



البنك الأهلي اليمني
National Bank Of Yemen

**The results of
the strategy of
change**

Annual report 2001



His Excellency President
ALI ABDULLAH SALEH
President of the Republic

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Current accounts department -Mukalla branch-



Customers' counter-Mukalla branch-

Financial and other highlights

YR millions unless otherwise indicated

	2001	2000	1999
Balance sheet at 31 December			
Total assets	37,861	34,237	29,311
Owner's equity	2,856	2,658	2,528
Customers' deposits	33,847	30,958	26,411
Loans and advances (net)	1,566	1,091	870
Investments	17,110	15,191	11,824
Statement of income-Year ended 31 December			
Net interest income	1,475	1,223	969
Profit before taxation	1,003	672	528
Net profit for the year	652	437	474
Indicators			
Earning per share	407 YR	273 YR	296 YR
Return on assets %	1.7	1.3	1.6
Return on owner's equity %	22.8	16.4	18.7
Liquidity %	88	87	84
Capital adequacy %	46	46	49
US \$ rates	173.27 YR	165.53 YR	159.71 YR
Number of branches	28	28	30
Number of employees	608	620	608

Board of Directors



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



*Mr. Gawad A. Al-Alas
Member of the Board First Deputy General Manager*



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



Mr. Abdulla A. Saleh
Representative/ Ministry of Finance



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



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



Mr. Abdulla S. Abadden
Representative/ Ministry of planning



Customers' counter-Sana'a branch-



Current accounts department-Sana'a branch-



Chairman's message



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

It gives me pleasure on behalf of the Board of Directors and in my name, to extend to His Excellency, President Ali Abdullah Saleh, the President of the Republic of Yemen our gratitude for his distinguished leadership that is demonstrated by the unity of our country which has been achieved through his wisdom and guidance and to H. E. The Prime Minister and to H. E. The Deputy Prime Minister and Minister of Finance under whose supervision the bank operates and to the Governor of the Central Bank of Yemen for their continued support to our Bank which contributed to the success and achievements the Bank has realized during the year 2001.

I would also like to take this opportunity to thank all our customers and our foreign correspondents for their continued support and excellent relationship that we have developed over the years.

The achievement of our Bank, The National Bank of Yemen, during the year 2001 was exceptional by all standards, despite the difficulties that the world economy has witnessed during the last four months following the 11 September tragic incident, with a slow down in economic activity and the series of reductions in interest rates that followed that date.

Net profit for the year grew by 49.1% with 22.8% return on owner's equity.

The Bank maintained its leadership position in the banking sector in Yemen not only as regards total assets or total customer deposits, but also in its net profits which have risen to an all time figure exceeding YR 1 billion, an increase of 49.1% over the net profit for the year 2000. As a result the earnings per share have increased from YR 273 in 2000 to YR 407 in 2001, an increase of 49%.

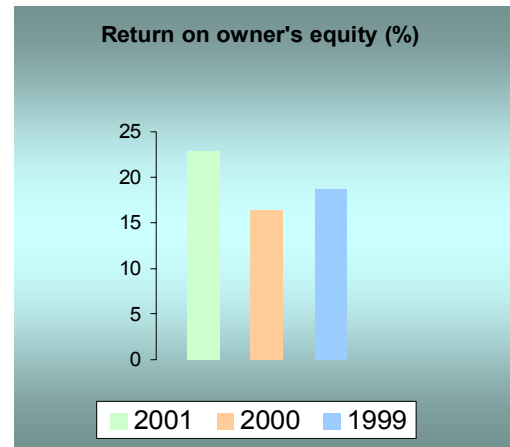


During 2001 we have automated four branches. Our plans for 2002 is to complete the automation and information systems for the remaining branches and to introduce phone banking services. This enhancement to our systems will not only keep our Bank abreast with new developments in this area, but will no doubt improve the services we provide to our customers.

Since the wealth of any organization is its people we have during the year organized a number of internal and external training courses, aimed at enhancing staff skills, including several courses, in banking, accounting, International Accounting Standards, auditing and proficiency in the English language. This policy remains as one of the cornerstones in the development of our staff.

We, at the National Bank of Yemen, are keen to achieve excellence on all services we provide to our customers and believe this can be achieved with the cooperation of our customers and the skills and experience of our staff.

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



Abdul Rahman Mohammed Al Kohali
Chairman and General Manager



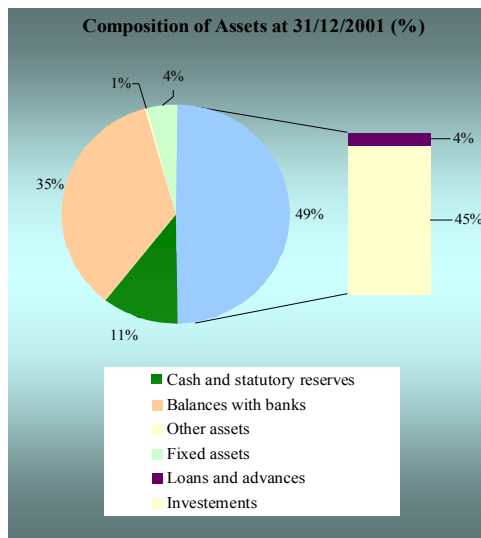
National Bank of Yemen - Queen Arwa Road branch-





Board of directors' report

The Board of Directors is pleased to present the Annual Report of the National Bank of Yemen for the year ending 31 December 2001, which review the Bank's most important achievements and results during the year.

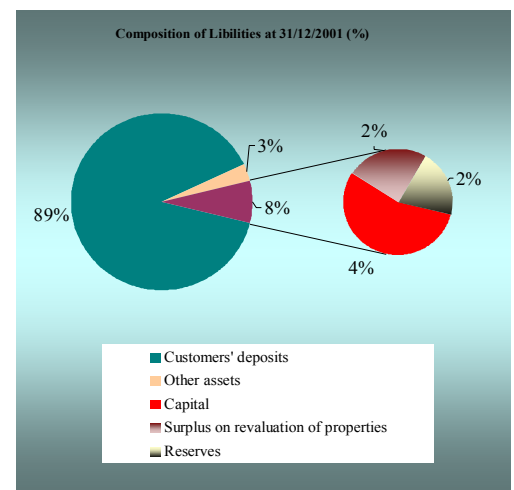


The year 2001 is a continuation for a successful banking march started after the Bank implemented the strategy of modernization and modification that began in 1998. The Bank adopted this strategy to conform with the new changes in the Yemeni banking market, to make dealing with the surrounding circumstances more flexible, and to increase the efficiency and the level of the Bank's operations in order to meet the needs of its customers.

This strategy allowed the Bank to achieve high rates of growth and profitability, which indicates the strength of the Bank's financial position and the increasing growth in

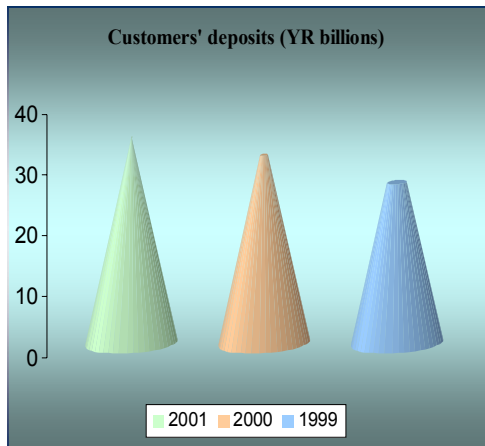
the size of its business. Whereas the financial results of the Bank in the year 2001 showed distinct growth in most of the Bank's Balance Sheet indicators, as well as, its profitability compared to those of 2000.

