AND OWNER'S EQUITY		81,862,032	64,579,530
 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net	 18	 25,089,035	 14,860,392

Auditor's report attached (pages 1 and 2),

The attached notes 1 to 37 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 Al - Kuhali
Chairman and General Manager

STATEMENT OF INCOME AND PROFIT APPROPRIATION
For The Year Ended 31 December 2006

STATEMENT OF INCOME	<i>Note</i>	<i>2006</i> <i>YR' 000</i>	<i>2005</i> <i>YR' 000</i>
Interest on loans and advances and due from banks	19	1,920,572	1,375,608
Interest on treasury bills		4,353,372	3,680,899
Interest on certificates of deposit with the Central Bank of Yemen		945,975	779,848
		<u>7,219,919</u>	<u>5,836,355</u>
Cost of deposits	20	<u>(3,749,932)</u>	<u>(3,182,867)</u>
Net interest income		3,469,987	2,653,488
Commissions and fee income on banking services	21	522,663	419,930
Income on available for sale investments		884	716
Gain on foreign currency transactions	22	82,039	36,941
Other operating income	23	<u>637,559</u>	<u>168,394</u>
NET OPERATING INCOME		<u>4,713,132</u>	<u>3,279,469</u>
OPERATING EXPENSES			
Commissions and fee expenses on banking services		31,511	17,988
General and administration expenses	24	979,583	775,989
Provisions	25	<u>1,030,853</u>	<u>427,577</u>
TOTAL OPERATING EXPENSES		<u>2,041,947</u>	<u>1,221,554</u>
NET PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		2,671,185	2,057,915
Zakat	26	<u>(50,000)</u>	<u>(44,000)</u>
NET PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		2,621,185	2,013,915
Provision for income tax	16	<u>(917,415)</u>	<u>(704,870)</u>
NET PROFIT FOR THE YEAR		<u>1,703,770</u>	<u>1,309,045</u>
Earnings per share	27	<u>YR 426</u>	<u>YR 485</u>
STATEMENT OF PROFIT APPROPRIATION			
Transfer to statutory reserve	17	(255,566)	(196,357)
Transfer to general reserve	17	(255,566)	(196,357)
Government's share in net profit for the year	17	(1,107,451)	(850,879)
Employees' share in net profit for the year	17	<u>(85,187)</u>	<u>(65,452)</u>
Balance at 31 December		<u>-</u>	<u>-</u>

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

STATEMENT OF CASH FLOW
For The Year Ended 31 December 2006



	2006 YR 000	2005 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before zakat and provision for income tax	2,671,185	2,057,915
Adjustments for:		
Provision for losses on loans and on contra accounts made during the year	968,051	403,823
Provision for losses on loans and contra accounts written back during the year	(607,799)	(151,940)
Amount utilized during the year from provision for losses on loans	(1,025)	(119)
Revaluation of balances of provision for losses on loans and on contra accounts	10,938	22,103
Income tax paid	(704,870)	(473,617)
Zakat paid	(50,000)	(44,000)
Depreciation of property, plant and equipment	58,128	48,394
Net operating profit before changes in assets and liabilities related to operating activities (1)	2,344,608	1,862,559
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	272,742	(3,099,959)
Due from banks maturing after three months	514,889	19,000
Loans and advances to customers and banks	(3,542,485)	(798,621)
Debit balances and other assets	(144,618)	(17,921)
Net (increase) in assets (2)	(2,899,472)	(3,897,501)
Due to banks	1,684	(19,188)
Customers' deposits	14,957,174	5,425,434
Credit balances and other liabilities	412,369	74,216
Net increase in liabilities (3)	15,371,227	5,480,462
CASH FLOWS (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(153,006)	(161,070)
Purchase of available for sale investments	(61,200)	(58,524)
Net cash flows (used in) investing activities (4)	(214,206)	(219,594)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		
Government's share in the net profit for the year	(1,107,451)	(850,879)
Increase in the capital	1,107,451	850,879
Employees' share in the net profit for the year	(85,187)	(65,452)
Net cash flow from/ (used in) financing activities (5)	(85,187)	(65,452)
Net increase in cash and cash equivalents (1+2+3+4+5)	14,516,970	3,160,474
Cash and cash equivalents at 1 January	47,369,509	44,209,035
Cash and cash equivalents at 31 December	61,886,479	47,369,509
Represented by:		
Cash in hand and reserve balances with the Central Bank of Yemen	10,112,819	10,661,214
Due from banks	24,013,103	15,545,162
Treasury bills and certificates of deposit with the Central Bank of Yemen	38,154,836	32,345,043
Reserve balances with the Central Bank of Yemen	(9,348,528)	(9,621,270)
Due from banks maturing after three months	(1,045,751)	(1,560,640)
Cash and cash equivalents at 31 December	61,886,479	47,369,509

