

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
AND AUDITOR'S REPORT**

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
AND AUDITOR'S REPORT**

TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
Auditor's report	1
Balance sheet	2
Statement of income	3
Statement of cash flows	4
Statement of changes in shareholders' equity	5
Notes to the financial statements	6 - 19



Mejanni, Hazem Hassan & Co.
Public Accountants
150 Zubairy St.
Sana'a, Republic of Yemen
PO Box 3501

Telephone +967 (1) 401 667 / 8 / 9
Fax +967 (1) 206 130
E-mail kpmgyemen@kpmg.com.ye

**AUDITOR'S REPORT TO THE SHAREHOLDERS
OF THE YEMEN GULF BANK
(YEMENI JOINT STOCK COMPANY)
SANA'A, REPUBLIC OF YEMEN**

We have audited the accompanying financial statements of Yemen Gulf Bank consisting of the balance sheet as at December 31, 2004, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. 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 and the requirements of relevant Yemeni laws and regulations. Those 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 have obtained from management the information and clarifications that we deemed necessary for our audit and we believe that our audit provides a reasonable basis for our opinion.

In application of CBY circulars no. 6 of 1996 and no. 5 of 1998 concerning the classification of assets and contingent liabilities, and making the required provisions, and their impact on the financial statements, there is a shortfall in the provision amount, as explained in note (9) to the financial statements.

Except for the effects on the financial statements of the matter referred to in the preceding paragraph, in our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the accounting requirements of Central Bank of Yemen and applicable local laws and regulations

The Bank keeps proper books of account, and the accompanying financial statements are in agreement with those books.

M. Zohdi Mejanni
Associated Accountant



Sana'a, April 13, 2005

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**BALANCE SHEET
AS AT DECEMBER 31, 2004**

	<u>Note</u>	<u>2004 YR'000</u>	<u>2003 YR'000</u>
ASSETS			
Cash on hand & reserve balances with Central Bank of Yemen (CBY)	5	1,836,877	1,584,959
Due from banks	6	1,548,685	2,134,174
Treasury bills	3c/7	2,447,279	2,317,855
CBY certificates of deposit	3c/8	200,000	200,000
Loans and advances (net)	3d/9/10	5,034,459	4,470,726
Available for sale investments	3e/11	6,000	-
Debit balances and other assets (net)	12	66,531	107,389
Property and equipment (net)	3h/13	248,180	103,377
TOTAL ASSETS		<u>11,388,011</u>	<u>10,918,480</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to Banks	14	300,344	867,691
Customers' deposits	15	9,754,536	8,706,926
Credit balances and other liabilities	16	83,197	97,101
Other provisions	17	77,846	74,674
		<u>10,215,923</u>	<u>9,746,392</u>
SHAREHOLDERS' EQUITY			
Paid-up capital	18	1,250,000	1,250,000
Retained earnings (deficit)		(77,912)	(77,912)
TOTAL SHAREHOLDERS' EQUITY		<u>1,172,088</u>	<u>1,172,088</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>11,388,011</u>	<u>10,918,480</u>
Contingent liabilities and commitments	3f/19	<u>7,784,605</u>	<u>7,467,425</u>

(The accompanying notes from 1 to 32 form part of these financial statements)

Mohamed H. Al-Zubeiri
Chairman

Maqbool Shamsi
General Manager



Auditor's report attached.

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Note</u>	<u>2004 YR'000</u>	<u>2003 YR'000</u>
Interest on loans and due from banks	20	625,212	352,240
Interest on treasury bills & certificates of deposit		<u>401,023</u>	<u>278,821</u>
		1,026,235	631,061
Less: cost of deposits and borrowing	21	(474,498)	(293,011)
Net interest income		551,737	338,050
Commission revenues and banking service charges	22	164,287	140,655
Gain on foreign currency transactions	23	<u>36,434</u>	<u>35,030</u>
		752,458	513,735
Less: commission expenses and banking service charges		(8,564)	(5,106)
Less: provisions	24	(398,922)	(238,037)
Less: general and administrative expenses and depreciation	25	(344,972)	(270,592)
Net result for the year		<u>-</u>	<u>-</u>

(The accompanying notes from 1 to 32 form part of these financial statements)

Mohamed H. Al-Zubeiri
Chairman

Maqbool Shamsi
General Manager



Auditor's report attached.