Accordingly, the Bank's assets increased to YR (37.9) billion in 2001 with a growth of 10.8%, and by adding the off-balance sheet items, the Bank's total assets increase to YR (42.4) billion, raising the Bank's total balance sheet by 15.5% during the same year. The net off-balance-sheet items recorded an increase of 80.7% in 2001 to reach YR (4.5) billion. Cash on hand and balances with banks reached YR (12.7) billion compared with YR (11.7) billion in 2000, showing an increase of 8.5%. The balances with the Central Bank of Yemen also witnessed an increase of 2.2% to YR (4.6) billion at the end of 2001. The Bank's investments in treasury bills and certificate of deposits issued by the Central Bank of Yemen have increased by 12.5% to amount to (17.1) billion at the end of 2001.





Thereby, the liquid assets of the Bank grew a healthy growth under a strategy directed at keeping high liquidity ratios with the aim of investing this liquidity in highly secured investments with appropriate rate of return, as well as securing an optimal match between security, profitability and growth.

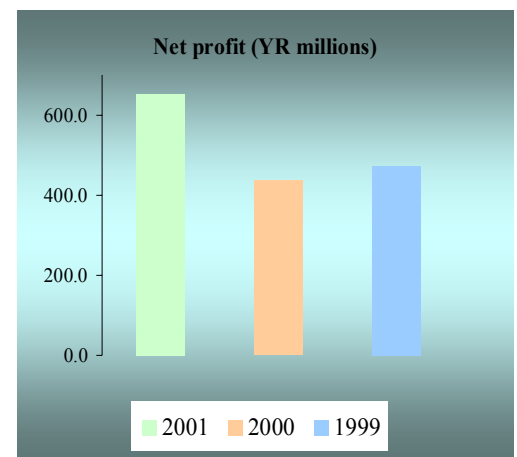


Furthermore, as a result of the Bank's cautious lending policy, loans and advances settled at YR (2.3) billion, representing 6.8% of customers' deposits, the fact that makes it feasible for the Bank to increase its lending ratios and improve its profitability. The Bank classified its doubtful loans according to the Central Bank of Yemen standards, where it made full provisions to these loans. In

spite of that, the management of the Bank expects to collect a sizeable portion of these loans during 2002 and the following years. As a result of the Bank's improved activity in promoting the least costly deposits, and the more stable ones, customers' deposits increased by 9.0% to reach YR (33.8) billion in 2001.

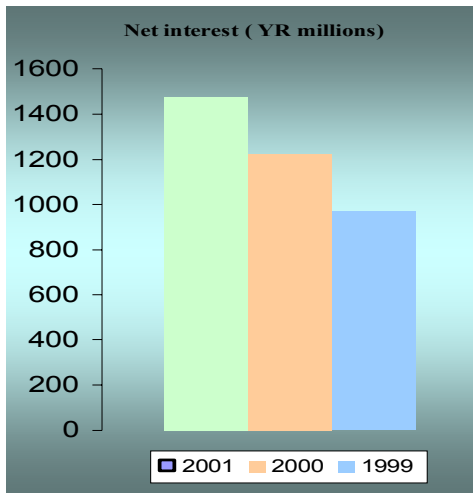
Abiding by the constant safekeeping of the depositors' funds, the Bank adapted a conservative policy during 2001, as it managed to make fit the good results with high levels of liquidity and capital adequacy. Thus, at year-end the Bank maintained a high liquidity ratio of 88.0%, and a high capital adequacy ratio of 46.0%, surpassing the required local and international standards of capital adequacy. The owner's equity also grew by 7.5% at year-end to reach YR (2.9) billion, the fact that reflects the growing strength and stability of the Bank's financial position and its increasing ability of expansion.

The financial results for 2001 came to emphasize the Bank's outbreak which started in 1998, and to reflect the extent of its accelerated progress and the continuous improvement of the Bank's performance. These results also came to reflect the determination of the wise management of the Bank to advance the Bank to the rank of the first commercial Bank in Yemen.





In reflection to the above, the National Bank of Yemen stepped into its thirty-third year by achieving the highest profitability figures since its establishment, where it succeeded in realizing more than YR (1) billion in profits before taxation, in 2001, i.e. with an increase of 49.1% in comparison with 2000.



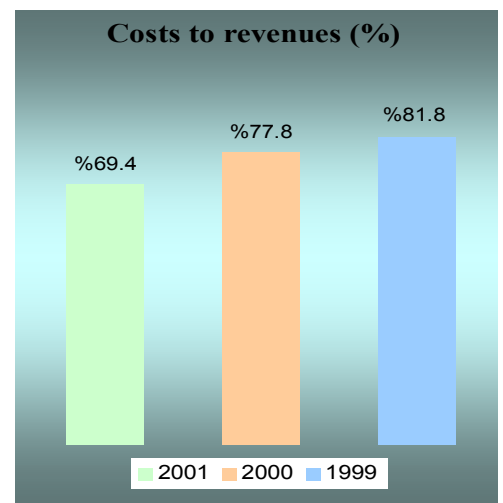
Moreover, net profit at the end of 2001 reached YR (651.9) million with a growth rate of 49.1% as well, which resulted in an increase of the earnings per share to YR 407 at year-end, compared with YR 273 in 2000. The return on assets reached 1.72% and the return on owner's equity 22.8% in 2001, against 1.28% and 16.4% in 2000 respectively. These ratios are high by all

international standards and reflect the Bank's vast ability to manage its assets in an ideal manner.

As to the Bank's gross revenues, these have grown from YR (3.2) billion in 2000 to YR (3.4) billion in 2001, at the rate of 6.2%. The income from interest formed the main source of the Bank's profits, and recorded an increase of 20.6% at the end of 2001, to represent 92.8% of gross revenues. The income from commissions ranked second to interest income, as it increased by 21.7% at the end of 2001. On the other hand, the Bank managed to improve its costs management by reducing the ratio of costs to revenues from 78.0% in 2000 to 69.4% in 2001.

Also, in observance of the instructions issued by the Central Bank of Yemen regarding the classification of non-performing loans, the Bank provided fully for these loans which justify the forming of YR (84.2) million as provisions from the profit of 2001 against YR (88.1) million in 2000.

Besides its financial achievements, the National Bank of Yemen continued, during the year, to invest in its branch network and in the human resources by rehabilitation and recruitment, and continued to invest in the banking services, working manuals and systems. Also, the Bank continued to implement modern developing technology and its applications in the fields of banking and finance.





The exchange of banking experiences with the Arab and the international financial and banking institutions, the exchange of the banking expertise and the attendance of conferences and symposiums through the year, had a significant role in shaping the main features for the Bank's attitudes towards a developed banking world.