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

STATEMENT OF CHANGES IN OWNER'S EQUITY
For the year ended 31 December 2006

	Capital YR'000	Revaluation Reserve YR'000	Statutory Reserve YR'000	General Reserve YR'000	Cumulative Changes in Fair Value Reserve YR'000	Net Profit for the Year YR'000	Total YR'000
At 31 December 2004	2,700,000	639,762	608,819	665,645	17,123	-	4,631,349
Net movement in fair value for the year	-	-	-	-	1,145	-	1,145
Net profit for the year	-	-	-	-	-	1,309,045	1,309,045
Transfer to statutory reserve	-	-	196,357	-	-	(196,357)	-
Transfer to general reserve	-	-	-	196,357	-	(196,357)	-
Government's share in net profit transferred to capital	850,879	-	-	-	-	(850,879)	-
Transfer to capital	449,121	-	-	(449,121)	-	-	-
Employees' share in net profit	-	-	-	-	-	(65,452)	(65,452)
At 31 December 2005	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
Net 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 net profit transferred to capital	1,107,451	-	-	-	-	(1,107,451)	-
Transfer to capital	392,549	-	-	(392,549)	-	-	-
Employees' share in net profit	-	-	-	-	-	(85,187)	(85,187)
At 31 December 2006	5,500,000	639,762	1,060,742	275,898	19,560	-	7,495,962

The Bank's Board of Directors, in its meeting held on 08 January 2005, resolved to comply with the instructions of Central Bank of Yemen in its circular no (12) dated 08 December 2004 to the banks licensed to operate in the Republic of Yemen to increase their capital to YR 6,000 million beginning from the year 2005 and by the end of 2009. H.E the Deputy Prime Minister, Minister of Finance, at that time, accepted the recommendation of the Bank management to start increasing the capital from the Government's share of profit at the end of each year beginning from 2004 as the Board will decide at each year end. As a result, the Bank Board of Directors has resolved in its meeting held on 25 January 2007..... to increase the capital of the Bank by YR 1.5 million by the transfer of the Government share of net profit for the year 2006 amounting to YR 1,107,451 and the amount of the balance of YR 392,549 thousand from the general reserve.

The attached notes 1 to 37 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 Head Office of the Bank is at Queen Arwa Street, P. O. Box no. 5, Crater, Aden, Republic of Yemen and is registered under Registration Number 1748. The Bank undertakes all banking activities through its head office and 27 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, and one in Hodeidah.

The Bank had 629 employees as on 31 December 2006 (31 December 2005: 585 employees).

In its meeting held on 25 January 2006, the Bank's Board of Directors approved the financial statement of the Bank for the year 2006 and decided to submit them to the relevant authorities for approval to publish them.

2 PREPARATION BASIS OF FINANCIAL STATEMENTS

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

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

- i) The adoption of minimum fixed percentages for losses on 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 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 2006.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention as modified for their revaluation of land and buildings to market value and the measurement of available for sale investments to the fair value in accordance with the International Accounting Standard (39) – Financial Instruments - Recognition and Measurement applied by the bank from January 2002.

Foreign currencies

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

Revenue recognition

- i) Revenues are recognized on the accrual basis. However, in order to comply with the Central Bank of Yemen Circular no. 6 of 1996, the Bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest.
- ii) In accordance with the Central Bank of Yemen guideline no. 2 of 2002, any provisions written back are included under "other operating income".
- iii) Dividends on available for sale investments are recognized when declared.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Valuation of investments

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

Provision for losses on loans and advances and contingent liabilities

In order to comply with the Central Bank of Yemen circulars no. 6 of 1996 and no. 5 of 1998, provision is made for specific loans, overdrafts and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities after deducting balances secured by deposits and banks' guarantees. The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is made in accordance with the following rates:

