



البنك الوطني اليمني

National Bank Of Yemen

21,504,758	17,888,795
28,951	74,046
38,891,455	35,847,332
885,937	832,192
367,967	251,000
40,174,309	35,004,470
1,351,000	1,600,000
639,762	639,762
821,364	616,354
18,923	-
3,330,049	2,856,116
43,504,358	37,860,585
6,536,714	4,474,074



Annual Report 2002



13,814	44,548
4,754	26,025
208,474	373,316
227,042	443,889
259,443	240,922
436,485	684,311
700,785	897,621
2002	2001
YR'000	YR'000



His Excellency President
ALI ABDULLAH SALEH
President of the Republic

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YR millions unless otherwise indicated

	2002	2001	2000	1999	1998
Balance sheet					
Total assets	43,504	37,861	34,237	29,311	23,517
Owner's equity	3,330	2,856	2,658	2,528	612
Customers' deposits	38,891	33,847	30,958	26,411	22,597
Loans and advances (net)	1,774	1,573	1,091	870	1,249
Local investments	20,387	17,110	15,191	11,824	9,544
Due from banks	14,830	13,190	12,490	9,470	7,422
Statement of income					
Net interest income	1,489	1,486	1,223	969	566
Profit before taxation	1,051	1,003	672	528	358
Net profit for the year	683	652	437	474	358
Indicators					
Earning per share	422YR	407YR	273YR	631YR	478YR
Return on average assets %	1.6	1.7	1.3	1.6	1.5
Return on average owner's equity %	23.6	22.8	16.4	18,8	-
Liquidity %	89	88	87	84	80
Capital adequacy %	46	46	46	46	19
US \$ rates	178.88YR	173.27YR	165.53YR	159.71YR	141.74YR
Number of branches	29	28	28	30	30
Number of employees	592	608	620	650	730



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



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



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



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



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



Mr. Abdulla S. Abadden
Representative/ Ministry of planning

Chairman's message



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

I have the pleasure on behalf of the Board of Directors to present the annual report of the National Bank of Yemen for the financial year ending 2002. The year 2002 was full of the achievements that establish confidence and soundness in line with strategy abide by the bank.

In 2002, the bank continued to maintain growth in its profits and realized more than YR one billion in profits before taxation thus increasing the earnings per share to YR 422. The bank also obtained from the Owner- the Ministry of Finance- the necessary approvals to increase the declared capital of the bank by YR 500 million by the end of 2003 of which the Owner paid YR 250 million in 2002. Hence increasing the paid up capital of the bank to YR 1.850 million as result of that the bank succeeded in strengthening its capital base and capital indicators.

Also depending on its developing strategy, which aims at offering its customers advanced products and services that accompanying modern banking practices the bank rendered to its customers the phone banking service in three of its main branches. In addition, the banks' efforts is presently to begin with the reorganization structure and the new IT program after the bank has received the appropriate authorization to added the project's budget in its cost for the year 2003.

Moreover, in 2002 the bank within the framework of the human resources development policy have recruited, 31 new graduates and currently the efforts are focused on training them in banking operations, managerial and ad ministerial skills as well as in computers and in the new banking software. In addition, the total number of staff trained in various training programs during 2002 reached 373 employees, representing 63% of the total staff.

Chairman's message

The bank also has conducted a number of seminars where branch managers coordinated with the senior management of the bank, to discuss business issues and find solutions to improve the services that the bank offers to its clients.

We at the National Bank of Yemen are in readiness to achieve our worked goals for the next year and confident in our ability to improve and develop the banks' competitive and financial performances.

It gives me pleasure to express on behalf of the Board of Directors our gratitude and appreciation to His Excellency President Ali Abdullah Saleh, the President of the Republic of Yemen, for his continued attention and support to the banking sector, which comes from his belief in the significant role of this sector in financing and developing our national economy. We also extend our gratitude and appreciation to The Prime Minister, 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 and direction and for the trust they put in us.

I would also like to thank the bank's customers and correspondents for their valuable confidence and business relations, which we developed through the years. I express my appreciation and thanks to my colleagues, members of the Board of Directors, for all their dedication and total commitment to realizing the prosperity of the bank. I would also like to thank our staff for the fruitful efforts exerted during the year.



Abdul Rahman Mohammed Al-Kohali
Chairman & General Manager

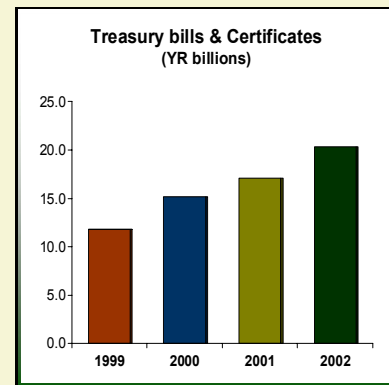
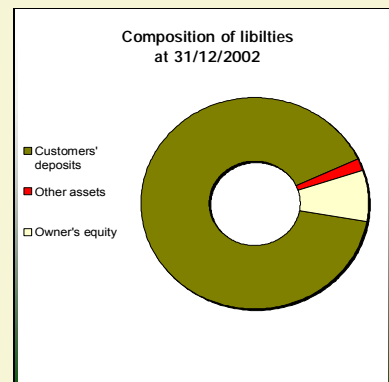
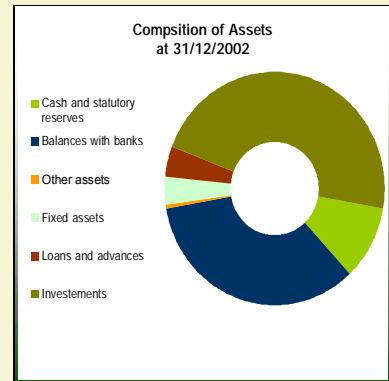
Board of directors' report

The Board of Directors is pleased to present its annual report attached with the financial statements for the ending 31 December 2002.

Owing to a coordinated strategy and the work of the one team spirit, the bank continued in 2002 to focus on low risk and moderate yield operations and realized a balanced and fair growth in most of its main financial indicators. In addition, the bank's financial statements showed soundness in their components and positive improvement at the liquidity level.

The assets of the bank increased by 14.8% to YR (43.5) billion at 31 December 2002 from YR (37.9) billion a year earlier and cash in hand and reserve with CBY increased by 9.8% to YR (4.5) billion.