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Note</u>	<u>2004 YR'000</u>	<u>2003 YR'000</u>
<u>Cash Flows From Operating Activities</u>			
Net result for the year		-	-
Adjustments to reconcile net result to cash flows from operating activities			
Depreciation	13	41,111	34,080
Provisions	24	398,922	238,037
		440,033	272,117
<u>Net (increase) decrease in assets</u>			
Reserve balances with CBY		(128,986)	(883,397)
Deposits with banks		1,355,383	(1,366,003)
Treasury bills		(460,094)	-
Loans to customers		(1,032,743)	(2,583,242)
Debit balances and other assets		40,858	(92,238)
<u>Net increase (decrease) in liabilities</u>			
Due to Banks		(567,347)	815,009
Customers' accounts		1,047,610	4,857,652
Credit balances and other liabilities		59,354	63,643
Net cash provided by operating activities		<u>754,068</u>	<u>1,083,541</u>
<u>Cash flows from investing activities:</u>			
Payments to purchase property and equipment		(185,913)	(10,914)
Available for sale investments		(6,000)	-
Net cash (used in) investing activities		<u>(191,913)</u>	<u>(10,914)</u>
Net increase in cash and cash equivalents		562,155	1,072,627
Cash and cash equivalent at the beginning of the year		3,495,316	2,422,689
Cash and cash equivalent at the end of the year		<u>4,057,471</u>	<u>3,495,316</u>
<u>Cash and cash equivalent consist of:</u>			
Cash on hand		488,108	365,177
Due from banks		1,382,178	612,284
Treasury bills maturing within 3 months		1,987,185	2,317,855
CBY certificates of deposit maturing within 3 months		200,000	200,000
		<u>4,057,471</u>	<u>3,495,316</u>

(The accompanying notes from 1 to 32 form part of these financial statements)

Mohamed H. Al-Zubeiri
Chairman

Maqbool Shamsi
General Manager



Auditor's report attached.

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)




**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>2004</u>	<u>Capital YR'000</u>	<u>Retained earnings (deficit) YR'000</u>	<u>Total YR'000</u>
Balance as at 1/1/2004	1,250,000	(77,912)	1,172,088
Balance as at 31/12/2004	1,250,000	(77,912)	1,172,088
<u>2003</u>	<u>Capital YR'000</u>	<u>Retained earnings (deficit) YR'000</u>	<u>Total YR'000</u>
Balance as at 1/1/2003	1,250,000	(77,912)	1,172,088
Balance as at 31/12/2003	1,250,000	(77,912)	1,172,088

(The accompanying notes from 1 to 32 form part of these financial statements)


Mohamed H. Al-Zubeiri
Chairman


Maqbool Shamsi
General Manager



Auditor's report attached.


M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. BACKGROUND INFORMATION

The Yemen Gulf Bank (a closed Yemeni Joint Stock Company) was established in accordance with the Ministerial Decree No. (241) of 2000, the Decree of the Central Bank of Yemen's BOD No. (3) of 2001, The Companies Law No. (22) of 1997 and its amendments and the Banks Law No. (38) of 1998.

The Bank practices its activity through the Head Office located in Sana'a.

The Bank started its banking operations on March 21, 2001 and carries out its activities through its head office in Sana'a and one Branch in Aden opened during the year.

The total number of the Bank's employees at December 31, 2004 is 106 employees (68 employees at December 31, 2003).