In 2001, the Bank adhered to develop its operations and to activate its role in servicing its customers, and continued with the restructuring of its organizational framework and its systems and working manuals. The Bank also worked hard to couple with the advanced technologies pertaining to the operations of the banking and financial institutions. Moreover, at present, the Bank is engaged in studying several distinct financial and banking programs and updating the existing services to keep abreast with the technological progress aiming at providing distinct and speedy services that are suitable to the needs of all its customers. In achieving this goal and increasing the quality of the Banks' services, the Bank held, during, 2001 several training courses and workshops in conformity with the needs of the phase of change and restructuring which the Bank is going through, to develop and promote the competence and efficiency of its employees to enable them to render a distinct banking service to the customers of the National Bank of Yemen.

The National Bank of Yemen strategy for the year 2002

- ✚ To complete the first phase of the computer network and information systems, as well as to continue the development of the capability of the Banks' human resources and its modern technology.
- ✚ In the framework of implementing the Bank's strategy on the expansion of its services and increasing its market share, the Bank expects to open two branches in the capital Sana'a and in Taiz.
- ✚ To complete the restructuring process of the departments of the Head Office and the branches that will increase the Bank's operating efficiency and render better services to its customers.
- ✚ To continue expanding the Banks' foreign exchange services, developing trade services, and introducing services of lease financing.

In conclusion, the Board of Directors of the National Bank of Yemen takes this opportunity to express its thanks to the Bank's esteemed customers and correspondent banks for their trust and continued support. The Board also extends its thanks and gratitude to the staff of the Bank for their excellent efforts and dedication in their work during 2001.

Board of Directors



National Bank of Yemen-Sana'a branch-



**AUDITOR'S REPORT TO
H. E. THE DEPUTY PRIME MINISTER AND MINISTER OF FINANCE.**

NATIONAL BANK OF YEMEN

We have audited the financial statements of the National Bank of Yemen set out on pages 18 to 44. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly in all material respects the financial position of the Bank as at 31 December 2001 and the results of its operations and cash flow for the year then ended in accordance with the accounting policies set out in note (3) to the financial statements.

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



Dahman Awadh Dahman, FCCA
Registered Licensed Accountant No. 384
of Dahman
A member firm of RSM international

28 January 2002
Aden, Republic of Yemen

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Worldwide
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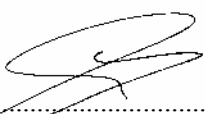
BALANCE SHEET

At 31 December 2001

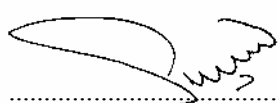
	Note	2001 YR '000	2000 YR '000
ASSETS			
Cash in hand and reserve balances with the Central Bank of Yemen	5	4,115,176	3,723,336
Due from banks	6	13,190,313.	12,490,492
Treasury bills, net	7	12,310,411	15,190,739
Investments for held for trading	8	4,800,000	-
Loans to customers, net of provision	9	1,566,384	1,091,434
Long term investments, net of provision	10	8,264	8,264
Debit balances and other assets	11	222,609	125,785
Property and equipment, net of accumulated depreciation	12	1,647,438	1,606,745
TOTAL ASSETS		37,860,595	34,236,795
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	13	74,046	66,277
Customers' deposits	14	33,847,232	30,958,425
Credit balances and other balances	15	832,192	538,583
Income Tax payable	16	251,009	15,625
TOTAL LIABILITIES		35,004,479	31,578,910
OWNER'S EQUITY			
Capital	17	1,600,000	1,600,000
Surplus on revaluation of properties	17	639,762	637,093
Reserves	17	616,354	420,792
TOTAL OWNER'S EQUITY		2,856,116	2,657,885
TOTAL LIABILITIES AND OWNER'S EQUITY		37,860,595	34,236,795
CONTRA ACCOUNTS AND OTHER COMMITMENTS, net	18	4,474,974	2,477,466

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

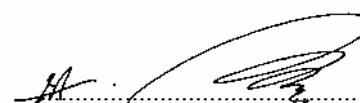
Auditors' report attached



 Abdul Rahman Mohammed Al-Kohali
 Chairman and General Manager



 Jawad Abdullah Al Alas
 First Deputy General Manager



 Sami Abdul Hamid Mackawi
 Deputy General Manager

STATEMENTS OF INCOME AND PROFIT APPROPRIATION

For the year ended 31 December 2001

		2001	2000
	Note	YR '000	YR '000
STATEMENT OF INCOME			
Interest on loans and due from banks	19	898,631	947,393
Interest on treasury bills and certificates of deposits	20	2,243,033	2,060,360
		<u>3,141,664</u>	<u>3,007,753</u>
Less: Cost of deposits	21	1,666,356	1,785,242
Net interest income		1,475,308	1,222,511
Commissions and fee income on banking services	22	193,171	158,786
Profit/(Loss) on foreign currency transactions	23	20,078	(9,749)
Other operating income	24	26,716	17,050
		<u>1,715,273</u>	<u>1,388,598</u>
NET OPERATING INCOME			
OPERATING EXPENSES			
General and administration expenses	25	596,024	582,889
Provisions	26	86,365	108,303
		<u>682,389</u>	<u>691,192</u>
TOTAL OPERATING EXPENSES			
		1,032,884	697,406
NET PROFIT BEFORE ZAKAT AND TAXATION			
Zakat	27	(30,000)	(25,000)
NET PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE TAXATION			
		1,002,884	672,406
Provision for income tax	16	(351,009)	(235,342)
		<u>651,875</u>	<u>437,064</u>
NET PROFIT FOR THE YEAR			
Earnings per share	28	YR 407	YR 273
STATEMENT OF PROFIT APPROPRIATION			
Balance at 1 January		-	-
Net profit for the year		651,875	437,064
Balance at 31 December, before appropriation		<u>651,875</u>	<u>437,064</u>
Transfer to statutory reserve	17	(97,781)	(65,560)
Transfer to general reserve	17	(97,781)	(65,560)
Government's share in net profit for the year	10(b)	(423,719)	(284,091)
Employees' share in net profit for the year		(32,594)	(21,853)
Balance at 31 December, after appropriation		<u>-</u>	<u>-</u>

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

STATEMENT OF CASH FLOWS

For the year ended 2001

	2001 YR 000	2000 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before zakat and income tax	1,032,884	697,406
Adjustments for:		
Provision for investments	-	2,066
Provision for losses on loans and advances	75,390	86,505
Income tax paid	(115,625)	(86,900)
Zakat paid	(30,000)	(25,000)
Staff leave paid	(10,383)	
Depreciation of property and equipment	33,447	28,790
Operating profit before changes in assets and liabilities related to operating activities: (1)	985,713	702,867
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	(353,475)	1,402,497
Due from banks	1,637,778	(2,109,688)
Treasury bills	173,071	3,030,080
Loans and advances to customers	(550,340)	(307,812)
Debit balances and other assets	(96,824)	305,239
Net increase in Assets (2)	810,210	2,320,316
Due to banks	7,769	5,605
Customers' deposits	2,888,807	4,547,112
Credit balances and other liabilities	303,992	94,701
Net increase in liabilities (3)	3,200,568	4,647,418
CASH FLOWS (USED IN) FROM INVESTMENT ACTIVITIES		
Purchase of property and equipment	(73,331)	(55,987)
Surplus on revaluation of properties	2,669	-
Net disposal of assets and amount written off from investments	(809)	425
Net Cash flows (used in) from investing activities (4)	(71,471)	(55,562)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Government share from profits	(423,719)	(284,091)
Employees share from profit	(32,594)	(21,853)
Net cash flows (used in) from financing activities (5)	(456,313)	(305,944)
Net increase in cash and cash equivalents (1) – (5)	4,468,707	7,309,095
Cash and cash equivalents at 1 January	26,195,918	18,886,823
Cash and cash equivalents at 31 December	30,664,625	26,195,918
Consist of:		
Cash on hand and reserve balances with Central Bank of Yemen	4,115,176	3,723,336
Due from banks	13,190,313	12,490,492
Treasury bills and certificates of deposits	17,110,411	15,190,739
Reserve balances with the Central Bank of Yemen	(3,279,365)	(2,925,890)
Time deposits with banks	(471,910)	(2,109,688)
Treasury bills more than three months	-	(173,071)
	30,664,625	26,195,918