Due from banks increased to YR (14.8) billion at the end of 2002 compared to YR (13.2) billion at 31 December 2001, treasury bills and certificate of deposits with CBY increased to YR (20.4) billion at 31 December 2002 a figure 19% higher from last years' figures. Loans and advances to customers increased also by 12.5% at the end of 2002.



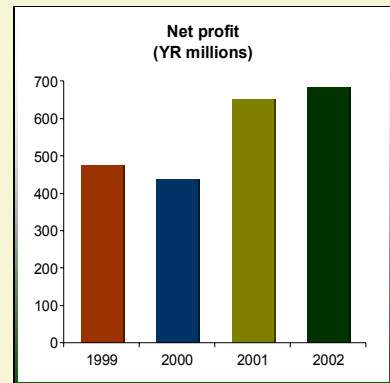
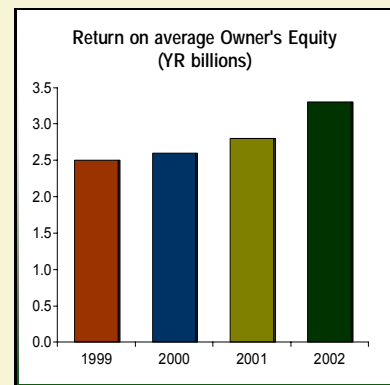
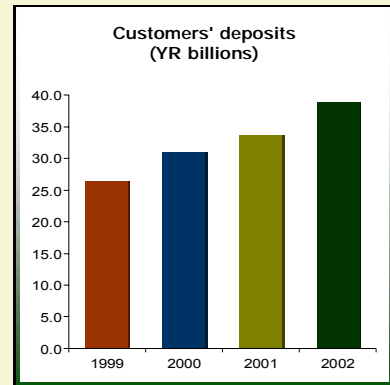
Board of directors' report

Customers' deposits increased at 31/12/2002 to YR (38.9) billion 15.1% higher than last year and owner's equity increased to YR (3.3) billion a figure 13.8% higher than the YR (2.9) billion for the same period a year earlier.

During the year 2002 the bank have also adhered to follow a policy that ensures equilibrium between profitability, low risk investments and availability of liquid assets to face financial liabilities with different maturities, thus enabling the bank to maintain a high liquidity ratio of 89% and a high capital adequacy of 46%.

In addition, the bank has managed during the last few years to pursue a progressive pattern in realizing profits. This pattern has enabled the bank to achieve a level of profits greater than its profits of the year 2001, whereas in 2002 the bank has managed to realize YR (1.051) billion in profits before taxation compared with YR (1.003) billion in 2001.

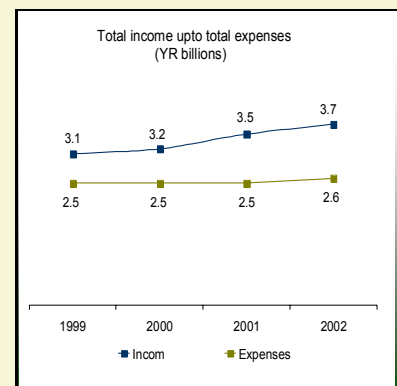
Moreover, net profit in 2002 reached YR (683.4) million against YR (651.9) million in 2001 with an increase of 4.8% and by reason of this return on average assets reached 1.6% and return on average owner's equity 23.6% in 2002 compared with 1.7% and 22.8% in 2001 respectively.



Board of directors' report

The net income from interest, net gain from dealing in F/X and other income remained within the same level of the year 2001 owing to the prevailed economic conditions and the series of reduction in interest rates.

On the other hand, general and administrative expenses declined by 6% from YR 780.2 million in 20001 to YR 733.4 million in 2002 due to the bank's policy in controlling expansion in spending to increase its profits.



The bank, in conformity with its strategic planning approach that aims in whole to moderate its performance and to meet the changes in the banking industry and CBY requirements, continued its efforts to implement a medium term strategic plan to reorganize the structure of its head office and branches and to introduce new technology in it's branches network.

And in the field of developing human resources the bank has recruited, during 2002, new university graduates and start training them in various banking and administrative operations in order to qualify them for the coming period of change and restructuring. In addition, this year the bank has conducted several training programs at the bank's training centre.

The bank staff also has participated in many training programs offered by the Yemeni Institute of Banking and in other training centers inside and outside Yemen.



Board of directors' report

In accordance with CBY instructions, the bank has adopted IAS (39) – financial instruments recognition and measurements- in its financial statements for the year ended 31 December 2002.

Moreover, the bank has developed its site on the internet and currently its site shows the financial statements of the bank and the services and the products provided to its customers.

Our address on internet is ([http\www\natbankofyemen.com](http://www.natbankofyemen.com)) and your remarks suggestions regarding our site will have our utmost attention and appreciation.



In conclusion, the Board would like to express their gratitude and appreciation to all ministries, governmental and private entities for their continued support and guidance. The Board of directors would also like to thank our staff for the fruitful efforts exerted during the year.

The Board of Directors
Aden 26 January 2003.



AUDITORS' REPORT TO H.E VICE PRIME MINISTER THE MINISTER OF FINANCE

THE NATIONAL BANK OF YEMEN

We have audited the accompanying financial statements of the National Bank of Yemen composed of the balance sheet as of 31 December 2002 and the related statements of income, cash flows and changes in owner's equity for the year then ended and the notes to the financial statements in the pages from (11) to (36). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The financial statements, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2002, and the results of its operations, its cash flows and changes in owner's equity for the year then ended in accordance with International Accounting Standards.

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

Dahman Awadh Dahman, FCCA
Registered Licensed Accountant No. 384
of Dahman, **RSM**



26 January 2003,
Aden, Republic of Yemen

BALANCE SHEET
As of 31 December 2002



	Note	2002 YR '000	2001 YR '000
ASSETS			
Cash in hand and reserve balances with the Central Bank of Yemen	5	4,547,801	4,115,176
Due from banks	6	14,829,786	13,190,313
Treasury bills, net	7	14,936,545	12,310,411
Certificates of deposit with the Central Bank of Yemen	8	5,450,000	4,800,000
Loans and advances to customers and banks, net of provision	9	1,774,360	1,573,447
Available for sale investments, net	10	20,124	1,201
Debit balances and other assets	11	285,285	222,609
Property, plant and equipment, net of accumulated depreciation	12	1,660,457	1,647,438
TOTAL ASSETS		43,504,358	37,860,595
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	13	28,950	74,046
Customers' deposits	14	38,891,455	33,847,232
Credit balances and other balances	15	885,937	832,192
Income tax payable	16	367,967	251,009
TOTAL LIABILITIES		40,174,309	35,004,479
OWNER'S EQUITY			
Capital	17	1,850,000	1,600,000
Revaluation of properties reserve	17	639,762	639,762
Reserves	17	821,364	616,354
Cumulative changes in the fair value reserve	17	18,923	-
TOTAL OWNER'S EQUITY		3,330,049	2,856,116
TOTAL LIABILITIES AND OWNER'S EQUITY		43,504,358	37,860,595
CONTRA ACCOUNTS AND OTHER COMMITMENTS, net	18	6,230,215	4,474,974

