



البنك الأهلي اليمني  
**National Bank Of Yemen**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**NATIONAL BANK OF YEMEN**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

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**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

NATIONAL BANK OF YEMEN


**BALANCE SHEET**


As at 31 December 2007

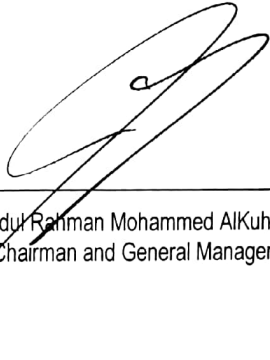
		31 December 2007 YR '000	31 December 2006 YR '000
<b>ASSETS</b>			
Cash on hand and reserve balances with the Central Bank of Yemen	Note 5	12,950,745	10,112,819
Due from banks	6	26,740,642	24,013,103
Treasury bills, net	7	33,423,127	28,954,836
Certificates of deposit with the Central Bank of Yemen	8	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>
<b>LIABILITIES AND OWNER'S EQUITY</b>			
<b>LIABILITIES</b>			
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>
<b>OWNER'S EQUITY</b>			
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>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>95,102,978</b>	<b>83,268,225</b>
<b>CONTRA ACCOUNTS AND OTHER COMMITMENTS, net</b>	18	<b>36,125,309</b>	<b>23,682,842</b>

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

NATIONAL BANK OF YEMEN  
**INCOME STATEMENT**  
For The Year Ended 31 December 2007

	<i>Note</i>	<i>2007</i> <i>YR' 000</i>	<i>2006</i> <i>YR' 000</i>
<b>OPERATING INCOME</b>			
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		<u>8,905,657</u>	<u>7,219,919</u>
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
<b>NET OPERATING INCOME</b>		<u>6,048,430</u>	<u>4,713,132</u>
<b>OPERATING EXPENSES</b>			
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
<b>TOTAL OPERATING EXPENSES</b>		<u>2,383,118</u>	<u>2,041,947</u>
<b>PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX</b>		3,665,312	2,671,185
Zakat	26	(65,000)	(50,000)
<b>PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX</b>		3,600,312	2,621,185
Provision for income tax	16	(1,260,109)	(917,415)
<b>PROFIT FOR THE YEAR</b>		<u>2,340,203</u>	<u>1,703,770</u>
Basic earnings per share	27	YR 360	YR 359

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

NATIONAL BANK OF YEMEN

STATEMENT OF CHANGES IN OWNER'S EQUITY  
For The Year Ended 31 December 2007

	Capital YR '000	Revaluation Reserve YR '000	Statutory Reserve YR '000	General Reserve YR '000	Cumulative Changes in Fair Value Reserve YR '000	Profit for the Year YR '000	Total YR '000
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	7,500,000	639,762	1,411,772	148,060	21,315	-	9,720,909

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.

NATIONAL BANK OF YEMEN  
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	(7,406)	(1,025)
- Revaluation of balances of provision for losses on loans 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.

NATIONAL BANK OF YEMEN  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 31 December 2007

## 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: Group Treasury Share Transactions, effective from 1 March 2006.

#### 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)

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.

NATIONAL BANK OF YEMEN  
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)**

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".

## 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 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 currency risk.

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

**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
Assets		
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	<u>1,661,402</u>	<u>1,882,923</u>
Total assets	<u>91,474,561</u>	<u>80,671,850</u>
Contra accounts and other commitments	<u>44,655,854</u>	<u>27,076,732</u>
Total credit risk exposure	<u>136,130,415</u>	<u>107,748,582</u>

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.