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 2001

Movements in Owner's Funds

	<i>Capital</i> <i>YR '000</i>	<i>Statutory</i> <i>Reserve</i> <i>YR '000</i>	<i>General</i> <i>Reserve</i> <i>YR '000</i>	<i>Re-</i> <i>valuation</i> <i>reserve</i> <i>YR '000</i>	<i>Net profit</i> <i>for the</i> <i>year</i> <i>YR '000</i>	<i>Total</i> <i>YR '000</i>
At 31 December 1999	1,600,000	102,285	187,387	637,893	-	2,527,565
Disposal of fixed assets	-	-	-	(800)	-	(800)
Net profit for the year 2000	-	-	-	-	437,064	437,064
Transfer to statutory reserve	-	65,560	-	-	(65,560)	-
Transfer to general reserve	-	-	65,560	-	(65,560)	-
Government's share in net profit for year	-	-	-	-	(284,091)	(284,091)
Employees' share in net profit for year	-	-	-	-	(21,853)	(21,853)
At 31 December, 2000	1,600,000	167,845	252,947	637,093	-	2,657,885
Additional land (a)	-	-	-	2,669	-	2,669
Net profit for the year	-	-	-	-	651,875	651,875
Transfer to statutory reserve	-	97,781	-	-	(97,781)	-
Transfer to general reserve	-	-	97,781	-	(97,781)	-
Government's share in net profit for year	-	-	-	-	(423,719)	(423,719)
Employees' share in net profit for year	-	-	-	-	(32,594)	(32,594)
At 31 December 2001	1,600,000	265,626	350,728	639,762	-	2,856,116

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 2001

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 has its head office in Aden and undertakes all banking activities through its head office and 28 branches spread all over the Southern and Eastern Governorates and with three branches in Sana'a, Mukalla and Hodeidah.

2 PREPARATION BASIS OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with International Accounting Standards and current prevailing local laws and regulations as well as rules and instructions issued by the Central Bank of Yemen.

There are no significant differences between International Accounting Standards and the provisions of the prevailing local laws and regulations except for the accounting treatment of the following:

- i) The adoption of minimum fixed percentages for losses on loans and advances in accordance with the Central Bank of Yemen circular No. 6 of 1996.
- ii) The treatment of general provision on performing loans as part of equity.
- iii) The postponement of adoption of IAS (39) – financial instruments recognition and measurement- as a result of the meeting held between the Central Bank of Yemen and the external auditors of banks operating in Yemen for further study.

The effect of these deviations is immaterial on the financial statements of the Bank in accordance with International Accounting Standards.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a) Accounting convention

The financial statements are prepared under the historical cost convention adjusted for the revaluation of land and buildings.

b) Foreign currencies

- i) The Bank maintains its records in Yemeni Riyals. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the value dates of the transactions. Balances of monetary assets and liabilities denominated in other currencies at the balance sheet date are revalued at the prevailing exchange rates on that date. Gains or losses resulting from revaluation are taken to the income statement.

- ii) The Bank does not enter into forward exchange contracts.

c) Revenue recognition

Revenues are recognized on the accrual basis. However, in order to comply with the Central Bank of Yemen Circular No. 6 of 1996 and its amendments, 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. Income from investments is recognized when received.

d) 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.

e) Valuation of long-term investments

Long-term investments are valued at historical cost. For permanent decline in their market or computed values based on the study of the latest audited financial statements of the issuing companies of these securities, their book values are adjusted for the decline, which is charged to the income statement for each investment on an individual basis.

f) Provision for losses on loan 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. 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 and contingencies including watch loans	2%
• Non-performing loans:	
▪ 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.

g) Property and equipment, depreciation and amortization

Property comprising land and buildings are recorded at their revalued amounts. Equipment are recorded at cost on the date of purchase. Cost includes 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 and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life using the straight line method at the rates shown below

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 2001

g) Property and equipment, depreciation and amortization (cont'd.)

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

Expected future cash flows are not discounted to their present values in determining the recoverable amount of items of property and equipment.

h) Real estate properties acquired from customers

In accordance with the instructions of the Central Bank of Yemen, assets acquired from customers in settlement of loans are included in the balance sheet under “debit balances and other assets”.

i) 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 at the balance sheet date.

j) Cash and cash equivalent

For the purpose of preparing the statement of cash flows, cash and cash equivalent 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 certificate of deposits.

i) Taxation

Taxation for the year is provided for in accordance with the prevailing laws and regulations in the Republic of Yemen

k) Zakat

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

l) Related party transactions

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

m) 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.

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

4.1 Financial instruments

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

b) Fair value of financial instruments

Based on the valuation of the Bank's assets and liabilities stated in the notes to the financial statements, the fair value of the financial instruments do not differ fundamentally from their fair values at the balance sheet date, except for long term investments, the fair values of which are disclosed in note (10).

c) Forward contracts

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

4.2 Managing related risks

a) Interest rate risk

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

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

b) Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED 2001

4.2 Managing related risks (continued)

c) Exchange rate risk

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

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

	2001 YR '000	2000 YR '000
Cash in hand		
- In local currency	551,653	547,202
- In foreign currency	234,087	216,686
- Cheques purchased, net	50,071	33,558
Total cash in hand	835,811	797,446
Reserve balance with the Central Bank of Yemen		
- In local currency	1,887,660	1,819,819
- In foreign currency	1,391,705	1,106,071
Total Reserve balances with the Central Bank of Yemen	3,279,365	2,925,890
Total cash in hand and reserve balances with the Central Bank of Yemen	4,115,176	3,723,336

In accordance with the Yemeni Banks Law, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at stipulated percentages of its demand, time and other deposits. Such deposits carry interest at rates determined by the Central Bank of Yemen.