The attached notes 1 to 36 form an integral part of these financial statements

Auditors' report attached,

Sami Abdul Hamid Mackawi
Deputy General Manager

Jawad Abdullah Al Alas
First Deputy General Manager

Abdul Rahman Mohammed. Al-Kohali
Chairman and General Manager

**STATEMENT OF INCOME AND
STATEMENT OF PROFIT APPROPRIATION**
For the year ended 31 December 2002



STATEMENT OF INCOME	<i>Note</i>	2002 YR' 000	2001 YR' 000
Interest on loans and due from banks	19	700,785	897,621
Interest on treasury bills		1,938,883	1,810,222
Interest on certificates of deposit with the Central Bank of Yemen		625,532	432,811
		<u>3,265,200</u>	<u>3,140,654</u>
Less: Cost of deposits	20	1,776,589	1,654,679
Net interest income		1,488,611	1,485,975
Commissions and fee income on banking services	21	236,613	193,171
Income on available for sale investments		1,046	1,010
Profit from disposal of available for sale investments		4,398	-
Gain on foreign currency transactions	22	48,510	20,078
Other operating income	23	38,581	112,849
NET OPERATING INCOME		<u>1,817,759</u>	<u>1,813,083</u>
OPERATING EXPENSES			
Commissions and fee expenses on banking services		15,788	11,677
General and administration expenses	24	611,362	596,024
Provisions	25	106,275	172,498
TOTAL OPERATING EXPENSES		<u>733,425</u>	<u>780,199</u>
NET PROFIT BEFORE ZAKAT AND INCOME TAX		<u>1,084,334</u>	<u>1,032,884</u>
Zakat	26	(33,000)	(30,000)
NET PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		<u>1,051,334</u>	<u>1,002,884</u>
Provision for income tax	16	(367,967)	(351,009)
NET PROFIT FOR THE YEAR	17	<u>683,367</u>	<u>651,875</u>
Earnings per share	27	<u>YR 422</u>	<u>YR 407</u>
STATEMENT OF PROFIT APPROPRIATION			
Transfer to statutory reserve	17	(102,505)	(97,781)
Transfer to general reserve	17	(102,505)	(97,781)
Government's share in net profit for the year	15(c)	(444,189)	(423,719)
Employees' share in net profit for the year		(34,168)	(32,594)
Balance at 31 December		-	-

The attached notes 1 to 36 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended 31 December 2002



	2002 YR 000	2001 YR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before zakat and income tax	1,084,334	1,032,884
Adjustments for:		
Provisions for loan loss and contra accounts made during the year	86,279	172,498
Provisions for loan loss and contra accounts written back during the year	(30,908)	(104,274)
Income tax paid	(251,009)	(115,625)
Employees' leave entitlements paid	-	(10,383)
Zakat paid	(33,000)	(30,000)
Depreciation of property, plant and equipment	39,399	33,447
Operating profit before changes in assets and liabilities related to operating activities: (1)	895,095	978,547
CHANGES IN BANKING ASSETS AND LIABILITIES		
Reserve balances with the Central Bank of Yemen	(432,966)	(353,475)
Due from banks maturing after three months	(2,720,007)	1,637,778
Treasury bills maturing after three months	-	173,071
Loans and advances to customers and banks	(242,518)	(543,174)
Debit balances and other assets	(76,442)	(96,824)
Net (increase) / decrease in Assets (2)	(3,471,933)	817,376
Due to banks	(45,096)	7,769
Customers' deposits	5,044,223	2,888,807
Credit balances and other liabilities	53,745	303,992
Net increase in liabilities (3)	5,052,872	3,200,568
CASH FLOWS (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(52,418)	(73,331)
Surplus on revaluation of properties	-	2,669
Net disposal of assets and amount written off from investments	-	(809)
Net Cash flows (used in) investing activities (4)	(52,418)	(71,471)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Government's share in net profit for the year	(444,189)	(423,719)
Increase on the capital	250,000	-
Employees' share in net profit for the year	(34,168)	(32,594)
Net cash flows (used in) financing activities (5)	(228,357)	(456,313)
Net increase in cash and cash equivalents (1+2+3+4+5)	2,195,259	4,468,707
Cash and cash equivalents at 1 January	30,664,625	26,195,918
Cash and cash equivalents at 31 December	32,859,884	30,664,625
Consist of:		
Cash in hand and reserve balances with Central Bank of Yemen	4,547,801	4,115,176
Due from banks	14,829,786	13,190,313
Treasury bills and certificates of deposit with the Central Bank of Yemen	20,386,545	17,110,411
Reserve balances with the Central Bank of Yemen	(3,712,331)	(3,279,365)
Due from banks maturing after three months	(3,191,917)	(471,910)
	32,859,884	30,664,625

The attached notes 1 to 36 form an integral part of these financial statements.

STATEMENT OF CHANGES IN OWNER'S EQUITY
For the year ended 31 December 2002



	Capital YR '000	Statutory Reserve YR '000	General Reserve YR '000	Re- valuation Reserve YR '000	Cumulative changes in fair value Reserve YR '000	Net profit for the year YR '000	Total YR '000
At 31 December 2000	1,600,000	167,845	252,947	637,093	-	-	2,657,885
Additional land	-	-	-	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	-	-	-	-	-	(423,719)	(423,719)
Employees' share in net profit	-	-	-	-	-	(32,594)	(32,594)
At 31 December 2001	1,600,000	265,626	350,728	639,762	-	-	2,856,116
Restatement in accordance with IAS 39	-	-	-	-	16,392	-	16,392
Realised profits from the disposal of available for sale investments	-	-	-	-	(4,398)	-	(4,398)
Net movement in fair value for the year	-	-	-	-	6,929	-	6,929
Net profit for the year	-	-	-	-	-	683,367	683,367
Transfer to capital	250,000	-	-	-	-	-	250,000
Transfer to statutory reserve	-	102,505	-	-	-	(102,505)	-
Transfer to general reserve	-	-	102,505	-	-	(102,505)	-
Government's share in net profit	-	-	-	-	-	(444,189)	(444,189)
Employees' share in net profit	-	-	-	-	-	(34,168)	(34,168)
At 31 December 2002	1,850,000	368,131	453,233	639,762	18,923	-	3,330,049

The Bank's Board of Directors, in its meeting held on 30 December 2002, resolved to comply with the instructions of H.E the Vice Prime Minister, Minister of Finance in his letter dated 4 September 2002 to the Bank's management to increase the capital of the Bank by YR 500 million in two equal installments of YR. 250 million from the Government's share of net profit of the Bank for the years 2002 and 2003 (note 15-c).