• Performing loans including watch loans	2% (2005: 2%)
• Performing contingencies including watch accounts	1% (2005: 1%)
• Non-performing loans and contingencies:	
- Substandard debts	15%
- Doubtful debts	45%
- Bad debts	100%

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

Property, plant and equipment, net of accumulated depreciation

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

Contingent liabilities and commitments

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Taxation

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

Zakat

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

Related party transactions

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

Fiduciary assets

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

Impairment of financial assets

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

Fair values

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

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

Trade and settlement date accounting

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

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

4.1 Financial instruments

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

Fair value of financial instruments

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

Forward contracts

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

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS (continued)

4.2 Managing related risks

Interest rate risk

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

- correlating interest rates on borrowing with interest rates on lending.
- considering the discount rates for different currencies when determining interest rates.
- controlling the matching of maturity dates of financial assets and liabilities.

Credit risk

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

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

- preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- obtaining sufficient collateral to minimize the credit risk exposure which may result from financial problems facing customers or banks.
- follow-up and periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans.
- distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.

Exchange rate risk

Due to the nature of the Bank's activity, the Bank deals in different foreign currencies; hence it is exposed to exchange rate risk. The Bank attempts to maintain a balanced foreign currencies position in compliance with the Central Bank of Yemen instructions and the requirements of Central Bank of Yemen circular no. 6 of 1998 which specifies that individual foreign currency positions shall not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all currencies shall not exceed 25% of the Bank's capital and reserves, (note-34).

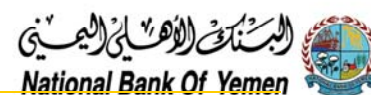
5 CASH IN HAND AND RESERVE BALANCES WITH THE CENTRAL BANK OF YEMEN

	2006 YR'000	2005 YR'000
Cash in hand:		
In local currency	346,860	484,548
In foreign currencies	377,678	539,606
Cheques purchased, net	39,753	15,790
Total cash in hand	<u>764,291</u>	<u>1,039,944</u>
Reserve balances with the Central Bank of Yemen:		
In local currency	3,929,006	3,345,156
In foreign currencies	5,419,522	6,276,114
Total reserve balances with the Central Bank of Yemen	<u>9,348,528</u>	<u>9,621,270</u>
Total cash in hand and reserve balances with the Central Bank of Yemen	<u><u>10,112,819</u></u>	<u><u>10,661,214</u></u>

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% in local currency and 20 % on foreign currencies of its demand, time and other deposits. Deposits in local currency carry interest at rates determined by the Central Bank of Yemen.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2006



6 DUE FROM BANKS

	2006 YR'000	2005 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	1,400,300	2,488,747
In foreign currencies	351,246	222,092
Total current accounts with the Central Bank of Yemen	1,751,546	2,710,839
Provision for outstanding reconciling items	(-)	(29,507)
Net current account balances with the Central Bank of Yemen	1,751,546	2,681,332
Current account balances with local banks	1,974	1,974
Total due from the Central Bank of Yemen and other local banks	1,753,520	2,683,306
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	2,480,384	2,061,206
Provision for outstanding reconciling items	(24,602)	(25,200)
Time deposits	19,803,801	10,825,850
Total due from foreign banks and other financial institutions	22,259,583	12,861,856
Total due from banks	24,013,103	15,545,162

In accordance with the instructions of the Central Bank of Yemen, the Bank's management has during the year transferred the amount of YR 29,507 thousands which represented the outstanding reconciling items of Central Bank of Yemen, and had been fully provided for during the previous years, to "Debit balances and other assets" (Note 11).

Time deposits include

- a) An investment linked deposit made with a foreign bank for US \$ 1,000,000 (YR 198,510 thousand) to be held for five years and carries a fixed interest rate of 4.50% for year one, 5.00% for year two, 5.50% for remaining three years. However the interest rate is indexed to LIBOR and is calculated based on a predetermined formula which has an upper and lower barrier. The period of the deposit is from 25 April 2003 to 25 April 2008.
- b) An investment linked deposit made with a foreign bank for US \$2,000,000 (YR 397,020 thousand) to be held for five years and carries a fixed interest rate of 5.50 % for the period. However the interest rate is indexed to LIBOR and is calculated based on a predetermined formula which has an upper and lower barrier. The period of the deposit is from 29 April 2004 to 29 April 2009.
- c) An investment linked deposit made with a foreign bank for US \$2,000,000 (YR 397,020 thousand) to be held for four years 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. The period of the deposit is from 16 June 2004 to 16 June 2008.