6 DUE FROM BANKS

	2001 YR '000	2000 YR '000
<i>Central Bank of Yemen and other local banks</i>		
Current accounts with Central Bank of Yemen		
- In local currency	1,154,745	1,188,243
- In foreign currency	172,933	457,680
Total current accounts with the Central Bank of Yemen	1,327,678	1,645,923
Less: Provision/ amounts written off for outstanding reconciling items	(18,115)	(18,115)
Net current account balances with Central Bank of Yemen	1,309,563	1,627,808
Current account balances with local banks	3,521	7,829
Total Central Bank of Yemen and other local banks	1,313,084	1,635,637
<i>Foreign banks and other financial institutions</i>		
Current and demand account balances	2,243,321	3,409,835
Time deposits	9,633,908	7,445,020
Total due from foreign banks and other financial institutions	11,877,229	10,854,855
Total due from banks	13,190,313	12,490,492

7 TREASURY BILLS, net

	<i>2001</i> <i>YR '000</i>	<i>2000</i> <i>YR '000</i>
Treasury bills due within 90 days	12,517,662	15,174,018
Treasury bills due within 91 to 182 days	-	161,961
Treasury bills due within 183 to 364 days	-	11,110
	-	173,071
Total treasury bills due	12,517,662	15,347,089
Less: Unamortised interest	(207,251)	(156,350)
Net book value	12,310,411	15,190,739

The treasury bills have maturity periods ranging between three months and twelve months and carry interest rates ranging from 13.0% to 14.0% (31 December 2000 13.0% to 18.0%). In accordance with the instructions of the Central Bank of Yemen, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalent assets.

8 INVESTMENTS HELD FOR TRADING

	<i>31 December</i> <i>2001</i> <i>YR '000</i>	<i>31 December</i> <i>2000</i> <i>YR '000</i>
Certificates of deposits – 91 days	4,800,000	-

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity year of less than three months and carry interest rates of 14 %. In accordance with the instruction with the Central Bank of Yemen, such certificates of deposits are classified as investments held for trading.

9 LOANS AND ADVANCES TO CUSTOMERS, net of provision

	2001 YR '000	2000 YR '000
Commercial paper discounted (i)	266,816	213,803
<i>Amount due from Government entities</i>		
Loans and advances to customers	41,544	29,113
Add: Interest charged during the year	3,703	4,365
Less: Amount paid by the Government	-	(4,875)
Amount due from Government entities (ii)	45,247	28,603
<i>Loans and advances to private sector customers:</i>		
Overdraft facilities	643,096	718,022
Short-term loans	1,355,228	800,891
Amount due from private sector customers (iii)	1,998,324	1,518,913
Total loans and advances (i) + (ii) + (iii)	2,310,387	1,761,319
Provision for losses on loans and advances (a)	(730,241)	(654,851)
Suspended interest (b)	(13,762)	(15,034)
Total provisions and suspended interest	(744,003)	(669,885)
Loans and advances, <i>net of provisions</i>	1,566,384	1,091,434

All loans and advances referred to above are granted to customers inside the Republic of Yemen.

Gross non-performing loans and advances at 31 December 2001 which amounted to YR 730 million (31 December 2000 - YR 759 million) include YR 45.2 million (31 December 2000 - YR 28.6 million) due from Government owned entities. The loans and advances included loans granted in foreign currencies amounting to US\$5,749,909 (31 December 2000 - US \$ 3,152,694).

(a) Provision for losses on loans and advances

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

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

(a) Provision for losses on loans and advances

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

	----- 2001-----			----- 2000-----		
	<i>Specific</i> <i>YR'000</i>	<i>General</i> <i>YR'000</i>	<i>Total</i> <i>YR'000</i>	<i>Specific</i> <i>YR'000</i>	<i>General</i> <i>YR'000</i>	<i>Total</i> <i>YR'000</i>
Balance at 1 January	634,803	20,048	654,851	560,730	7,616	568,346
Revaluation of opening balance in foreign currency	1,772	688	2,460	-	-	-
Amount utilized during the year.	(11,227)	-	(11,227)	(1,617)	-	(1,617)
Adjusted opening balance	625,348	20,736	646,084	559,113	7,616	566,729
Amounts recovered of loans previously written off	(76,512)	(9,621)	(86,133)	(39,270)	-	(39,270)
Provision for the year	150,487	19,803	170,290	114,960	12,432	127,392
Charged to the income statement (note 26)	73,975	10,182	84,157	75,690	12,432	88,122
Balance at the end of year	699,323	30,918	730,241	634,803	20,048	654,851

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (31 December 2000 – 2%).

The Bank acquired through final court decision three building from defaulted Bank's customers. These properties have been acquired at the balances outstanding against these customers, which were previously fully provided for, and amounting to YR. 43 million as at 31 December 2001. (note 11)

(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.

	<i>31 December</i> <i>2001</i> <i>YR'000</i>	<i>31 December</i> <i>2000</i> <i>YR'000</i>
Balance at 1 January	(15,034)	(12,025)
Suspended during the year	-	(3,009)
Amounts written off during the year	1,273	-
Balance at end of the year	(13,761)	(15,034)

10 LONG TERM INVESTMENTS, net of provisions

These comprise investments, with the intention of holding them, in the following foreign companies:

	No. Of shares of	2001 YR '000	2000 YR '000
Unquoted investments in UBAF Group			
UBAF – Curacao - A Shares of US \$ 1 each	1,497,200	17,982	17,982
UBAF – Curacao - B Shares of US \$ 1 each	234,650	2,818	2,818
UBAF – Curacao - C Shares of US \$ 1 each	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		2,067	2,067
Arab Financial Services Company – Bahrain		1,201	1,201
Total other unquoted investments		3,268	3,268
Total investments		30,412	30,412
Less: Provision for permanent decline in value		(29,211)	(29,211)
Net book value of investments		1,201	1,201
Subordinated loan to UBAF – US \$ 588,094		7,063	7,063
Net book amount		8,264	8,264

The fair value of unquoted investments as at 31 December 2001 amounted to YR 172 million (31 December 2000 YR 172 million). The investment in the unquoted investments in UBAF Group was made in 1970. According to management no dividends have been received during the last few years.

The loan of US \$ 588,094 in two equal tranches represents the Bank's participation in a subordinated loan extended to UBAF - Paris by its shareholders. Although the principal amount has been rescheduled to 4 June 2003 and 4 March 2004, management is of the opinion that this loan will ultimately be recovered and has therefore decided not to provide against the balance of this loan. The loan carries an interest rate of LIBOR +1%.

11 DEBIT BALANCES AND OTHER ASSETS

	Note	31 December 2001 YR '000	31 December 2000 YR '000
Due from branches (Inter-branch clearings) (a)		-	32,931
Prepaid expenses and other debit balances		2,869	10,637
Interest receivable		150,730	48,529
Pre-operating costs of new branches		1,777	2,177
Real estate properties acquired from customers- net of provision – (b)		43,000	-
Sundry debit balances, net of provision		24,233	31,511
Total debit balances and other assets		222,609	125,785

11 DEBIT BALANCES AND OTHER ASSETS (continued)

a) Inter-branch balances (clearings)

All inter-branch clearings at year-end have been allocated to their respective accounts in accordance with the Central Bank of Yemen's instructions in this regard.

b) Real estate properties acquired from customers (note 9)

The Bank acquired through final court decision three buildings from defaulted Bank's customers. Valuation and acquisition procedure have been completed and provision of YR 480 thousand made at 31 December 2001 in accordance with the Central Bank of Yemen regulations.