The attached notes 1 to 36 form an integral part of these financial statements

1 INCORPORATION AND ACTIVITIES

The National Bank of Yemen (The Bank), which was incorporated in Aden, in 1969, is wholly owned by the Government of Yemen. The Bank 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 through two branches in Sana'a, and one in Hodeidah.

The number of employees with the Bank were 592 employees as on 31 December 2002 (31 December 2001: 608 employees).

In its meeting held on 26 January 2003, the Bank's Board of Directors approved the financial statements of the Bank.

2 PREPARATION BASIS OF FINANCIAL STATEMENTS

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

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

- i) The adoption of minimum fixed percentages for losses on loan and advances in accordance with the Central Bank of Yemen circular no. (6) of 1996 and circular no. (5) of 1998;
- ii) The inclusion of the general provision for risk calculated on the performing loans in the general provision for loans and advances rather than including it within the owner's equity.

The effect of these deviations is immaterial on the financial statements of the Bank as on 31 December 2002.

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 except as modified for the revaluation of land and buildings to market value and the measurement of "available for sale" investments to the fair value.

b) Change in accounting policy

The Bank has adopted IAS 39 "Financial Instruments: Recognition and Measurement" for the year ended 31 December 2002. As agreed with the Central Bank of Yemen and in accordance with the transitional provisions of the standard, the comparative figures were not restated. The adoption of IAS 39 has resulted in significant changes in the accounting policies of the Bank in respect of the recognition and measurement of financial instruments. The Bank has adopted IAS 39 and accounted for the changes in accounting policy as of 1 January 2002. The main changes in accounting policy are as follows:

- *Investments*

Previously, the Bank valued all investments in which the Bank has a long-term interest at amortised cost, less provision for impairment. Subsequent to the implementation of IAS 39, the Bank reclassified such investments as "available for sale" since it does not have any investments that could be classified as "held to maturity". The Bank re-measured those investments classified as available for sale to fair value on 1 January 2002 and included the gain or loss on re-measuring to fair value in owner's equity. The gain or loss arising from a change in fair value of such investments is recognised directly in equity until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Change in accounting policy (continued)

- Impairment of financial instruments

The calculation of impairment for loans and advances and other financial assets is based on the net present value of futures cash flows by reference to original interest rates. Previously future recoveries were not discounted to present values. Since there were no permanent impairment of the loans and advances, no material adjustments were required on the date of adoption of IAS 39.

c) Effect of the changes in accounting policies

The adoption of IAS 39 resulted in a credit amount of YR 16,392 thousand. This amount has been taken to the cumulative changes in fair value reserve in owner's equity.

d) Foreign currencies

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

ii) The differences arising from the re-measurement of "available for sale" investments to fair value which relates to changes in foreign exchange rates are considered as part of the change in fair value. Accordingly, these differences are not taken to the statement of income, rather they are taken directly to equity.

iii) The Bank does not enter into forward exchange contracts.

e) Revenue recognition

i) Revenues are recognized on the accrual basis. However, in order to comply with the Central Bank of Yemen Circular no. (6) of 1996, the Bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest.

ii) In accordance with the Central Bank of Yemen guideline no. (2) of 2002, any provisions written back are included under "other operating income".

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

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

g) Valuation of investments

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Provision for losses on loans 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 including watch loans	2%
• Performing contingencies including watch accounts	1%
• Non-performing loans and contingencies:	
▪ Substandard debts	15%
▪ Doubtful debts	45%
▪ Bad debts	100%

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

i) Property, plant and equipment, net of accumulated depreciation

Property comprising land and buildings are recorded at their revalued amounts. Equipment are recorded at cost on the date of purchase. Cost includes purchase price and related expenses.

Freehold land is not depreciated. Other property and equipment items are stated at cost or revalued amounts less accumulated depreciation.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life using the straight line method at the rates shown below:

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

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

j) Real estate properties acquired from customers

In accordance with the Banks Law No. (38) of 1998 and the instructions of the Central Bank of Yemen, real estate properties acquired from customers in settlement of loans are included in the balance sheet under "debit balances and other assets" using the value at which these properties were acquired for less any decline in their value. Any decline is charged to the statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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.

l) 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 certificates of deposit with the Central Bank of Yemen.

m) Taxation

Taxation for the year is provided for in accordance with the relevant Income Tax Law (as amended) and regulations and the Banks Law No. (38) of 1998.

n) Zakat

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

o) 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.

p) 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.

q) Impairment of financial assets

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

r) Fair values

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

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

s) 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.

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

4.1 Financial instruments

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

b) Fair value of financial instruments

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

c) Forward contracts

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

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 regular 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.

4 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS (continued)

4.2 Managing related risks

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

	2002	2001
	YR '000	YR '000
Cash in hand		
- In local currency	435,292	551,653
- In foreign currencies	266,108	234,087
- Cheques purchased, net	134,070	50,071
Total cash in hand	835,470	835,811
Reserve balances with the Central Bank of Yemen		
- In local currency	2,127,275	1,887,660
- In foreign currencies	1,585,056	1,391,705
Total reserve balances with the Central Bank of Yemen	3,712,331	3,279,365
Total cash in hand and reserve balances with the Central Bank of Yemen	4,547,801	4,115,176

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. Deposits in local currency carry interest at rates determined by the Central Bank of Yemen.

