

English Translation of the Original Arabic Text

**NATIONAL BANK OF YEMEN
ADEN, REPUBLIC OF YEMEN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

AND INDEPENDENT AUDITOR'S REPORT

NATIONAL BANK OF YEMEN
ADEN, REPUBLIC OF YEMEN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

**TO H.E. THE MINISTER OF FINANCE
OF NATIONAL BANK OF YEMEN**
Aden, Republic of Yemen

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Yemen (the Bank), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Bank of Yemen as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen.

Other Matter

The financial statements of the Bank for the year ended December 31, 2011, were audited by another auditor who expressed an unqualified audit opinion on those statements on May 2, 2012.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books. We are not aware of any violations of Yemen Commercial Companies Law No. 22 of 1997 and its amendments, the Public Companies, Establishment and Corporation Law No. 35 of 1991 and Banking Law No. 38 of 1998 having occurred during the year which might have had a material effect on the financial statements as at December 31, 2012.


M. Zohdi Mejanni
Associated Accountant



Sana'a, June 9, 2013


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STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

ASSETS	Note	2012 YR 000s	2011 YR 000s
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	7	9,508,477	7,811,174
Due from banks	8	27,896,311	23,068,091
Treasury bills – held to maturity	9	76,835,274	63,844,593
Loans and advances (net)	10	8,853,256	6,252,715
Available-for-sale investments	13	306,577	333,756
Debit balances and other assets (net)	14	1,037,274	439,720
Property and equipment (net)	16	<u>2,695,688</u>	<u>2,713,339</u>
TOTAL ASSETS		<u>127,132,857</u>	<u>104,463,388</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	17	431,196	423,360
Customers' deposits	18	106,301,560	86,274,925
Credit balances and other liabilities	19	3,261,728	3,398,930
Other provisions	20	<u>325,671</u>	<u>139,434</u>
Total Liabilities		<u>110,320,155</u>	<u>90,236,649</u>
EQUITY			
Paid-up capital	21-a	10,000,000	10,000,000
Legal reserve	21-b	2,890,480	2,499,084
General reserve	21-c	1,405,858	1,014,462
Revaluation of property surplus reserve	21-d	639,762	639,762
Fair value reserve	21-e	50,090	73,431
Proposed cash dividends		1,826,512	-
Retained earnings		<u>-</u>	<u>-</u>
Total Equity		<u>16,812,702</u>	<u>14,226,739</u>
TOTAL LIABILITIES AND EQUITY		<u>127,132,857</u>	<u>104,463,388</u>
Contingent liabilities and commitments (net)	22	<u>24,436,706</u>	<u>17,308,405</u>

The attached notes on pages 8 to 47 are an integral part of these financial statements.
Independent auditor's report is set out on pages 1 and 2.


Mohamed Abdulla Muqbil Alamery
Chairman


Esam Ahmed Alawi Alsaqaf
General Manager




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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Interest income	23	16,519,869	14,698,097
Less: interest expenses	24	(11,152,734)	(9,447,007)
Net interest income		5,367,135	5,251,090
Commissions' revenues and banking service charges	25	624,569	535,955
Less: Commissions expenses and banking service charges		(13,593)	(21,025)
Income from available for sale investments		39,563	32,373
Gain on foreign currency transactions	26	17,884	88,575
Other income	27	<u>1,501,269</u>	<u>1,403,161</u>
Net operating income		7,536,827	7,290,129
Less: Provisions	28	(778,051)	(2,119,576)
Less: General and administrative expenses, and depreciation	29	(3,545,685)	(2,415,560)
NET PROFIT OF THE YEAR BEFORE INCOME TAX		3,213,091	2,754,993
Less: income tax for the year	19.a	(603,787)	(550,999)
NET PROFIT FOR THE YEAR AFTER TAX		<u>2,609,304</u>	<u>2,203,994</u>
Other comprehensive income			
Net change in fair value		(25,104)	10,779
Gain on revaluation of available for sale investments (during the year)		3,761	-
Revaluation differences of available for sale investments (reversed)		(1,998)	-
Total other comprehensive income		(23,341)	10,779
Total comprehensive income for the year		<u>2,585,963</u>	<u>2,214,773</u>
Earnings per share	30	<u>YR 261</u>	<u>YR 220</u>