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

The financial statements are prepared on the historical cost basis, in accordance with the accounting requirements of Central Bank of Yemen (CBY), prevailing local laws and regulations, and rules and instructions issued by CBY.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Translation of foreign currencies

The bank maintains its records in Yemeni Rial. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the statement of income.

b. Revenue recognition

Revenues are recognized on the accrual basis. However, in order to comply with the requirements of CBY circular No. 6 of 1996 regarding the classification basis of assets and liabilities, the bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing loan or facility, all uncollected interest relating to the three months prior to categorizing the loan or facility as non-performing is reversed from income and transferred to other credit balances.

c. Treasury bills & CBY certificates of deposits

Treasury bills are recorded at face value with the issuance discount in credit balances and other liabilities. Treasury bills are presented in the balance sheet net of the balance of issuance discount at the balance sheet date

CBY certificates of deposit are presented on the balance sheet at face value with its interest receivable under debit balances and other assets.

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

d. Provision of loans and contingent liabilities

In order to comply with CBY circular No. 6 of 1996, provision is provided 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 banking guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, provision is provided in accordance with the following minimum rates:

<u>Performing loans including watch list loans</u>	1%
<u>Non-performing loans:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.

Loans to customers and banks are presented on the balance sheet net of provision (specific and general) and uncollected interest.

e. Valuation of available for sale investments

Available for sale investments are recorded at acquisition cost. At the financial statements date, they are individually valued at fair value. Valuation differences are charged to the statement of income in accordance with Central Bank of Yemen instructions.

f. 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 balance sheet date.

g. Cash and cash equivalent

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

h. Property and equipment

Property and equipment are valued at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the statement of income on the straight line method over the estimated useful life as follows:

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Estimated Useful Lives</u>
Motor vehicles	5 years
Furniture and fixtures	5-10 years
Computer equipment	5 years
Leasehold improvements	10 years or the lease term whichever is less

i. Impairment of assets

The Bank reviews the carrying amounts of the assets, according to their materiality, at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated and compared with the carrying amount and any excess in the carrying amount is charged to the statement of income.

Any increase in the value of the assets, previously impaired, is also recognized in the statement of income provided that the increase does not exceed the original recoverable value of the asset before the impairment.

j. Taxation

Due corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

A provision is provided for tax liabilities after appropriate review of tax assessments received. Due to the nature of Yemeni tax accounting, provision is provided for tax liabilities relating to deferred tax. If deferred tax assets exist, their clearance is not usually definite in the foreseeable future. Accordingly, such assets are not recorded.

k. Zakat due on shareholders

The bank remits the zakat due on the shareholders to the relevant governmental agency which decides on the allocation of the zakat

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, CBY certificates of deposit, and loans to customers. Financial liabilities include customers' deposits, and due to banks. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

Note (3) to the financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

(b) Fair value of financial instruments

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

(c) Forward contracts

The bank does not engage into forward contracts to face its obligations in foreign currencies, nor does it engage into foreign exchange contracts to cover the risks of its future liabilities in foreign currencies.

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 financial instruments. The bank performs a number of procedures to limit the effect of such risk to the minimal level as follows:

- Correlating interest rates on borrowing with interest rates on lending.
- Considering the discount rates for different currencies when determining interest rates.
- Controlling the matching of maturity dates of financial assets and liabilities.

Notes (26) and (27) to the financial statements state the maturity dates of the bank's financial assets and liabilities and their related average interest rates used by the bank during the year respectively.

(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 CBY circular No. 10 of 1997 regarding to the credit risk exposure, the bank adheres to certain minimum standards in order to properly manage its credit risk. The following are examples of these procedures:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result from financial problems facing customers or banks.
- Following up and making periodical reviews of customers and banks in order to evaluate their financial positions, credit ratings and the required provision for non-performing loans.

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

- Distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.

Note (28) to the financial statements indicates the sectorial distribution of assets, liabilities and contingent liabilities and commitments.