6 DUE FROM BANKS

	2002	2001
	YR '000	YR '000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with Central Bank of Yemen		
- In local currency	852,751	1,154,745
- In foreign currencies	231,673	172,933
Total current accounts with the Central Bank of Yemen	1,084,424	1,327,678
Less: Provision for outstanding reconciling items	(18,115)	(18,115)
Net current account balances with Central Bank of Yemen	1,066,309	1,309,563
Current account balances with local banks	510	3,521
Total due from the Central Bank of Yemen and other local banks	1,066,819	1,313,084
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	2,153,392	2,272,545
Less: Provision for outstanding reconciling items	(31,504)	(29,224)
Time deposits	11,641,079	9,633,908
Total due from foreign banks and other financial institutions	13,762,967	11,877,229
Total due from banks	14,829,786	13,190,313

7 TREASURY BILLS, net

	2002	2001
	YR '000	YR '000
Re-purchased treasury bills due within 90 days	15,165,821	12,517,662
Less: Unamortised discount	(229,276)	(207,251)
Net book value	14,936,545	12,310,411

The treasury bills have maturity period of three months and carry interest rates ranging from 13.0% to 14.0% (2001: 13.0% to 14.0%). In accordance with the instructions of the Central Bank of Yemen, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalent assets.

8 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	2002	2001
	YR '000	YR '000
Certificates of deposit – 91 days	5,450,000	4,800,000

Certificates of deposits are amounts deposited with the Central Bank of Yemen having a maturity of not more than three months and carry interest rates of 14 %. In accordance with the instruction of the Central Bank of Yemen, such certificates of deposits are considered as part of cash and cash equivalent assets.

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

	2002	2001
	YR '000	YR '000
<i>Amounts due from Government entities</i>		
Loans and advances to Government entities	45,247	28,603
Add: Interest charged during the year	4,231	3,703
Add: Advances granted during the period	-	12,941
Less: Amount paid by the Government	(2,395)	-
Total amounts due from Government entities (i)	47,083	45,247
<i>Loans and advances to private sector customers:</i>		
Overdraft facilities	813,626	643,096
Short-term loans	1,497,164	1,355,228
Commercial papers discounted	204,046	266,816
Total amounts due from private sector customers (ii)	2,514,836	1,998,324
<i>Loans and advances to Banks</i>		
Subordinated loan to UBAF - US\$ 588.094 (note - a)	105,198	7,063
Total amounts due from Banks (iii)	105,198	7,063
Total loans and advances to customers and banks (i) + (ii) + (iii)	2,667,117	2,317,450
Provision for losses on loans and advances (note - b)	(876,627)	(730,241)
Suspended interest (note - c)	(16,130)	(13,762)
Total provisions for losses on loans and advances and suspended interest	(892,757)	(744,003)
Net loans and advances to customers and banks	1,774,360	1,573,447

All loans and advances referred to above, except for the subordinated loan to UBAF, are granted to customers inside the Republic of Yemen.

Gross non-performing loans and advances at 31 December 2002 which amounted to YR 902,519 thousand (2001 - YR 764,484 thousand)

The above amounts include loans and advances granted to related parties by the Bank as part of the Bank's normal operations and amounting to YR 48,796 thousand (2001 - YR 46,556 thousand) as disclosed in note (28).

(a) Subordinated loan to UBAF

The loan of US \$ 588,094 represents the Bank's participation in a subordinated loan extended to UBAF (Paris) by its shareholders and carries an interest rate of LIBOR +1%. Although the interest on this loan is being paid regularly on time, the principal amount had been rescheduled to 4 June 2003 and 4 March 2004, and its repayment is conditional upon the approval of the Banking Regulatory Commission in France. As a result, the Bank's management, taking a conservative and prudent view, has fully provided for the principal of the loan.

During the period the loan was reclassified from the "long term investments" to the "loans and advances". The balance of the loan as of 31 December 2001, is stated using the exchange rate prevailing at the time of purchase. Following the reclassification, the balance of the loan has been retranslated using the exchange rates prevailing as of 31 December 2002.

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

(b) Provision for losses on loans and advances

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

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

	----- 2002-----			----- 2001-----		
	<i>Specific</i>	<i>General</i>	<i>Total</i>	<i>Specific</i>	<i>General</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>
Balance at 1 January	699,323	30,918	730,241	634,803	20,048	654,851
Revaluation of opening balance in foreign currencies	99,838	664	100,502	1,772	688	2,460
Amount utilized during the year.	(2,435)	-	(2,435)	(11,227)	-	(11,227)
Adjusted opening balance	796,726	31,582	828,308	625,348	20,736	646,084
Amounts recovered of loans previously written off (note 23)	(19,833)	(4,046)	(23,879)	(76,512)	(9,621)	(86,133)
Provision for the year (note 25)	64,442	7,756	72,198	150,487	19,803	170,290
Charged to the income statement	44,609	3,710	48,319	73,975	10,182	84,157
Balance at 31 December	841,335	35,292	876,627	699,323	30,918	730,241

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2001 – 2%).

(c) Suspended interest

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

	2002	2001
	<i>YR '000</i>	<i>YR '000</i>
Balance at 1 January	13,762	15,034
Amounts written off during the year	(235)	(1,272)
Suspended during the year	2,603	-
Balance at 31 December	16,130	13,762

10 AVAILABLE FOR SALE INVESTMENTS, net

These comprise investments, available for sale, in the following foreign companies:

	Ownership Percentage %	No. of shares of US \$ 1 each	2002 YR '000	2001 YR '000
<i>Unquoted investments in UBAF Group</i>				
UBAF – Curacao - A Shares of US \$ 1 each	0.788%	1,497,200	17,982	17,982
UBAF – Curacao - B Shares of US \$ 1 each	0.783%	234,650	2,818	2,818
UBAF – Curacao - C Shares of US \$ 1 each	1.371%	528,250	6,344	6,344
Total investment in shares in UBAF Group		2,260,100	27,144	27,144
<i>Other unquoted investments</i>				
Arab Banking Group – Bahrain	0.344%		2,067	2,067
Arab Financial Services Company – Bahrain (note – a)	0.167%		20,124	1,201
Total other unquoted investments			22,191	3,268
Total available for sales investments			49,335	30,412
Less: Provision for impairment (note –b)			(29,211)	(29,211)
Net book value of investments available for sale			20,124	1,201

(a) Arab Financial Services Company – Bahrain

The fair value of the investment in Arab Financial Services Company – Bahrain was calculated based on the net present value of the estimated future cash flows represented in the dividends received from the company on a consistent basis and using a discount rate of 3%. The fair value of the investment in Arab Financial Services Company – Bahrain as of 31 December 2002 amounted to US\$ 11.25 per share (1 January 2002: US\$ 10 per share).