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Mohamed Abdulla Muqbil Alamery
Chairman




Esam Ahmed Alawi Alsaqaf
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Paid-up Capital YR 000s	Legal Reserve YR 000s	General Reserve YR 000s	Revaluation of Property Surplus Reserve YR 000s	Fair Value Reserve YR 000s	Proposed Cash Dividends YR 000s	Retained Earnings YR 000s	Total YR 000s
Year 2012								
Balance as at January 1, 2012	10,000,000	2,499,084	1,014,462	639,762	73,431	-	-	14,266,739
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	2,609,304	2,609,304
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	(23,341)	-	-	(23,341)
Total comprehensive income for the year								
	-	-	-	-	(23,341)	-	2,609,304	2,585,963
Transactions with owners, recorded directly in equity								
Transfer to legal reserve (proposed)	-	391,396	-	-	-	-	(391,396)	-
Transfer to general reserve (proposed)	-	-	391,396	-	-	-	(391,396)	-
Government share in profit (proposed)	-	-	-	-	-	1,696,048	(1,696,048)	-
Employees' share in profit (proposed)	-	-	-	-	-	130,464	(130,464)	-
Total transactions with owners								
	-	391,396	391,396	-	-	1,826,512	(2,609,304)	-
Balance as at December 31, 2012	10,000,000	2,890,480	1,405,858	639,762	50,090	1,826,512	-	16,812,702

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ADEN, REPUBLIC OF YEMEN

STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

	Paid-up Capital YR 000s	Legal Reserve YR 000s	General Reserve YR 000s	Revaluation of Property Surplus Reserve YR 000s	Fair Value Reserve YR 000s	Proposed Cash Dividends YR 000s	Retained Earnings YR 000s	Total YR 000s
Year 2011								
Balance as at January 1, 2011	10,000,000	2,168,485	683,863	639,762	62,652	-	-	13,554,762
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	2,203,994	2,203,994
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	10,779	-	-	10,799
Total comprehensive income for the year	-	-	-	-	10,779	-	2,203,994	2,214,773
Transactions with owners, recorded directly in equity								
Transfer to legal reserve	-	330,599	-	-	-	-	(330,599)	-
Transfer to general reserve	-	-	330,599	-	-	-	(330,599)	-
Government share in profit	-	-	-	-	-	-	(1,432,596)	(1,432,596)
Employees' share in profit	-	-	-	-	-	-	(110,200)	(110,200)
Total transactions with owners	-	330,599	330,599	-	-	-	(2,203,994)	(1,542,796)
Balance as at December 31, 2011	10,000,000	2,499,084	1,014,462	639,762	73,431	-	-	14,226,739

The attached notes on pages 8 to 47 are an integral part of these financial statements.
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Mohamed Abdulla Muqbil Alamery
Chairman




Esam Ahmed Alawi Alsaqaf
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 YR 000s	2011 YR 000s
<u>Cash flows from operating activities</u>			
Net profit for the year before income tax		3,213,091	2,754,993
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of property and equipment	16	142,057	133,389
Provisions provided during the year	28	778,051	2,119,576
Retranslation differences of provisions in foreign currencies		8,530	(3,037)
Retranslation difference of available-for-sale investments (reversed)		(1,998)	-
Provisions reversed	27	(1,441,910)	(1,317,566)
Reversal of impairment of available-for-sale investments	27	(2,000)	-
Provisions used during the year		(430,749)	(24,299)
Net loss on disposals of property and equipment		-	4,755
Loss on retranslation differences (unrealized)		1,835	7,013
Operating profit before changes in assets and liabilities used in operating activities		2,266,907	3,674,824
<u>Net (increase) decrease in assets</u>			
Due from banks maturing after three months		(2,148,998)	1,757,476
Reserve balances with the Central Bank of Yemen		(1,390,498)	3,591,259
Treasury bills maturity after three months		(8,785,463)	(10,582,011)
Loans and advances		(1,708,779)	1,067,610
Debit balances and other assets		(585,598)	179,310
<u>Net increase (decrease) in liabilities</u>			
Due to banks		7,836	131,823
Customers' deposits		19,837,099	(5,553,564)
Credit balances and other liabilities		(213,853)	690,345
Income tax paid		(527,136)	(418,969)
Net cash from (used in) operating activities		6,751,517	(5,461,897)
<u>Cash flows from investing activities</u>			
Cash payments for acquisition of property and equipment		(124,406)	(126,765)
Decrease (increase) in available-for-sale investments		388,538	(10,000)
Proceeds from investments		5,372	-
Net cash from (used in) investing activities		269,504	(136,765)
<u>Cash flows from financing activities</u>			
Government share (cash dividends)		-	(1,542,796)
Net cash (used in) financing activities		-	(1,542,796)
Net change in cash and cash equivalents		7,021,021	(7,141,458)
Cash and cash equivalents, beginning of the year		60,951,774	68,094,478
Effect of exchange rate fluctuation on cash held		133,811	(1,246)
Cash and cash equivalents, end of the year		68,106,606	60,951,774
<u>Cash and cash equivalents, end of the year consist of:</u>			
Cash on hand and reserve balances with CBY	7	9,508,477	7,811,174
Due from banks	8	27,896,311	23,068,091
Treasury bills – held to maturity (net)	9	76,835,274	63,844,593
		114,240,062	94,723,858
Less: Reserve balances with CBY		(7,841,083)	(6,438,550)
Less: Due from banks due after three months		(4,344,056)	(2,170,680)
Less: Treasury bills due after 3 months (net)		(33,948,317)	(25,162,854)
		68,106,606	60,951,774