12 PROPERTY AND EQUIPMENT, net of accumulated depreciation

	<i>Freehold Land and buildings YR '000</i>	<i>Leasehold improve- ments 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>
<i>Cost or valuation:</i>						
At 31 December 2000	1,500,922	15,599	90,435	43,348	53,645	1,703,949
Additions during the year	12,913	2,867	22,793	83	34,676	73,332
At 31 December 2001	<u>1,513,835</u>	<u>18,466</u>	<u>113,228</u>	<u>43,431</u>	<u>88,321</u>	<u>1,777,281</u>
<i>Depreciation</i>						
At 31 December 2000	6,741	2,493	31,062	19,544	37,365	97,205
Prior years adjustments	39	-	(736)	-	(112)	(809)
Charge for the year	7,060	1,678	9,489	7,764	7,456	33,447
At 31 December 2001	<u>13,840</u>	<u>4,171</u>	<u>39,815</u>	<u>27,308</u>	<u>44,709</u>	<u>129,843</u>
<i>Net book amount</i>						
At 31 December 2001	<u>1,499,995</u>	<u>14,295</u>	<u>73,413</u>	<u>16,123</u>	<u>43,612</u>	<u>1,647,438</u>
At 31 December 2000	<u>1,494,163</u>	<u>13,107</u>	<u>59,391</u>	<u>23,805</u>	<u>16,279</u>	<u>1,606,745</u>

a) Title to the land and buildings

Freehold land and buildings and leasehold buildings include property taken over by the Bank on the nationalization of all branches of banks operating in the Southern and Eastern Governorates in 1969 and subsequent additions. The Bank has "hereditary tenure" over all such properties, as a result of the settlement agreements reached with the previous owners. As part of the national program, the Government has decided to grant the Bank full ownership of the land previously held on long-term lease to the Bank. This grant was considered as Government contribution in kind towards strengthening the equity base of the Bank on the basis of the board of directors' minutes held on 6 April 2000, duly approved by H. E. the Minister of Finance.

Depreciation is calculated on the basis of the rates set out in the Council of Ministers' Resolution No. 144 of 2000.

12 PROPERTY AND EQUIPMENT, net of accumulated depreciation (continued)

b) Revaluation of property

Freehold land, land leased from the Government and buildings on freehold and lease hold 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. During 2001, the Bank received the title deed of the land of Mukairas branch which the government granted it in 1999 but was not then accounted for by the Bank. The book amount is at the valuation amount determined by the external independent professional real estate firm.

13 DUE TO BANKS

	2001 YR '000	2000 YR '000
Current accounts in Yemeni riyals		
Central Bank of Yemen	-	-
Other local banks	1,759	29,761
Central Bank of Yemen and other local banks	1,759	29,761
Foreign banks	72,287	36,516
Total due to banks	<u>74,046</u>	<u>66,277</u>

14 CUSTOMERS' DEPOSITS

	2001 YR '000	2000 YR '000
Current accounts	7,320,450	7,379,060
Savings accounts	15,031,029	13,671,237
Short-term deposits	10,205,100	8,616,077
Other deposits	341,324	395,618
Deposit for documentary letters of credit and guarantees	949,329	896,433
Total customers' deposits	<u>33,847,232</u>	<u>30,958,425</u>

15 CREDIT BALANCES AND OTHER BALANCES

	2001 YR '000	2000 YR '000
Accrued interest payable	147,262	149,114
Unclaimed balances (a)	162,164	156,478
Provision for staff leave pay	9,256	22,507
Provision for off balance sheet items	21,972	36,825
Owner's (Government) account (b)	423,719	99,845
Employees bonus in net profit	11,383	2,284
Employees share in net profit	35,666	26,866
Sundry credit balances	20,770	44,664
	832,192	538,583

a) Unclaimed balances

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

b) Due to the Owner (Government)

	2001 YR '000	2000 YR '000
Balance at 1 January	(99,845)	184,247
Payment during the year	99,845	-
Share of profit for the current year (note 16 -d)	(423,719)	(284,092)
Balance at 31 December (note 14)	(423,719)	(99,845)

16 INCOME TAX

	2001 YR '000	2000 YR '000
Balance at 1 January	15,625	(132,817)
Charge for the year	351,009	235,342
Total amount due to the Tax Authority	366,634	102,525
Payments during the year	(15,625)	(86,900)
Amount paid in advance for 2001	(100,000)	-
Total amount paid	(115,625)	(86,900)
Balance due to the Income Tax Authority	251,009	15,625

16 INCOME TAX (continued)

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 years tax assessments

The Bank filed its tax return for the year ended 31 December 2000 duly certified by the Bank's external auditors. The tax return included the position of the years 1996 to 2000 and on the basis of audited financial statements for these years and minutes of meeting held on 6 April 2000 which were approved by H. E. the Minister of Finance. Accordingly, a final settlement was reached on 7 May 2001 with the Income Tax Authority by a payment of an additional amount of YR. 1,538,793 only. This additional amount was paid on 26 May 2001 and the Bank recorded it as a prior year item under other general and administration expenses. The Bank received on 29 September 2001, the final tax clearance for those years from the Income Tax Authority.

17 OWNER'S EQUITY

Movements in Owner's Funds

	<i>Capital</i>	Surplus on revaluation of Property Reserve	<i>Statutory Reserve</i>	<i>General Reserve</i>	<i>Net profit for the 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>	<i>YR '000</i>
At 31 December, 2000	1,600,000	637,093	167,845	252,947	-	2,657,885
Net profit for the year	-	-	-	-	651,875	651,875
Additions during the years	-	2,669	-	-	-	2,669
Transfer to statutory reserve	-	-	97,781	-	(97,781)	-
Transfer to general reserve	-	-	-	97,781	(97,781)	-
Govt. share in net profit	-	-	-	-	(423,719)	(423,719)
Employees share in net profits	-	-	-	-	(32,594)	(32,594)
At 31 December, 2001	1,600,000	639,762	265,626	350,728	-	2,856,116

a) Capital

The authorized share capital amounting YR. 1.6 million (31 December 2000 – YR 1.6 million) consists of 1,600 thousand shares of YR 1,000 par value each.

According to the Central Bank of Yemen circular No. (3) dated 27 January 2000, the minimum paid up capital of banks operating in Yemen should be YR 1,250 million not later than 31 December 2000.

17 OWNER'S EQUITY (continued)

b) Net profit distribution

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

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

c) Transfer to reserves

The Bank has transferred to statutory and general reserve the amounts determined in accordance with the provisions of the relevant laws. In accordance with the Yemeni Banks law, the Bank may discontinue such transfers to the statutory and general reserves when the total of both these reserves reaches twice the authorized capital of the Bank.

e) Surplus on revaluation property reserve

The difference between the revalued amounts of the freehold land and the buildings and their net book value as at 31 December, 1999 has been credited to this account. The Bank has during the year received the title deed of its Murkairas branch and accordingly has taken the credit value of the land to this account.

Additional land

This represents the value of Mukeiras branch land whose title deed was only received during 2001.

d) Government share in the profit

The Bank has not, on the basis of the budgeted profit, paid any amount to the Ministry of Finance during the year. The Government's actual share in net profit for the year has been credited to the Government account under "other liabilities and credit balances" (note 15).