On 1 July 2002, the Arab Financial Services Company – Bahrain reduced its share capital by 25%. The Bank collected 25% of the nominal value (which amounted to US\$ 10 per share) of its investment in the Arab Financial Services Company – Bahrain. The following table shows the movement in the Arab Financial Services Company – Bahrain during the year:

	2002 YR '000
Balance at 1 January	1,201
Difference of restatement to fair value in accordance with IAS 39	16,392
Fair value at 1 January	17,593
Amounts collected as result of the reduction of the share capital of the company	(4,398)
Difference of restatement to fair value in accordance with IAS 39	6,929
Fair value at 31 December	20,124

(b) Provision for impairment

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

11 DEBIT BALANCES AND OTHER ASSETS

	2002 YR '000	2001 YR '000
Prepaid expenses and other debit balances	4,512	2,869
Interest receivable	212,514	150,730
Pre-operating costs of new branches	2,891	1,777
Real estate properties acquired from customers, net of provision	29,234	43,000
Sundry debit balances, net of provision	36,134	24,233
Total debit balances and other assets	285,285	222,609

During the year, the Bank disposed off of one of the three properties acquired through final court decision from defaulted customers in 2001. The balance of real estate properties acquired from customers is net of a provision of YR 480 thousand (2001 – YR 480 thousand) for the valuation of these properties in accordance with the instructions of the Central Bank of Yemen.

12 PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation

	Freehold Land and buildings YR '000	Leasehold Improve- ments YR '000	Furniture & Equipment YR '000	Motor Vehicles YR '000	Swift & Computers YR '000	Total YR '000
<i>Cost or valuation:</i>						
At 31 December 2001	1,513,835	18,466	113,228	43,431	88,321	1,777,281
Additions during the year	3,650	6,239	25,161	5,858	11,510	52,418
At 31 December 2002	<u>1,517,485</u>	<u>24,705</u>	<u>138,389</u>	<u>49,289</u>	<u>99,831</u>	<u>1,829,699</u>
<i>Depreciation</i>						
At 31 December 2001	13,840	4,172	39,814	27,308	44,709	129,843
Charge for the year	7,383	2,135	10,494	7,375	12,012	39,399
At 31 December 2002	<u>21,223</u>	<u>6,307</u>	<u>50,308</u>	<u>34,683</u>	<u>56,721</u>	<u>169,242</u>
<i>Net book amount</i>						
At 31 December 2002	<u>1,496,261</u>	<u>18,398</u>	<u>88,081</u>	<u>14,606</u>	<u>43,111</u>	<u>1,660,457</u>
At 31 December 2001	1,499,995	14,294	73,414	16,123	43,612	1,647,438

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

a) Revaluation of property

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

13 DUE TO BANKS

	2002 YR '000	2001 YR '000
<i>Current and demand accounts</i>		
Local banks	8,847	1,759
Foreign banks	20,103	72,287
Total due to banks	28,950	74,046

14 CUSTOMERS' DEPOSITS

	2002 YR '000	2001 YR '000
Current accounts	8,073,888	7,320,450
Savings accounts	17,225,730	15,031,029
Short-term deposits	12,000,608	10,205,100
Other deposits	472,629	341,324
Deposit for documentary letters of credit and guarantees	1,118,600	949,329
Total customers' deposits	38,891,455	33,847,232

15 CREDIT BALANCES AND OTHER BALANCES

	2002 YR '000	2001 YR '000
Accrued interest payable	154,807	147,262
Unclaimed balances (note - a)	170,101	162,164
Provision for employees' leave pay	21,474	9,256
Provision for off-balance sheet items (note - b)	29,846	21,972
Due to the owner (the Government) (note - c)	417,189	423,719
Employees bonus in net profit	15,067	11,383
Employees share in net profit	45,533	35,666
Sundry credit balances	31,920	20,770
Total credit balances and other balances	885,937	832,192

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. The increase in the unclaimed balances is due to differences as result of translating the balances in foreign currencies at the end of the year.

15 CREDIT BALANCES AND OTHER BALANCES (continued)

b) Provision for off-balance sheet items

	2002	2001
	YR '000	YR '000
Balance at 1 January	21,972	36,825
Revaluation of opening balance in foreign currencies	822	1,080
Provision charged during the year (note -25)	14,081	2,208
Provision written back during the year (note -23)	(7,029)	(18,141)
Balance at 31 December	29,846	21,972

c) Due to the Owner (the Government)

	2002	2001
	YR '000	YR '000
Balance at 1 January	423,719	99,845
Add: Government's net share of the profit for the year		
Government's gross share of the profit for the year	444,189	423,719
Transferred to paid up capital	(250,000)	-
Net Government's share of the profit for the year	194,189	423,719
Less: amounts paid during the year	(200,719)	(99,845)
Balance at 31 December	417,189	423,719

The Bank's Board of Directors, in its meeting held on 30 December 2002, resolved to comply with the instructions of H.E the Vice Prime Minister, Minister of Finance in his letter dated 4 September 2002 to the Bank's management to increase the capital of the Bank by YR 500 million in two equal installments of YR 250,000 thousand from the Government's share of net profit for the years 2002 and 2003.

16 INCOME TAX PAYABLE

	2002	2001
	YR '000	YR '000
<i>Amounts due to the tax authority</i>		
Balance at 1 January	251,009	15,625
Charged in the Statement of Income for the period / year	367,967	351,009
Total amounts due to the Tax Authority	618,976	366,634
<i>Amounts paid to the tax authority</i>		
Amount paid for 2000 tax liability	-	(15,625)
Amount paid for 2001 tax liability	(251,009)	(100,000)
Total amounts paid to the Tax Authority	(251,009)	(115,625)
Total income tax payable	367,967	251,009

16 INCOME TAX PAYABLE (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 determined in the Bank's financial statements audited by an external auditing firm.

b) Prior year tax assessments

The Bank received on 7 August 2002, the final tax clearance for the income tax liability for the financial year ending 31 December 2001.