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

**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:

<u>As at 31 December 2007</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
<b>LIABILITIES</b>					572,858
Due to banks	572,858	-	-	-	80,961,204
Customers' deposits	49,608,505	9,486,539	20,399,413	1,466,747	1,260,109
Income tax payable	-	1,260,109	-	-	-
Total liabilities	<u>50,181,363</u>	<u>10,746,648</u>	<u>20,399,413</u>	<u>1,466,747</u>	<u>82,794,171</u>
<u>As at 31 December 2006</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
<b>LIABILITIES</b>					99,598
Due to banks	99,598	-	-	-	71,666,203
Customers' deposits	47,554,119	7,656,869	16,377,365	77,850	917,415
Income tax payable	-	917,415	-	-	-
Total liabilities	<u>47,653,717</u>	<u>8,574,284</u>	<u>16,377,365</u>	<u>77,850</u>	<u>72,683,216</u>

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.

NATIONAL BANK OF YEMEN  
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:

<u>As at 31 December 2007</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<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	<u>62,229,720</u>	<u>4,158,579</u>	<u>6,592,150</u>	<u>3,130,190</u>	<u>18,992,339</u>	<u>95,102,978</u>
<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	9,720,910
Total liabilities and owner's equity	<u>30,255,955</u>	<u>8,847,691</u>	<u>16,817,769</u>	<u>-</u>	<u>39,181,563</u>	<u>95,102,978</u>
Interest rate sensitivity gap	<u>31,973,765</u>	<u>(4,689,112)</u>	<u>(10,225,619)</u>	<u>3,130,190</u>	<u>(20,189,224)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>31,973,765</u>	<u>27,284,653</u>	<u>17,059,034</u>	<u>20,189,224</u>	<u>-</u>	<u>-</u>
<u>As at 31 December 2006</u>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
<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	<u>65,158,759</u>	<u>482,742</u>	<u>1,956,461</u>	<u>4,005,279</u>	<u>11,664,984</u>	<u>83,268,225</u>
<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	<u>26,946,958</u>	<u>7,193,524</u>	<u>15,162,565</u>	<u>-</u>	<u>33,965,178</u>	<u>83,268,225</u>
Interest rate sensitivity gap	<u>38,211,801</u>	<u>(6,710,782)</u>	<u>(13,206,104)</u>	<u>4,005,279</u>	<u>(22,300,194)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>38,211,801</u>	<u>31,501,019</u>	<u>18,294,915</u>	<u>22,300,194</u>	<u>-</u>	<u>-</u>

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.

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

**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>As at 31 December 2007</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	<u>(27,522,604)</u>	<u>(1,738,606)</u>	<u>(2,402,699)</u>	<u>(1,188,063)</u>	<u>(111,866)</u>	<u>(32,963,838)</u>
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>As at 31 December 2006</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	<u>(29,565,286)</u>	<u>(1,523,230)</u>	<u>(439,002)</u>	<u>(1,004,431)</u>	<u>(43,905)</u>	<u>(32,575,854)</u>
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 comprise the share capital, statutory reserves and general reserve.

Tier 2 capital: which comprise 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.



NATIONAL BANK OF YEMEN  
**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	<u>9,059</u>	<u>6,837</u>
Tier 2 capital		
Property revaluation reserve	640	640
Fair value reserve	21	20
Total Tier 2 capital	<u>661</u>	<u>660</u>
Investment in any local banks or financial companies	(62)	-
General provision balance as at year end	132	64
Total qualifying capital	<u>9,790</u>	<u>7,562</u>
Risk weighted assets		
On balance sheet	14,024	12,306
Off Balance sheet	7,218	5,216
Total risk - weighted assets	<u>21,242</u>	<u>17,522</u>
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	<u>1,724,311</u>	<u>764,291</u>
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	<u>11,226,434</u>	<u>9,348,528</u>
Total cash on hand and reserve balances with the Central Bank of Yemen	<u>12,950,745</u>	<u>10,112,819</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% 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.