7 TREASURY BILLS, net

	2006 YR'000	2005 YR'000
Treasury bills due within 90 days	29,439,881	27,317,015
Unamortized discount	(485,045)	(451,972)
Net book value of treasury bills	28,954,836	26,865,043

The treasury bills and repurchased treasury bills have maturity of three months and carry interest rates ranging from 15.30% to 15.80% (31 December 2005: 14.00% to 15.50%). 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

	2006 YR'000	2005 YR'000
Certificates of deposit – 91 days	9,200,000	5,480,000

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of three months and carry interest rates of 15.34% to 15.77% (31 December 2005: 15% to 15.5%). 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.

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

	2006 YR'000	2005 YR'000
<i>Loans and advances to customers in private sector:</i>		
Overdraft facilities	5,415,766	2,201,362
Short term loans	3,325,186	2,862,743
Commercial papers discounted	41,687	44,262
Total loans and advances to customers in private sector (i)	8,782,639	5,108,367
<i>Loans and advances to Banks</i>		
Subordinated loan to UBAF-US\$ 588,094 (note 9- a)	-	114,726
Total loans and advances to Banks (ii)	-	114,726
Total loans and advances to customers and banks (i+ii)	8,782,639	5,223,093
Provision for losses on non performing loans and advances (note 9 - b)	(1,637,036)	(1,345,726)
Suspended interest (note 9- c)	(53,381)	(36,320)
Total provision for losses on non performing loans and advances and suspended interest	(1,690,417)	(1,382,046)
Net loans and advances to customers and banks	7,092,222	3,841,047

Gross non performing loans and advances at 31 December 2006 amounted to YR 2,040,318 thousand (31 December 2005: YR 1,908,933 thousand)

(a) Subordinated loan to UBAF

During the year the loan of US \$ 588,094 which represented the Bank's participation in a subordinated loan extended to UBAF (Paris) by its shareholders has been fully paid before its maturity date. The loan was repaid on 6 September 2006.

(b) 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.



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

(b) **Provision for losses on non performing loans and advances (continued)**

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

	-----31 December 2006-----			-----31 December 2005-----		
	Specific YR'000	General YR'000	Total YR'000	Specific YR'000	General YR'000	Total YR'000
Balance at 1 January	1,281,167	64,559	1,345,726	1,015,205	52,293	1,067,498
Revaluation of opening balance in foreign currencies	9,046	421	9,467	17,669	1,401	19,070
Amount utilized during the year.	(1,025)	-	(1,025)	(119)	-	(119)
Adjusted opening balance	<u>1,289,188</u>	<u>64,980</u>	<u>1,354,168</u>	<u>1,032,755</u>	<u>53,694</u>	<u>1,086,449</u>
Amounts recovered of loans previously written off (note 23)	(556,694)	(14,191)	(570,885)	(124,155)	(5,625)	(129,780)
Provision for the year (note 25)	<u>840,685</u>	<u>13,068</u>	<u>853,753</u>	<u>372,567</u>	<u>16,490</u>	<u>389,057</u>
Charged to the income statement	<u>283,991</u>	<u>(1,123)</u>	<u>282,868</u>	<u>248,412</u>	<u>10,865</u>	<u>259,277</u>
Balance at end of year	<u>1,573,179</u>	<u>63,857</u>	<u>1,637,036</u>	<u>1,281,167</u>	<u>64,559</u>	<u>1,345,726</u>

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2005: 2%).

(c) **Suspended interest**

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

	2006 YR'000	2005 YR'000
Balance at 1 January	36,320	25,829
Exchange differences	1,287	54
Amounts written-off during the year	(307)	(1,862)
Recovered during the year	(842)	(41)
Suspended during the year	<u>16,923</u>	<u>12,340</u>
Balance at end of year	<u>53,381</u>	<u>36,320</u>