17 OWNER'S EQUITY

a) Authorized capital

The authorized share capital amounting YR. 2,100 million (2001 – YR 1,600 million) consists of 2,100 thousand shares of YR 1,000 par value each. (2001 – of 1,600 thousand shares of YR 1,000 par value each).

b) Declared and paid up capital

The authorized share capital amounting YR. 1,850 million (2001 – YR 1,600 million) consists of 1,850 thousand shares of YR 1,000 par value each. (2001 – of 1,600 thousand shares of YR 1,000 par value each).

c) Net profit distribution

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

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

d) Surplus on revaluation property reserve

This represents the difference between the revalued amounts of the freehold land and the buildings and their net book value as at 31 December, 1999.

e) Cumulative changes in fair value reserve

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

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net

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

18 CONTRA ACCOUNTS AND OTHER COMMITMENTS, net

<i>At 31 December, 2001</i>	<i>Gross commitments</i>	<i>Covered by margin</i>	<i>Net commitments</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>
<i>Commitments on behalf of customers for which there were corresponding liabilities by the customers concerned:</i>			
Documentary letters of credit	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

19 INTEREST ON LOANS AND ADVANCES DUE FROM BANKS

	2002	2001
	YR '000	YR '000
<i>Interest on loans and advances to customer and banks</i>		
Interest on loans and advances to customers	189,610	184,243
Interest on commercial papers discounted	19,412	21,417
Interest on other facilities	2,052	776
Interest on loans to banks	3,226	6,374
Total interest on loans and advances to customers and banks (a)	214,300	212,810
<i>Interest on deposits with foreign banks</i>		
Interest on current accounts	13,814	44,548
Interest on call accounts	4,754	26,025
Interest on deposits	208,474	373,316
Total interest on deposits with foreign banks (b)	227,042	443,889
<i>Interest on deposits with local banks</i>		
Interest on statutory reserves with the Central Bank of Yemen (c)	259,443	240,922
Total interest on deposits with local banks (d) = (b)+(c)	486,485	684,811
Total interest on loans and due from banks (e) = (a)+(d)	700,785	897,621

20 COST OF DEPOSITS

	2002	2001
	YR '000	YR '000
Interest on savings accounts	1,008,766	918,876
Interest on time deposits	767,823	735,803
Total interest	1,776,589	1,654,679

21 COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	2002	2001
	YR '000	YR '000
Commissions on documentary letters of credit	40,323	27,270
Commissions on letters of guarantee	73,359	51,087
Commissions on transfer of funds	21,579	18,837
Commissions on acceptances	4,213	3,095
Commissions on cheques	66,537	62,469
Banking services fees	13,636	15,142
Other service fees	16,966	15,271
Total commissions and fee income on banking services	236,613	193,171

22 GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2002	2001
	YR '000	YR '000
Revaluation differences on foreign currency transactions	28,992	15,830
Gain on foreign exchange trading transactions	19,518	4,248
Total gain on foreign exchange transactions	48,510	20,078

23 OTHER OPERATING INCOME

	2002	2001
	YR '000	YR '000
Provision for loan losses no longer required (note 9-b)	23,879	86,133
Provision for off-balance sheet items no longer required (note 15-b)	7,029	18,141
Provision for employees' leave pay no longer required	-	2,868
Sundry income	7,673	5,707
Total other operating income	38,581	112,849

24 GENERAL AND ADMINISTRATION EXPENSES

	2002	2001
	YR '000	YR '000
Salaries, wages and related costs	391,786	392,706
Depreciation of property and equipment (note 12)	39,399	33,447
Rents	27,598	23,563
Water and electricity	19,371	18,861
Repairs and maintenance	14,716	11,632
Telephone, telexes and postage	21,301	20,528
Transportation and communication	14,088	16,420
Promotions and publications	9,154	5,763
Computer maintenance expenses	13,841	13,258
Training	12,949	10,127
Taxes and fees	1,436	985
Donations	4,288	3,252
Stationery and printing supplies	11,999	11,274
Loss on disposal of properties acquired from customers (note 11)	1,266	-
Other general and administration expenses	28,170	34,208
Total general and administration expenses	611,362	596,024

25 PROVISIONS

	2002	2001
	YR '000	YR '000
Provision for losses on loans and advances (note 9 - b)	72,198	170,290
Provision for off-balance sheet items (note 15 - b)	14,081	2,208
Provision for employees' leave pay	19,996	-
Total provisions	106,275	172,498

26 ZAKAT

	2002	2001
	YR '000	YR '000
Zakat expense for the current year - paid	33,000	30,000

27 EARNINGS PER SHARE

	2002	2001
	YR '000	Y'000
Net profit for the year	683,367	651,875
Weighted average of number of shares (increase from 1 December 2002)	1,620,833	1,600,000
Earnings per share	YR 422	YR 407

28 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:

	2002	2001
	YR '000	YR '000
<u>Government owned entities</u>		
Loans and advances, gross	47,083	45,247
Customers' deposits	276,057	477,893
<u>Board members and parties related to them</u>		
Loans and advances, gross	1,713	1,309
Customers' deposits	4,876	2,708
Interest income for the year	163	144
Interest expense for the year	585	214

29 MATURITIES OF ASSETS AND LIABILITIES

a) 31 December 2002

ASSETS	Less than 3 months YR '000	From 3 t o 6 months YR '000	From 6 months to 1 year YR '000	Over 1 year YR '000	Total YR '000
Cash in hand and reserve balances with the Central Bank of Yemen	4,547,801	-	-	-	4,547,801
Due from banks	11,637,869	143,453	3,048,464	-	14,829,786
Treasury bills	14,936,545	-	-	-	14,936,545
Certificates of deposit	5,450,000	-	-	-	5,450,000
Loans and advances to customers and banks, net of provision	99,664	46,986	279,682	1,348,028	1,774,360
Investments available for sale	-	-	-	20,124	20,124
TOTAL ASSETS	36,671,879	190,439	3,328,146	1,368,152	41,558,616
LIABILITIES					
Due to banks	28,950	-	-	-	28,950
Customers' deposits	22,534,169	5,071,013	11,251,851	34,422	38,891,455
TOTAL LIABILITIES	22,563,119	5,071,013	11,251,851	34,422	38,920,405

b) 31 December 2001

ASSETS	Less than 3 months YR '000	From 3 t o 6 months YR '000	From 6 months to 1 year YR '000	Over 1 year YR '000	Total YR '000
Cash in hand and reserve balances with the Central Bank of Yemen	4,115,176	-	-	-	4,115,176
Due from banks	12,718,403	471,910	-	-	13,190,313
Treasury bills	12,310,411	-	-	-	12,310,411
Certificates of deposit	4,800,000	-	-	-	4,800,000
Loans and advances to customers and banks, net of provision	80,468	233,680	270,773	988,526	1,573,447
Investments available for sale	-	-	-	1,201	1,201
TOTAL ASSETS	34,024,458	705,590	270,773	989,727	35,990,548
LIABILITIES					
Due to banks	74,046	-	-	-	74,046
Customers' deposits	19,406,203	4,820,147	9,568,607	52,275	33,847,232
TOTAL LIABILITIES	19,480,249	4,820,147	9,568,607	52,275	33,921,278