NATIONAL BANK OF YEMEN

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

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	<u>6,719,926</u>	<u>1,751,546</u>
Current account balances with local banks	1,974	1,974
Total due from the Central Bank of Yemen and other local banks	<u>6,721,900</u>	<u>1,753,520</u>
<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	<u>16,521,349</u>	<u>19,803,801</u>
Total due from foreign banks and other financial institutions	<u>20,018,742</u>	<u>22,259,583</u>
Total due from banks	<u>26,740,642</u>	<u>24,013,103</u>

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 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

	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	<u>4,633,160</u>	<u>-</u>
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	<u>(487,312)</u>	<u>-</u>
Net book value of treasury bills	<u>33,423,127</u>	<u>28,954,836</u>

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	<u>9,350,000</u>	<u>9,200,000</u>

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

NATIONAL BANK OF YEMEN  
**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	<u>10,809,521</u>	<u>8,782,639</u>
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	<u>(1,894,937)</u>	<u>(1,690,417)</u>
Net loans and advances to customers	<u>8,914,584</u>	<u>7,092,222</u>

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	<u>2,715,490</u>	<u>2,040,318</u>

**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	<u>1,569,363</u>	<u>64,107</u>	<u>1,633,470</u>	<u>1,289,188</u>	<u>64,980</u>	<u>1,354,168</u>
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	<u>103,970</u>	<u>67,509</u>	<u>171,479</u>	<u>283,991</u>	<u>(1,123)</u>	<u>282,868</u>
Balance at end of year	<u>1,673,333</u>	<u>131,616</u>	<u>1,804,949</u>	<u>1,573,179</u>	<u>63,857</u>	<u>1,637,036</u>

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.

NATIONAL BANK OF YEMEN  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**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

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.

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

**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 Tadhamon Microfinance- Yemen	1,000	1,000
Customer acceptances	867,485	1,406,193
Sundry debit balances, net of provision	40,380	8,760
<b>Total debit balances and other assets</b>	<b>1,661,402</b>	<b>1,882,923</b>

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 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Year Ended 31 December 2007

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	<u>572,858</u>	<u>99,598</u>
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	<u>80,961,204</u>	<u>71,666,203</u>
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	<u>2,587,898</u>	<u>3,089,047</u>
15-a <u>Unclaimed balances</u>		
<p>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.</p>		
15-b <u>Provision for off-balance sheet items</u>	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	<u>281,403</u>	<u>150,270</u>

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For The Year Ended 31 December 2007

**16 INCOME TAX PAYABLE**

	31 December 2007 YR'000	31 December 2006 YR'000
<i>Amounts due to the Tax Authority</i>		
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 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.

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

**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:

<u>As at 31 December 2007</u>	<i>Gross commitments YR '000</i>	<i>Covered by margin YR '000</i>	<i>Net commitments YR '000</i>
Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:			
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	<u>44,655,854</u>	<u>8,530,545</u>	<u>36,125,309</u>
<u>As at 31 December 2006</u>	<i>Gross commitments YR '000</i>	<i>Covered by margin YR '000</i>	<i>Net commitments YR '000</i>
Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:			
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	<u>27,076,732</u>	<u>3,393,890</u>	<u>23,682,842</u>

**19 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS**

	<i>2007 YR '000</i>	<i>2006 YR '000</i>
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	<u>970,045</u>	<u>667,150</u>
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	<u>1,162,909</u>	<u>779,159</u>
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	<u>1,704,325</u>	<u>1,253,422</u>
Total interest on loans and advances and due from banks	<u>2,674,370</u>	<u>1,920,572</u>

**20 COST OF DEPOSITS**

	<i>2007 YR '000</i>	<i>2006 YR '000</i>
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	<u>4,755,558</u>	<u>3,749,932</u>



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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
	<u>724,567</u>	<u>522,663</u>
Total commissions and fee income on banking services		

**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
	<u>71,936</u>	<u>82,039</u>
Total gain on foreign currency transactions		

**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
	<u>1,099,469</u>	<u>637,559</u>
Total other operating income		

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
	<u>1,200,402</u>	<u>979,583</u>
Total general and administration expenses		