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2006



10 AVAILABLE FOR SALE INVESTMENTS, NET

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

	<i>Ownership Percentage %</i>	<i>No. of shares of US\$ 1 each</i>	<i>2006 YR'000</i>	<i>2005 YR'000</i>
<i>Unquoted investments in UBAF Group:</i>				
UBAF – Curacao – A Shares of US \$ 1 each	0.788	1,497,200	17,982	17,982
UBAF – Curacao – B Shares of US \$ 1 each	0.783	234,650	2,818	2,818
UBAF – Curacao – C Shares of US \$ 1 each	1.371	528,250	6,344	6,344
Total investment in shares in UBAF Group		<u>2,260,100</u>	<u>27,144</u>	<u>27,144</u>
<i>Other unquoted investments:</i>				
Arab Banking Group -Bahrain	0.344		2,067	2,067
Arab Financial Services Company- Bahrain (note 10-a)	0.167		19,732	19,469
Yemen Financial Services Company- Yemen (note 10-b)	10		59,553	58,524
Yemen Mobile Company for Telecommunication- Yemen (note 10-c)	0.139		<u>61,200</u>	-
Total other unquoted investments			<u>142,552</u>	<u>80,060</u>
Total available for sales investments			<u>169,696</u>	<u>107,204</u>
Provision for impairment (note 10-d)			<u>(29,211)</u>	<u>(29,211)</u>
Net book value of investments available for sale			<u>140,485</u>	<u>77,993</u>

(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 2005) of the Company which amounted to US\$ 9.94 per share (2005: US\$ 9.98 per share).

(b) Yemen Financial Services Company - Yemen

The Bank has contributed a sum of USD 300,000 to Yemen Financial Services Company (Closed Shareholding Company) (YFSC), which has been the share capital 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.

(c) Yemen Mobile Company for Telecommunication

During the year the Bank purchased 120,000 shares of YR 500 each for a sum of YR 60,000,000 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 has been added to cost in accordance with International Accounting Standard (39) – Financial Instrument - Recognition and Measurement.

(d) Provision for impairment

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

11 DEBIT BALANCES AND OTHER ASSETS

	<i>2006 YR'000</i>	<i>2005 YR'000</i>
Prepaid expenses and other debit balances	4,224	4,133
Interest receivable	341,859	231,462
Capital costs of new branches under construction	81,653	38,236
Real estate properties acquired from customers, net of provision	29,234	29,234
Al Amal Bank for Microfinance -Republic Of Yemen	10,000	10,000
Al Tadhamon Microfinance- Republic of Yemen	1,000	1,000
Sundry debit balances, net of provision	<u>8,760</u>	<u>18,047</u>
Total debit balances and other assets	<u>476,730</u>	<u>332,112</u>

The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2005: YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen. The shareholdings in Al Amal Bank for Microfinance - Yemen and Al Tadhamon 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2006



11 DEBIT BALANCES AND OTHER ASSETS (continued)

In accordance with the instructions of the Central Bank of Yemen, the Bank's management has during the year transferred the amount of YR 29,507 thousands which represented the outstanding reconciling items of Central Bank of Yemen, and had been fully provided for during the previous years, to "Debit balances and other assets" (Note 6).

12 PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation

	<i>Freehold Land and buildings YR'000</i>	<i>Leasehold Improvements YR'000</i>	<i>Furniture & Equipment YR'000</i>	<i>Motor Vehicles YR'000</i>	<i>Swift & Computers YR'000</i>	<i>Total YR'000</i>
Cost or valuation:						
At 31 December 2005	1,632,426	39,620	221,668	65,392	123,889	2,082,995
Additions during the year	50,887	11,871	26,011	45,513	18,724	153,006
Disposal during the year	-	-	-	(7,461)	-	(7,461)
At 31 December 2006	1,683,313	51,491	247,679	103,444	142,613	2,228,540
Depreciation						
At 31 December 2005	43,952	16,086	94,524	51,949	99,525	306,036
Charge for the year	10,102	4,039	19,870	10,808	13,309	58,128
Disposal during the year	-	-	-	(7,461)	-	(7,461)
At 31 December 2006	54,054	20,125	114,394	55,296	112,834	356,703
Net book amount						
At 31 December 2006	1,629,259	31,366	133,285	48,148	29,779	1,871,837
At 31 December 2005	1,588,474	23,534	127,144	13,443	24,364	1,776,959

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

a) Revaluation of property

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

13 DUE TO BANKS

	<i>2006 YR'000</i>	<i>2005 YR'000</i>
<i>Current and demand accounts</i>		
Local banks	66,570	46,207
Foreign banks	33,028	51,707
Total due to banks	99,598	97,914