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net

<i>At 31 December, 2001</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	1,564,820	584,167	980,653
Letters of guarantees - customers	1,106,900	364,296	742,604
Letters of guarantees - correspondent banks	2,300,991	-	2,300,991
Customers' acceptances	350,729	-	350,729
Travelers' cheques	96,632	-	96,632
Credit cards	1,733	866	867
Other contingent liabilities	2,498	-	2,498
Total contra accounts and other commitments	5,424,303	949,329	4,474,974

<i>At 31 December, 2000</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	1,452,939	629,721	823,218
Letters of guarantees - customers	1,057,719	266,713	791,006
Letters of guarantees - correspondent banks	670,732	-	670,732
Customers' acceptances	70,054	-	70,054
Travelers' cheques	99,187	-	99,187
Other contingent liabilities	23,269	-	23,269
Total contra accounts and other commitments	3,373,900	896,434	2,477,466

Letters of guarantee included shipping guarantees of YR 5,982 thousand (31 December 2000 - YR 102,484 thousand) issued the Bank on behalf of its customers are included in the above amounts. The management is of the opinion that the legal period of validity of the guarantees has elapsed and therefore these will not be called upon.

19 INTEREST ON LOANS AND DUE FROM BANKS

	2001 YR '000	2000 YR '000
<i>Interest on loans and advances to customers</i>		
Interest on loans and advances	205,660	132,277
Interest on other facilities	776	818
Total interest on loans and advances to customers	206,436	133,095
<i>Interest on deposits with foreign banks</i>		
Interest on loans	6,374	7,239
Interest on current accounts	44,548	48,123
Interest on deposits	373,316	427,272
Interest on call accounts	26,025	24,448
Investments income	1,010	939
Total interest on deposits with foreign banks	451,273	508,021
<i>Interest on deposits with local banks</i>	-	-
<i>Interest on statutory deposits with the Central Bank of Yemen</i>	240,922	306,277
Total interest on deposits with local banks	240,922	306,277
Total interest on loans and advances and deposits with banks	898,631	947,393

20 INTEREST ON TREASURY BILLS AND CERTIFICATES OF DEPOSITS

	2001 YR '000	2000 YR '000
Interest on treasury bills	1,810,222	2,060,360
Interest on certificates of deposits	432,811	-
Total interest on treasury bills and certificates of deposits	2,243,033	2,060,360

21 COST OF DEPOSITS

	2001 YR '000	2000 YR '000
Interest on savings accounts	918,876	973,425
Interest on time deposits	735,803	800,602
Total interest on customers' deposits	1,654,679	1,774,027
Interest on balances due to banks	11,677	11,215
Total cost of deposits	1,666,356	1,785,242

22 COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	2001 YR '000	2000 YR '000
Commissions on documentary letters of credits	27,270	20,459
Commissions on letters of guarantee	51,087	26,334
Commissions on transfer of funds	18,837	16,927
Commissions on acceptances	3,095	2,001
Commissions on cheques	62,469	61,897
Banking services fees	15,142	16,081
Other service fees	15,271	15,087
Total commission and fee income on banking services	<u>193,171</u>	<u>158,786</u>

23 PROFIT /(LOSS) ON FOREIGN CURRENCY TRANSACTIONS

	2001 YR '000	2000 YR '000
Revaluation differences on foreign currency transactions	15,830	(15,919)
Gain on foreign exchange trading transactions	4,248	6,170
Net profit / (loss) on foreign exchange transactions	<u>20,078</u>	<u>(9,749)</u>

24 OTHER OPERATING INCOME

	2001 YR '000	2000 YR '000
Provision for off-balance sheet items no longer required	18,141	-
Provision for staff leave pay no longer required	2,868	-
Provision for loan losses no longer required	-	13,575
Sundry income	5,707	3,475
Total other operating income	<u>26,716</u>	<u>17,050</u>

25 GENERAL AND ADMINISTRATION EXPENSES

	2001 YR '000	2000 YR '000
Salaries, wages and related costs	392,706	409,413
Depreciation of property and equipment (note 12)	33,447	28,790
Rents	23,563	22,262
Water and electricity	18,861	13,837
Repairs and maintenance	11,632	12,371
Telephone, telexes and postage	20,528	16,762
Transportation and communication	16,420	15,685
Computer maintenance expenses	13,258	12,833
Training	10,127	6,829
Taxes and fees	985	1,439
Donations	3,252	4,233
Stationery and printing supplies	11,274	10,649
Other general and administration expenses	39,971	27,786
Total general and administration expenses	<u>596,024</u>	<u>582,889</u>

The number of employees as at 31 December 2001 was 608 (31 December 2000 – 620).

26 PROVISIONS

	2001 YR '000	2000 YR '000
<i>Loans and advances</i>		
Provision for losses on loans and advances (note 9)	84,157	88,122
Provision for outstanding items with Central Bank of Yemen	-	18,115
Provision for diminution in value of long term investments	-	2,066
Provision for off balance sheet items	2,208	-
Total provisions	<u>86,365</u>	<u>108,303</u>

27 ZAKAT

	2001 YR '000	2000 YR '000
Zakat expense for the current year - paid	30,000	25,000

28 EARNINGS PER SHARE

	2001 YR '000	2000 Y'000
Net profit for the year	651,875	437,064
Weighted average of number of shares	1,600,000	1,600,000
Earnings per share	YR 407	YR 273

29 RELATED PARTY TRANSACTIONS

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

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

	2001 YR '000	2000 YR '000
<u>Government owned entities</u>		
Loans and advances to customers, gross	45,247	28,603
Customer deposit	477,893	80,000
<u>Board members and parties related to them</u>		
Loans and advances	1,309	1,213
Customers' deposit	2,708	550
Interest income for the year	144	59
Interest expense for the year	214	223

30 MATURITIES OF ASSETS AND LIABILITIES

a) 31 December 2001

ASSETS	Total YR '000	Less than 3 months YR '000	From 3 to 6 months YR '000	From 6	Over
				months to 1 year YR '000	1 year YR '000
Cash in hand and reserve balances with the Central Bank of Yemen	4,115,176	4,115,176	-	-	-
Due from banks	13,190,313	12,718,403	471,910	-	-
Treasury bills and certificates of deposits	17,110,411	17,110,411	-	-	-
Loans and advances to customers, net of provision	1,566,384	80,468	233,680	270,773	981,463
Investments, net of provision	8,264	-	-	-	8,264
TOTAL ASSETS	35,990,548	34,024,458	705,590	270,773	989,727
LIABILITIES					
Due to Banks	74,046	74,046	-	-	-
Customers' deposits	33,847,232	19,406,203	4,820,147	9,568,607	52,275
TOTAL LIABILITIES	33,921,278	19,480,249	4,820,147	9,568,607	52,275

b) 31 December 2000

ASSETS	Total YR '000	Less than 3 months YR '000	From 3 to 6 months YR '000	From 6	Over
				months to 1 year YR '000	1 year YR '000
Cash in hand and reserve balances with the Central Bank of Yemen	3,723,336	3,723,336	-	-	-
Due from banks	12,490,492	10,380,804	454,388	1,655,300	-
Treasury bills	15,190,739	15,017,668	161,961	11,110	-
Loans and advances to customers, net of provision	1,091,434	96,361	98,955	807,064	89,054
Investments, net of provision	8,264	-	-	-	8,264
TOTAL ASSETS	32,504,265	29,218,169	715,304	2,473,474	97,318
LIABILITIES					
Due to Banks	66,277	66,277	-	-	-
Customers' deposits	30,958,425	17,628,425	4,024,000	9,275,000	31,000
TOTAL LIABILITIES	31,024,702	17,694,702	4,024,000	9,275,000	31,000

The above reflects the contractual maturities of assets and liabilities which have been determined on the basis of the remaining year at the balance sheet date to the contractual maturity date. In the case of assets and liabilities that do not have contractual maturity date, the year in which these are amounted to mature is taken as the expected date of maturity.