(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. In order to minimize the exposure to exchange rate risk, the bank is trying to maintain a balanced foreign currencies positions in compliance with the Central Bank of Yemen instructions and the requirements of CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the bank's capital and reserves, and that the aggregate open position for all foreign currencies should not exceed 25% of the bank's capital and reserves.

Note (29) to the financial statements indicate the significant foreign currencies' positions at the balance sheet date.

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

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Cash on hand	488,109	349,124
Mandatory reserve at CBY	1,348,768	1,219,782
Purchased cheques	-	16,053
	<u>1,836,877</u>	<u>1,584,959</u>

The reserve balances with Central Bank of Yemen represent the minimum reserve requirements against customers' accounts in Yemeni Rial and foreign currencies. These funds are not available for the Bank's daily business.

6. DUE FROM BANKS

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
<u>Central Bank of Yemen</u>		
Current accounts	<u>586,184</u>	<u>406,796</u>
<u>Local banks</u>	<u>7</u>	<u>146</u>
<u>Foreign banks</u>		
Current accounts	272,839	179,469
Time deposits	681,661	1,521,890
Margins	<u>7,994</u>	<u>25,873</u>
	<u>962,494</u>	<u>1,727,232</u>
	<u>1,548,685</u>	<u>2,134,174</u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

7. TREASURY BILLS

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Treasury bills due within 360 days	486,632	-
Treasury bills due within 90 days	<u>2,001,590</u>	<u>2,347,927</u>
	2,488,222	2,347,927
Unearned discount	(40,943)	(30,072)
	<u>2,447,279</u>	<u>2,317,855</u>

The above treasury bills include two bills with total face value of YR / 599 / million which have been deposited in a local bank as a financial guarantee against issuing letters of credit in favor of the Bank's customers.

8. CBY CERTIFICATES OF DEPOSIT

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
CBY certificates of deposit due within 3 months	<u>200,000</u>	<u>200,000</u>

9. LOANS AND ADVANCES (NET)

	<u>Note</u>	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Discounted commercial papers		25,864	28,935
Overdrafts		4,933,253	3,122,090
Customers' loans		776,473	1,588,623
LC's loans		56,192	27,113
Other overdraft		40,237	40,238
Staff loans		<u>17,501</u>	<u>9,779</u>
		5,849,520	4,816,778
Less: Loans provision	10	(697,408)	(301,658)
Less: Uncollected interest		<u>(117,653)</u>	<u>(44,394)</u>
		<u>5,034,459</u>	<u>4,470,726</u>

Non-performing loans which are not provided for amounted to YR / 994 / million at December 31, 2004 (YR / 299 / million at December 31, 2003).

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

10. LOANS AND ADVANCES PROVISION (PERFORMING/NON-PERFORMING)

	2004		
	Specific YR'000	General YR'000	Total YR'000
Balance as at January 1, 2004	298,284	3,374	301,658
Transfer from general to specific	3,374	(3,374)	-
Provided during the year	<u>395,750</u>	<u>-</u>	<u>395,750</u>
Balance as at December 31, 2004	<u><u>697,408</u></u>	<u><u>-</u></u>	<u><u>697,408</u></u>

	2003		
	Specific YR'000	General YR'000	Total YR'000
Balance as at January 1, 2003	109,735	3,374	113,109
Provided during the year	<u>188,549</u>	<u>-</u>	<u>188,549</u>
Balance as at December 31, 2003	<u><u>298,284</u></u>	<u><u>3,374</u></u>	<u><u>301,658</u></u>

11. AVAILABLE FOR SALE INVESTMENTS

	2004 YR'000	2003 YR'000
Al-Amal Bank for Micro Lending – Yemen	3,000	-
Al-Watania Establishment for Micro Lending – Yemen	<u>3,000</u>	<u>-</u>
	<u><u>6,000</u></u>	<u><u>-</u></u>

As these companies are under incorporation and have not started its activities yet, its fair values approximate its book values.