14 CUSTOMERS' DEPOSITS

	<i>2006 YR'000</i>	<i>2005 YR'000</i>
Current accounts	17,540,930	12,613,097
Savings accounts	24,030,515	23,063,501
Term deposits	25,722,286	18,460,530
Other deposit margins	978,582	466,593
Deposits for documentary letters of credit, guarantees and others	3,393,890	2,105,308
Total customers' deposits	71,666,203	56,709,029

15 CREDIT BALANCES AND OTHER BALANCES

	2006 YR'000	2005 YR'000
Accrued interest payable	538,079	395,471
Unclaimed balances (note 15- a)	194,003	188,021
Provision for employees' leave pay	34,537	23,849
Provision for off-balance sheet items (note 15 - b)	150,270	71,415
Due to the Owner (the Government) (note 15 - c)	-	-
Other provisions	21,435	10,922
Employees' share in net profit	99,190	77,326
Provision for contingent liabilities (note-33)	358,942	326,000
Sundry credit balances	286,398	98,626
Total credit balances and other balances	<u>1,682,854</u>	<u>1,191,630</u>

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 as a result of 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. The amount during the year represents the difference that resulted from the revaluation of balances in foreign currencies.

b) Provision for off-balance sheet items

	2006 YR'000	2005 YR'000
Balance at 1 January	71,415	75,776
Revaluation of opening balance in foreign currencies	1,471	3,033
Provision charged during the year (note -25)	114,298	14,766
Provision written back during the year (note -23)	(36,914)	(22,160)
Balance at end of the year	<u>150,270</u>	<u>71,415</u>

c) Due to the owner (the Government)

	2006 YR'000	2005 YR'000
Balance at 1 January	-	-
Government's share in the profit for the year	1,107,451	850,879
Transferred to capital	(1,107,451)	(850,879)
Net Government's share payable	-	-
Amounts paid during the year	(-)	(-)
Balance at end of the year	<u>-</u>	<u>-</u>

16 INCOME TAX PAYABLE

	2006 YR'000	2005 YR'000
Amounts due to the Tax Authority		
Balance at 1 January	704,870	473,617
Charged for the year in the Statement of Income (note 16 - a)	917,415	704,870
Total amounts due to the Tax Authority	1,622,285	1,178,487
Amount paid during the year	(704,870)	(473,617)
Total income tax payable	<u>917,415</u>	<u>704,870</u>

a) Charge for the year

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

b) Prior year tax assessments

The Bank received on 20 May 2006 the final tax clearance for the income tax liability for the financial year ended 31 December 2005.

17 OWNER'S EQUITY

a) Authorized capital

The authorized share capital amounting YR 6,000 million (2005: YR 6,000 million) consists of 6,000 thousand shares of YR 1,000 par value each (2005: of 6,000 thousand shares of YR 1,000 par value each).

b) Declared and paid up capital

The paid up share capital amounting YR 5,500 million (2005: YR 4,000 million) consists of 5,500 thousand shares of YR 1,000 par value each (2005: 4,000 thousand shares of YR 1,000 par value each).

c) Net profit distribution

In accordance with the provisions of the Public Corporations and Establishments Law no. 35 of 1991, the net profit 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.

d) Surplus on revaluation property reserve

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

e) Cumulative changes in fair value reserve

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

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net

<i>At 31 December 2006</i>	<i>Gross Commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	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
Customers' acceptances	1,406,193	-	1,406,193
Credit cards	53,598	14,720	38,878
Total contra accounts and other commitments	28,482,925	3,393,890	25,089,035
<i>At 31 December 2005</i>	<i>Gross Commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	6,293,351	1,185,257	5,108,094
Letters of guarantees – customers	3,795,921	905,425	2,890,496
Letters of guarantees - correspondent banks	6,576,909	-	6,576,909
Customers' acceptances	256,016	-	256,016
Credit cards	43,503	14,626	28,877
Total contra accounts and other commitments	16,965,700	2,105,308	14,860,392