31 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

a) The average interest rates on assets and liabilities applied during the year 2001 were as follows:

	Yemeni Riyal %	US Dollar %	Deutsche Mark %	Sterling Pound %	EURO %
<u>Assets</u>					
<i>Reserve balances with the Central Bank of Yemen</i>	13.00	-	-	-	-
<i>Due from banks:</i>	-	-	-	-	-
Current accounts	-	2.69	4.35	3.19	4.35
Time deposits	-	4.51	-	5.00	-
<i>Due to banks:</i>	-	-	-	-	-
Treasury bills	14.00	-	-	-	-
Loans to customers	19.00	8.00	-	-	-
<u>Liabilities</u>	-	-	-	-	-
Time deposits - customers	13.00	2.62	-	3.07	-

b) The average interest rates on assets and liabilities applied during the year 2000 were as follows:

	Yemeni Riyal %	US Dollar %	Deutsche Mark %	Sterling Pound %	Other %
<u>Assets</u>					
<i>Reserve balances with the Central Bank of Yemen</i>	15.33	-	-	-	-
<i>Due from banks:</i>	-				
Current accounts	-	5.76	4.10	3.74	4.06
Time deposits	-	6.41	4.24	5.95	-
<i>Due to banks:</i>	-	-	-	-	-
Treasury bills	18.21	-	-	-	-
<i>Loans to customers:</i>	17.00	8.20	-	-	-
<u>Liabilities</u>					
Time deposits - customers	14.25	3.83	-	3.72	-

32 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

a) The distribution of the assets and liabilities and contingent liabilities and commitments as at 31 December 2001 were as follows:

	<i>Manufacturing</i> YR '000	<i>Agriculture</i> YR '000	<i>Trade</i> YR '000	<i>Service</i> YR '000	<i>Finance</i> YR '000	<i>Personal</i> YR '000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	4,115,176	-
Due from banks	-	-	-	-	13,190,313	-
Treasury bills + C.D	-	-	-	-	17,110,411	-
Loans to customers, net of provision	330,219	3,552	462,148	41,229	450,302	278,934
Long term investments, net	-	-	-	-	8,264	-
Total Assets	330,219	3,552	462,148	41,229	34,874,466	278,934
LIABILITIES						
Due to Banks	-	-	-	-	74,046	-
Customers' deposits	407,040	90,269	2,414,729	893,496	-	30,041,698
Total Liabilities	407,040	90,269	2,414,729	893,496	74,046	30,041,698
Contra accounts and other commitments	246,301	-	1,540,565	640,046	2,181,388	816,003

b) The distribution of the assets and liabilities and contingent liabilities and commitments as at 31 December, 2000 were as follows:

	<i>Manufacturing</i> YR '000	<i>Agriculture</i> YR '000	<i>Trade</i> YR '000	<i>Service</i> YR '000	<i>Finance</i> YR '000	<i>Personal</i> YR '000
ASSETS						
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	3,723,336	-
Due from banks	-	-	-	-	12,490,492	-
Treasury bills	-	-	-	-	15,190,739	-
Loans to customers, net of provision	171,700	10,754	680,175	-	-	228,805
Long term investments	-	-	-	-	8,264	-
Total Assets	171,700	10,754	680,175	-	31,412,831	228,805
LIABILITIES						
Due to Banks	-	-	-	-	66,277	-
Customers' deposits	418,606	148,210	1,998,193	954,295	236	27,438,886
Total Liabilities	418,606	148,210	1,998,193	954,295	66,513	27,438,886
Contra accounts and other commitments	97,848	1,800	2,386,348	472,448	321,149	94,307

33 TRUST ACTIVITIES

The Bank does not hold and manage assets for or on behalf of other parties.

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. Although the ultimate outcome of these cases cannot presently be determined, management has fully provided for these assets in the financial statements.

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% respectively of the capital and reserves balances. The Bank had the following significant net exposures denominated in foreign currencies:

The Central Bank of Yemen circular No. (1) of 2002 dated 1/1/2002 cancelled all the currencies that are being replaced by the Euro from the calculation of foreign currencies position.

	2001		2000	
	%	YR '000	%	YR '000
United States dollar	16	473,374	11	289,677
Pound sterling	5	145,930	5	134,921
German mark	-	-	1	37,043
French franc	-	-	-	(6,684)
Swiss Francs	1	15,426	2	40,832
Euro	1	15,549		
Other	-	(3,432)	1	34,011
Aggregate foreign currency positions	23	646,847	20	529,800

36 CAPITALIZATION OF THE BANK

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

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

37 CAPITAL COMMITMENTS

There were capital commitments as at, 31 December 2001 of YR 50 million (31 December 2000 - YR. 19,423,391) which represent the cost of net work machines.



National Bank of Yemen - Seiyun branch-



customers' counter- Seiyun branch-

Head office

P. O. Box No. 5
Crater Aden
Republic of Yemen
Tel.: 967 2 253753
Fax: 967 2 252325
Telex: 6224/6274/6308 NTIONL YE
E-mail: nby.ho@y.net.ye
web site: www.nbyemen.com
swift: NBOYYESA

Sana'a Branch

Sana'a Zubairy Street.
P.O. Box No. 198309
Tel.: 967 1 284122
Fax: 967 1 284128
Swift: NBOYYESA002

Queen Arwa Branch

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

Aidroos Branch

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

Mukalla Branch

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

Hodeidah Branch

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

Maalla Branch

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

Public Lending Branch

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

**A. Aziz A. Wali
Branch**

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

Steamer Point Branch

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

Khormaksar Branch

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

Seiyun Branch

Hadramout, Seiyun, Main
Road.
Tel.: 967 5 402434
Fax: 967 5 405517
Swift: NBOYYESA007

Little Aden Branch

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

Al-Habeelain Branch

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

Al-Dala Branch

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

Lahej Branch

Lahej, Al-Hotah, Gumata
Street.
Tel.: 967 2 502807
Fax: 967 2 502340

List of branches (continued)

Rusod Branch

Abyan, Rusod, Main Road.
Tel.: 967 6 605018
Fax: 967 6 605018

Zingubar Branch

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

Labaus Branch

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

Modiyah Branch

Abyan, Modiyah, Main Road.
Tel.: 967 6 592555
Fax: 967 6 592225

Zarah Branch

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

Al-Baidha Branch

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

Al-Sheher Branch

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

Hai October Branch

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

Ataq Branch

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

Suqotra Branch

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

Huraidhah Branch

Hadramout, Huraidhah, Main Road.
Tel.: 967 5 508434
Fax: 967 5 508434

Al-Qatan Branch

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

Al-Ghaedhah Branch

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