12. DEBIT BALANCES AND OTHER ASSETS (NET)

	2004 YR'000	2003 YR'000
Down payments to purchase property & equipment	-	21,834
Stationery inventory	7,455	5,665
Interest receivable	9,337	15,566
Prepaid expenses	27,794	15,750
Establishment expenses of Aden Branch	-	46,684
Other debit balances	<u>25,729</u>	<u>5,674</u>
	70,315	111,173
Less: Debit balances provision	<u>(3,784)</u>	<u>(3,784)</u>
	<u><u>66,531</u></u>	<u><u>107,389</u></u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

13. PROPERTY AND EQUIPMENT (NET)

	Cost as at 1/1/04 YR'000	Additions YR'000	Cost as at 31/12/04 YR'000	Accumulated Depreciation as at 1/1/04 YR'000	Depreciation for the year YR'000	Accumulated depreciation as at 31/12/04 YR'000	Net at book Value as at 31/12/04 YR'000	Net at book Value as at 31/12/03 YR'000
Motor vehicles	28,899	10,073	38,972	14,250	6,620	20,870	18,102	14,649
Furniture & fixtures	80,654	65,971	146,625	32,601	12,955	45,556	101,069	48,053
Computer equipment	69,732	87,047	156,779	33,989	20,042	54,031	102,748	35,743
Leasehold improvements	<u>6,726</u>	<u>22,823</u>	<u>29,549</u>	<u>1,794</u>	<u>1,494</u>	<u>3,288</u>	<u>26,261</u>	<u>4,932</u>
Total	<u>186,011</u>	<u>185,914</u>	<u>371,925</u>	<u>82,634</u>	<u>41,111</u>	<u>123,745</u>	<u>248,180</u>	<u>103,377</u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

14. DUE TO BANKS

	2004	2003
	<u>YR'000</u>	<u>YR'000</u>
Current accounts	244,592	93,631
Time deposits	<u>55,752</u>	<u>774,060</u>
	<u>300,344</u>	<u>867,691</u>

15. CUSTOMERS' DEPOSITS

	2004	2003
	<u>YR'000</u>	<u>YR'000</u>
Current accounts	2,913,662	2,430,048
Time deposits	3,525,813	4,327,746
Saving accounts	679,652	361,076
Customers' margins	2,615,868	1,536,998
Other deposits	<u>19,541</u>	<u>51,058</u>
	<u>9,754,536</u>	<u>8,706,926</u>

16. CREDIT BALANCES AND OTHER LIABILITIES

	2004	2003
	<u>YR'000</u>	<u>YR'000</u>
Interest payable	54,318	89,134
Accrued expenses	2,112	1,650
Deferred income	12,861	2,019
Sundry credit balances	<u>13,906</u>	<u>4,298</u>
	<u>83,197</u>	<u>97,101</u>

17. OTHER PROVISIONS

Description	2004		
	Balance at	Provided	Balance at
<u>Description</u>	<u>1/1/04</u>	<u>during</u>	<u>31/12/04</u>
	<u>YR'000</u>	<u>the year</u>	<u>YR'000</u>
	<u>YR'000</u>	<u>YR'000</u>	<u>YR'000</u>
Provision for contingent liabilities	<u>74,674</u>	<u>3,172</u>	<u>77,846</u>
	<u>74,674</u>	<u>3,172</u>	<u>77,846</u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Description</u>	<u>2003</u>		
	<u>Balance at 1/1/03 YR'000</u>	<u>Provided during the year YR'000</u>	<u>Balance at 31/12/03 YR'000</u>
Provision for contingent liabilities	<u>28,971</u>	<u>45,703</u>	<u>74,674</u>
	<u>28,971</u>	<u>45,703</u>	<u>74,674</u>

18. SHAREHOLDERS' EQUITY

a. Issued and paid-up capital

The issued and paid-up capital is YR 1.25 billion divided into YR 1.25 million shares of par value YR 1,000 each.

b. Reserves

According to the provisions of the Law, 15% of net profit for the year is transferred to statutory reserve till it equals two times paid-up capital.

19. CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2004 YR'000</u>	<u>2003 YR'000</u>
Letters of credit	3,124,739	2,522,210
Letters of guarantee	<u>7,275,734</u>	<u>6,482,213</u>
	10,400,473	9,004,423
Less: margins and deposits held	<u>(2,615,868)</u>	<u>(1,536,998)</u>
	<u>7,784,605</u>	<u>7,467,425</u>

20. INTEREST ON LOANS AND DUE FROM BANKS

	<u>2004 YR'000</u>	<u>2003 YR'000</u>
Interest earned on loans to customers	<u>537,491</u>	<u>317,380</u>
<u>Interest on due from banks</u>		
Interest on time deposits	21,113	5,517
Interest earned on balances with CBY	<u>66,608</u>	<u>29,343</u>
	<u>87,721</u>	<u>34,860</u>
	<u>625,212</u>	<u>352,240</u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

21. COST OF DEPOSITS AND BORROWINGS

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
<u>Interest on customers' deposits</u>		
Interest on time deposits	416,289	220,295
Interest on saving accounts	44,559	17,430
Interest on other deposits	-	12,962
Interest on current accounts	<u>2,644</u>	<u>1,363</u>
	<u>463,492</u>	<u>252,050</u>
 <u>Interest on balances due to local banks</u>	 <u>11,006</u>	 <u>40,961</u>
	<u>474,498</u>	<u>293,011</u>

22. COMMISSIONS REVENUES AND BANKING SERVICE CHARGES

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Commissions on letters of credit	42,565	44,016
Commissions on letters of guarantee	91,922	72,877
Commission fees on other banking services	<u>29,800</u>	<u>23,762</u>
	<u>164,287</u>	<u>140,655</u>

23. GAIN OF FOREIGN CURRENCY TRANSACTIONS

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Gain from dealing in foreign currencies	4,791	7,028
Gain from translation of foreign currencies	<u>31,643</u>	<u>28,002</u>
	<u>36,434</u>	<u>35,030</u>

24. PROVISIONS PROVIDED DURING THE YEAR

	<u>Note</u>	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Provision for doubtful debts	10	395,750	188,549
Debit balances provision		-	3,785
Provision for contingent liabilities and commitments	17	<u>3,172</u>	<u>45,703</u>
		<u>398,922</u>	<u>238,037</u>

THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004

25. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	<u>2004</u> <u>YR'000</u>	<u>2003</u> <u>YR'000</u>
Wages and salaries	105,153	83,335
Attendance expenses for members of General Assembly Meeting	3,050	-
Board of Directors remuneration	14,986	15,761
Depreciation	41,111	34,080
Rent	25,861	9,763
Water and electricity	3,844	2,950
Insurance	3,690	2,245
Advertisement and publication	16,263	21,317
Professional and consultancy fees	6,056	4,744
Bad debts	9,169	-
Receptions	3,278	2,087
Subscriptions	303	51
Communications	15,746	13,181
Transportation / Traveling	15,660	4,854
Stationery and printing supplies	8,591	6,664
Donations	783	-
Maintenance	8,115	8,716
Security expenses	3,634	2,908
Zakat	36,880	42,401
Commissions	3,284	4,800
Others	<u>19,515</u>	<u>10,735</u>
	<u>344,972</u>	<u>270,592</u>

26. MATURITIES OF ASSETS AND LIABILITIES

	<u>Due within 3</u> <u>months</u> <u>YR million</u>	<u>Due within 6</u> <u>months</u> <u>YR million</u>	<u>Due within 9</u> <u>months</u> <u>YR million</u>	<u>Due within 12</u> <u>months</u> <u>YR million</u>	<u>Total</u> <u>YR million</u>
a) Assets					
Due from banks	1,549	-	-	-	1,549
Treasury bills	1,987	319	141	-	2,447
CBY certificates of deposit	200	-	-	-	200
Loans and advances	<u>5,014</u>	<u>-</u>	<u>-</u>	<u>835</u>	<u>5,849</u>
	<u>8,750</u>	<u>319</u>	<u>141</u>	<u>835</u>	<u>10,045</u>
b) Liabilities					
Due to banks	300	-	-	-	300
Current accounts	2,914	-	-	-	2,914
Customers' deposits	2,983	53	-	490	3,526
Saving accounts	680	-	-	-	680
Other deposits & margins	<u>2,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,635</u>
	<u>9,512</u>	<u>53</u>	<u>-</u>	<u>490</u>	<u>10,055</u>