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2006



19 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	2006 YR'000	2005 YR'000
<i>Interest on loans and advances to customer and banks</i>		
Interest on loans and advances to customers	655,285	539,691
Interest on commercial papers discounted	3,057	3,042
Interest on other facilities	3,642	1,156
Interest on loans to banks	5,166	4,717
Total interest on loans and advances to customers and banks	667,150	548,606
<i>Interest on deposits with foreign banks</i>		
Interest on current accounts	86,054	32,995
Interest on call accounts	1,203	2,928
Interest on deposits	691,902	359,110
Total interest on deposits with foreign banks	779,159	395,033
<i>Interest on deposits with local banks</i>		
Interest on reserves balances with the Central Bank of Yemen	474,263	431,969
Total interest on deposits with banks	1,253,422	827,002
Total interest on loans and advances and due from banks	1,920,572	1,375,608

20 COST OF DEPOSITS

	2006 YR'000	2005 YR'000
Interest on savings accounts	1,546,211	1,339,977
Interest on time deposits	2,203,721	1,842,890
Total cost of deposits	3,749,932	3,182,867

21 COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	2006 YR'000	2005 YR'000
Commissions on documentary letters of credits	125,220	70,106
Commissions on letters of guarantee	199,351	153,518
Commissions on transfer of funds	32,442	27,796
Commissions on acceptances	7,217	4,145
Commissions on cheques	107,151	90,415
Banking services fees	8,504	8,486
Other services fees	42,778	65,464
Total commissions and fee income on banking services	522,663	419,930

22 GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2006 YR'000	2005 YR'000
Revaluation differences on foreign currency transactions	55,170	7,581
Gain on foreign exchange trading transactions	26,869	29,360
Total gain on foreign currency transactions	82,039	36,941



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2006



23 OTHER OPERATING INCOME

	<i>2006</i>	<i>2005</i>
	<i>YR'000</i>	<i>YR'000</i>
Provision for losses on loans no longer required (note 9-b)	570,885	129,780
Provision for outstanding reconciling item no longer required (BCCI)	1,782	-
Provision for off-balance sheet items no longer required (note 15-b)	36,914	22,160
Sundry income	27,978	16,454
	<hr/>	<hr/>
Total other operating income	637,559	168,394
	<hr/>	<hr/>

As disclosed in note 9-a, the total amount of the loan of US \$ 588,094 (YR 114,726 thousand) has been fully paid on 6 September 2006.

24 GENERAL AND ADMINISTRATION EXPENSES

	<i>2006</i>	<i>2005</i>
	<i>YR'000</i>	<i>YR'000</i>
Salaries, wages and related costs	639,941	479,210
Depreciation of property and equipment (note 12)	58,128	48,394
Rent	32,081	31,638
Electricity and water	28,942	24,043
Repairs and maintenance	17,914	20,149
Telephone, telexes and postage	22,880	20,977
Transportation and allowances	33,627	24,547
Promotions and publications	28,196	19,112
Computer maintenance	11,617	11,173
Training	19,495	17,699
Taxes and government fees	1,019	1,149
Donations	7,188	11,723
Stationery and printing supplies	18,399	15,944
Other general and administration expenses	60,156	50,231
	<hr/>	<hr/>
Total general and administration expenses	979,583	775,989
	<hr/>	<hr/>

25 PROVISIONS

	<i>2006</i>	<i>2005</i>
	<i>YR'000</i>	<i>YR'000</i>
Provision for losses on loans and advances (note 9 -b)	853,753	389,057
Provision for off-balance sheet items (note 15 - b)	114,298	14,766
Provision for employees' leave pay	19,482	12,362
Provision for outstanding reconciling item between banks	-	11,392
Other provision	43,320	-
	<hr/>	<hr/>
Total provisions	1,030,853	427,577
	<hr/>	<hr/>

26 ZAKAT

	<i>2006</i>	<i>2005</i>
	<i>YR'000</i>	<i>YR'000</i>
Zakat paid	50,000	44,000
	<hr/>	<hr/>

27 EARNINGS PER SHARE

	<i>2006</i>	<i>2005</i>
	<i>YR'000</i>	<i>YR'000</i>
Net profit for the year	1,703,770	1,309,045
Number of shares	4,000,000	2,700,000
	<hr/>	<hr/>
Earnings per share	YR 426	YR 485
	<hr/>	<hr/>

28 RELATED PARTY TRANSACTIONS

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

	2006 YR'000	2005 YR'000
<i>Board members and parties related to them</i>		
Loans and advances, gross	4,914	3,803
Customers' deposits	6,192	3,756
Interest income for the year	230	533
Interest expense for the year	259	396