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

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

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	<u>21,445</u>	<u>62,802</u>
	Total provisions	<u>1,105,420</u>	<u>1,030,853</u>
26	ZAKAT	2007 YR '000	2006 YR '000
	Zakat	<u>65,000</u>	<u>50,000</u>
27	BASIC EARNINGS PER SHARE	2007 YR '000	2006 YR '000
	Profit for the year	<u>2,340,203</u>	<u>1,703,770</u>
	Weighted average number of shares	<u>6,500,000</u>	<u>4,750,000</u>
	Basic earnings per share	<u>YR 360</u>	<u>YR 359</u>

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 have a significant interest 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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**29 MATURITIES OF ASSETS AND LIABILITIES**

<u>As at 31 December 2007</u>					
	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	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	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
<b>Total assets</b>	<b>77,435,941</b>	<b>4,143,787</b>	<b>6,590,301</b>	<b>3,353,673</b>	<b>91,523,702</b>
<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
<b>Total liabilities</b>	<b>50,181,363</b>	<b>9,486,539</b>	<b>20,399,413</b>	<b>1,466,747</b>	<b>81,534,062</b>
<b>Net Gap</b>	<b>27,254,578</b>	<b>(5,342,752)</b>	<b>(13,809,112)</b>	<b>1,886,926</b>	<b>9,989,640</b>
<u>As at 31 December 2006</u>					
	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	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	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
<b>Total assets</b>	<b>72,931,698</b>	<b>482,742</b>	<b>1,956,461</b>	<b>4,142,564</b>	<b>79,513,465</b>
<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
<b>Total liabilities</b>	<b>47,653,717</b>	<b>7,656,869</b>	<b>16,377,365</b>	<b>77,850</b>	<b>71,765,801</b>
<b>Net Gap</b>	<b>25,277,981</b>	<b>(7,174,127)</b>	<b>(14,420,904)</b>	<b>4,064,714</b>	<b>7,747,664</b>

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**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:

	<i>Yemeni</i> <i>Riyal</i> %	<i>US</i> <i>Dollar</i> %	<i>Saudi</i> <i>Riyal</i> %	<i>Sterling</i> <i>Pound</i> %	<i>Euro</i> %
<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:

	<i>Yemeni</i> <i>Riyal</i> %	<i>US</i> <i>Dollar</i> %	<i>Saudi</i> <i>Riyal</i> %	<i>Sterling</i> <i>Pound</i> %	<i>Euro</i> %
<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

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**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

	<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>
<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

	<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>
<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

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

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

As at 31 December 2007

	<i>Republic of Yemen YR'000</i>	<i>United States of America YR'000</i>	<i>Europe YR'000</i>	<i>Asia YR'000</i>	<i>Africa YR'000</i>	<i>Total YR'000</i>
<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
Total assets	<u>71,483,473</u>	<u>3,707,555</u>	<u>13,152,401</u>	<u>3,119,590</u>	<u>60,683</u>	<u>91,523,702</u>
<b>LIABILITIES</b>						
Due to banks	10,026	-	-	562,832	-	572,858
Customers' deposits	80,961,204	-	-	-	-	80,961,204
Total liabilities	<u>80,971,230</u>	<u>-</u>	<u>-</u>	<u>562,832</u>	<u>-</u>	<u>81,534,062</u>

As at 31 December 2006

	<i>Republic of Yemen YR'000</i>	<i>United States of America YR'000</i>	<i>Europe YR'000</i>	<i>Asia YR'000</i>	<i>Africa YR'000</i>	<i>Total YR'000</i>
<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
Total assets	<u>57,234,150</u>	<u>5,957,668</u>	<u>12,417,643</u>	<u>3,869,140</u>	<u>34,864</u>	<u>79,513,465</u>
<b>LIABILITIES</b>						
Due to banks	66,570	-	-	33,028	-	99,598
Customers' deposits	71,666,203	-	-	-	-	71,666,203
Total liabilities	<u>71,732,773</u>	<u>-</u>	<u>-</u>	<u>33,028</u>	<u>-</u>	<u>71,765,801</u>

NATIONAL BANK OF YEMEN  
**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	<u>17.14</u>	<u>1,666,614</u>	<u>18.70</u>	<u>1,400,402</u>

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.