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

27. AVERAGE INTEREST RATES APPLIED DURING THE YEAR

Average interest rates on assets and liabilities during the year were as follows:

<u>Description</u>	<u>Yemeni Rial %</u>	<u>US Dollar %</u>
Assets		
Loans to customers	20	8
Due from banks	-	0.38
Time deposits	-	1.90
Treasury bills	13.9	-
CBY certificates of deposit	14	-
Reserve at CBY	13	-
Liabilities		
Time deposits	13	2
Due to banks	15	2.2

28. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS.

	<u>Financing YR Millions</u>	<u>Agricultural YR Millions</u>	<u>Trade YR Millions</u>	<u>Manufac- turing YR Millions</u>	<u>Construction YR Millions</u>	<u>Individuals & others YR Millions</u>	<u>Total YR Millions</u>
Assets							
Due from banks	1,549	-	-	-	-	-	1,549
Treasury bills	2,447	-	-	-	-	-	2,447
CBY certificates of deposits	200	-	-	-	-	-	200
Loans	-	1	2,868	249	618	2,113	5,849
Liabilities							
Due to banks	300	-	-	-	-	-	300
Current accounts	-	-	1,515	58	175	1,166	2,914
Time deposits	-	2	2,009	4	101	1,410	3,526
Saving accounts	-	-	116	-	-	564	680
Margins & other deposits	-	-	21	5	132	2,477	2,635
Contingent liabilities							
Letters of credit	-	-	31	-	-	3,094	3,125
Letters of guarantee	-	-	12	3	-	7,260	7,275

**THE YEMEN GULF BANK
SANA'A, REPUBLIC OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2004**

29. SIGNIFICANT CURRENCIES' POSITIONS

To comply with CBY circular No. 6 of 1998, the bank 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 respectively. The following schedule shows the bank's significant foreign currency positions at the balance sheet date:

	<u>2004</u>		<u>2003</u>	
	<u>Surplus (deficit) YR'000</u>	<u>% of capital & reserves</u>	<u>Surplus (deficit) YR'000</u>	<u>% of capital & reserves</u>
US Dollar	1,134,501	96.8	392,189	31
Saudi Rial	18,001	1.5	-	-
Euro	113,463	9.7	(37,199)	(3)
Emirates Dirham	(12,899)	(1.1)	-	-
Sterling Pound	<u>39,780</u>	<u>3.4</u>	<u>17,442</u>	<u>1</u>
Surplus	<u>1,305,745</u>	<u>111.4</u>	<u>409,631</u>	<u>32</u>
Deficit	<u>(12,899)</u>	<u>(1.1)</u>	<u>(37,199)</u>	<u>(3)</u>

30. TRANSACTION WITH RELATED PARTIES

The bank's activity nature requires to deal with some companies owned by shareholders and members of the board of directors. These transactions represent granting loans and facilities, issuing letters of guarantee, letters of credit and other services among the bank's ordinary activities. The following are the balances of these transactions at the balance sheet date:

	<u>2004 YR Thousand</u>	<u>2003 YR Thousand</u>
Loans and advances	1,895,453	992,409
Customers' deposits	449,451	75,448
Letters of credit	1,532,952	497,458
Letters of guarantee	1,173,267	1,320,766

31. TAXATION

No tax audit was carried out by the Tax Authority for both corporate and salary tax for the years 2001, 2002 and 2003.

32. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with the financial statements classification for current year.