29 MATURITIES OF ASSETS AND LIABILITIES

a) As at 31 December 2006

ASSETS	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000	Total YR'000
Cash in hand and reserve balances with the Central Bank of Yemen	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	9,200,000	-	-	-	9,200,000
Loans and advances to customers and banks, net of provision	1,696,691	482,742	1,956,461	2,956,328	7,092,222
Available for sale Investments	-	-	-	140,485	140,485
TOTAL ASSETS	72,931,698	482,742	1,956,461	4,142,564	79,513,465
LIABILITIES					
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

b) As at 31 December 2005

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

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

a) 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 %
Assets					
<i>Reserve balances with the Central Bank of Yemen</i>	13.00	-	-	-	-
<i>Due from banks:</i>					
Current accounts	-	4.55	-	3.69	3.12
Time deposits	-	5.30	4.58	5.00	3.50
<i>Treasury bills</i>	15.69	-	-	-	-
<i>Certificates of deposit with the Central Bank of Yemen</i>	15.72	-	-	-	-
<i>Loans to customers</i>	18.00	8.00	-	8.00	8.00
Liabilities					
<i>Customers' deposits</i>	13.00	2.66	1.65	2.18	1.15

b) The average interest rates on assets and liabilities applied during the year ended 31 December 2005 were as follows:

	Yemeni Riyal %	US Dollar %	Saudi Riyal %	Sterling Pound %	Euro %
Assets					
<i>Reserve balances with the Central Bank of Yemen</i>	13.00	-	-	-	-
<i>Due from banks:</i>					
Current accounts	-	2.08	-	2.39	2.15
Time deposits	-	3.85	4.30	4.40	2.37
<i>Treasury bills</i>	15.25	-	-	-	-
<i>Certificates of deposit with the Central Bank of Yemen</i>	15.25	-	-	-	-
<i>Loans to customers</i>	18.50	8.00	-	8.00	8.00
Liabilities					
<i>Customers' deposits</i>	13.00	2.00	2.00	2.19	1.15



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 December 2006

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

a) As at 31 December 2006

ASSETS	<i>Manufacturing YR'000</i>	<i>Agriculture YR'000</i>	<i>Trade YR'000</i>	<i>Service YR'000</i>	<i>Finance YR'000</i>	<i>Personal YR'000</i>	<i>Total YR'000</i>
Cash in 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	-	-	-	-	28,954,836	-	28,954,836
Certificates of deposit	-	-	-	-	9,200,000	-	9,200,000
Loans to customers and banks, 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
Total Assets	48,125	-	5,072,914	20,800	72,523,294	1,848,332	79,513,465
LIABILITIES							
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
Total Liabilities	2,276,554	473,913	7,278,416	1,818,972	961,675	58,956,271	71,765,801
Contra accounts and other commitments	646,205	-	22,219,734	531,570	2,389,703	2,695,713	28,482,925

b) As at 31 December 2005

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

32 TRUST ACTIVITIES

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

33 CONTINGENT ASSETS AND LIABILITIES

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

34 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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

	31 December 2006		31 December 2005	
	%	YR'000	%	YR'000
United States Dollar	11.80	882,972	6.90	407,522
Pound Sterling	3.00	228,426	2.50	149,753
Euro	2.00	150,858	1.80	107,100
Saudi Riyal	1.60	123,244	5.40	317,843
Swiss Franc	0.10	5,209	0.10	4,739
Japan Yen	0.10	1,350	0.10	3,449
United Arab Emirates Dirham	0.10	8,330	-	-
Other	0.00	13	0.10	4,102
Aggregate foreign currency positions	<u>18.70</u>	<u>1,400,402</u>	<u>16.90</u>	<u>994,508</u>

The dollar exchange rate at 31 December 2006 was 198.51 YR/US\$ (31 December 2005: 195.08 YR/US\$).

35 CAPITAL COMMITMENTS

Capital commitments at 31 December 2006 amounted to YR 65 million (31 December 2005: YR 114 million).

36 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT OF THE BANK

The Bank has signed contract on 20 December 2006 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. The Bank will finance the cost of both parts of this program from its own financial resources.

37 COMPARATIVE FIGURES

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



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