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

a) The average interest rates on assets and liabilities applied during the year 2002 were as follows:

	Yemeni Riyal	US Dollar	Saudi Riyal	Sterling Pound	Euro
Assets	%	%	%	%	%
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:	-	-	-	-	-
Current accounts	-	0.85	-	1.41	2.80
Time deposits	13.00	1.64	2.40	3.92	2.73
Due to banks:	-	-	-	-	-
Treasury bills	13.99	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.00	-	-	-	-
Loans to customers	18.00	6.50	-	-	-
Liabilities	-	-	-	-	-
Time deposits - customers	13.00	1.20	-	2.79	-

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

b) 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
Assets	%	%	%	%	%
Reserve balances with the Central Bank of Yemen	13.00	-	-	-	-
Due from banks:	-	-	-	-	-
Current accounts	-	2.69	4.35	3.19	4.35
Time deposits	13.00	4.51	-	5.00	-
Due to banks:	-	-	-	-	-
Treasury bills	14.00	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.00	-	-	-	-
Loans to customers	19.00	8.00	-	-	-
Liabilities	-	-	-	-	-
Time deposits - customers	13.00	2.62	-	3.07	-

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

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

	<i>Manufacturing</i>	<i>Agriculture</i>	<i>Trade</i>	<i>Service</i>	<i>Finance</i>	<i>Personal</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
Assets							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	4,547,801	-	4,547,801
Due from banks	-	-	-	-	14,829,786	-	14,829,786
Treasury bills, net	-	-	-	-	14,936,545	-	14,936,545
Certificates of deposit	-	-	-	-	5,450,000	-	5,450,000
Loans to customers and banks, net of provision	237,824	-	1,106,865	3,339	-	426,332	1,774,360
Long term investments, net	-	-	-	-	20,124	-	20,124
Total Assets	237,824	-	1,106,865	3,339	39,784,256	426,332	41,558,616
Liabilities							
Due to banks	-	-	-	-	28,950	-	28,950
Customers' deposits	821,378	93,115	2,729,113	1,818,216	-	33,429,633	38,891,455
Total Liabilities	821,378	93,115	2,697,268	1,818,216	28,950	33,429,633	38,920,405
Contra accounts and other commitments	223,708	703	4,117,130	1,446,270	711,787	849,217	7,348,815

31 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

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

	<i>Manufacturing</i>	<i>Agriculture</i>	<i>Trade</i>	<i>Service</i>	<i>Finance</i>	<i>Personal</i>	<i>Total</i>
	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>	<i>YR'000</i>
ASSETS							
Cash in hand and reserve balances with the Central Bank of Yemen	-	-	-	-	4,115,176	-	4,115,176
Due from banks	-	-	-	-	13,190,313	-	13,190,313
Treasury bills, net	-	-	-	-	12,310,411	-	12,310,411
Certificates of deposit	-	-	-	-	4,800,000	-	4,800,000
Loans to customers and banks, net of provision	330,219	3,552	462,148	41,229	457,365	278,934	1,573,447
Long term investments, net	-	-	-	-	1,201	-	1,201
Total Assets	330,219	3,552	462,148	41,229	34,874,466	278,934	35,990,548
LIABILITIES							
Due to banks	-	-	-	-	74,046	-	74,046
Customers' deposits	407,040	90,269	2,414,729	893,496	-	30,041,698	33,847,232
Total Liabilities	407,040	90,269	2,414,729	893,496	74,046	30,041,698	33,921,278
Contra accounts and other commitments	246,301	-	1,540,565	640,046	2,181,388	816,003	5,424,303

32 TRUST ACTIVITIES

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

33 CONTINGENT ASSETS AND LIABILITIES

The Bank has filed a number of legal cases with the Public Fund Court and the Commercial Preliminary Court against former employees and customers of the Bank relating to irregularities and default in settlements of amounts due respectively. Although the ultimate outcome of these cases cannot presently be determined, management has fully provided for these assets in the financial statements.

34 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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

	2002		2001	
	%	YR '000	%	YR '000
United States dollar	5.24	174,408	16.57	473,374
Pound sterling	3.54	117,918	5.11	145,930
Swiss Franc	0.05	1,540	0.54	15,426
Euro	4.56	151,727	0.54	15,549
Saudi Riyal	6.01	200,202	-	-
Other	0.03	855	-0.12	(3,432)
Aggregate foreign currency positions	19.42	646,650	22.65	646,847

The dollar exchange rate at 31 December 2002 was 178.88 YR/US\$ (31 December 2001: 173.27 YR/US\$).

35 CAPITALISATION 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 4 September 2001, resolution No. (243) of 2001 which stipulated the capitalization of the Bank. The latest audited financial statements will be used as a basis of the net value of the Bank which will represent 40% of the capital of the new bank, of which half will be put for public subscription and half will be maintained by the Government. The remaining 60% of the capital will be offered to a strategic investor. The capitalization process will be done through a general offer to qualified investors according a pre-determined terms and conditions.

The Capitalization committee, under the chairmanship of the Deputy Minister of Finance, was instructed to implement the above mentioned resolution and to report to the Council of Ministers' on its implementation process.

36 COMPARATIVE FIGURES

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

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Crater Aden
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Tel.: 967 2 253753
Fax: 967 2 252325
E-mail: nby.ho@y.net.ye
web site: www.nbyemen.com
swift: NBOYYESA

Aidroos Branch

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

Queen Arwa Branch

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

Sana'a Branch

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

Maalla Branch

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

Hodeidah Branch

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

Mukalla Branch

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

Steamer Point Branch

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

A. Aziz A. Wali Branch

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

Public Lending Branch

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

Little Aden Branch

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

Seiyun Branch

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

Khormaksar Branch

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

Al-Qaa Branch

Al-Quaa
Sana'a
Tel.: 967 1 296278
Fax: 967 1 296277

Al-Dala Branch

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

Al-Habeelain Branch

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

List of branches (continued)

Labaus Branch

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

Zingubar Branch

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

Lahej Branch

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

Al-Baidha Branch

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

Zarah Branch

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

Rusod Branch

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

Ataq Branch

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

Hai October Branch

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

Al-Sheher Branch

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

Al-Qatan Branch

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

Huraidhah Branch

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

Al-Ghaedhah Branch

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

Suqotra Branch

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