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Mohamed Abdulla Muqbil Alamery
Chairman




Esam Ahmed Alawi Alsaqaf
General Manager

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. BACKGROUND INFORMATION

- The National Bank of Yemen (the Bank) was incorporated in Aden in 1969. It is wholly owned by the Government of Yemen and is registered under Commercial Registration No. 1748.
- The Bank undertakes all banking activities and carries out banking retail activity in the Republic of Yemen through its head office in Aden and 27 branches spread all over the Governorates of the Republic of Yemen.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and instructions issued by the Central Bank of Yemen (CBY).
- In deviation from International Financial Reporting Standards, and to apply the provisions of local laws and regulations issued by CBY, the followings are treated as follows:
 - a. The adoption of minimum fixed percentages for loan provisions in accordance with Central Bank of Yemen circular No. 6 of 1996 and No. 5 of 1998,
 - b. The recording of provision for general risks calculated on performing loans under “loans provision” and not under equity,
 - c. The recording of provision for contingent liabilities under “other provisions” and not under equity.

The effect of these deviations is immaterial on the financial statements of the Bank as at December 31, 2012.

- The financial statements were approved by the Board of Directors on June 9, 2013.

2.2 Basis of measurements

The financial statements have been prepared on the historical cost basis except for available-for-sale investment and also land and buildings which are stated in property and equipment and are measured at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Yemeni Rials, which is the functional currency of the Bank, and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

2.4 *Significant accounting judgments and estimates*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 5, 11, 13, 16 and 20.

The judgments, estimates and assumptions applied by the Bank are presented in these financial statements as follows:

a. *Provision for impairment of assets*

The Bank exercises judgment in the estimation of provision for impairment of assets. The methodology for the estimation of the provision is provided in the impairment of financial assets and non-financial assets (if any) which is shown in the significant accounting policies below.

b. *Provision for impairment of available-for-sale investments*

The Bank exercises judgment to consider impairment on available-for-sale investments. This includes determination of significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers the impairment is appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

c. *Useful lives of property and equipment*

The Bank uses estimates of useful lives of property and equipment for depreciating these assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 *Foreign currencies transaction*

- The Bank maintains its book of account in Yemeni Rial, which the Bank's functional currency. Transactions in other currencies are translated to the respective functional currency 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 at that date. Gains or losses resulting from translation are taken to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation of available-for-sale investments are recognized in other comprehensive income.

- The Bank does not deal in forward contracts to cover its needs for foreign currencies or foreign exchange contracts to cover the risks of settling its future liabilities in foreign currencies.

3.2 Financial assets and financial liabilities

a. Recognition and Initial Measurement

The Bank initially recognizes loan and advances to customers, due from or to banks, customers' deposits and other borrowings on the date at which they are originated. Also, other financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument with other party.

b. Classification

- **Financial assets**

At inception financial assets are classified in one of the following categories:

1. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

2. *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Treasury bills held to maturity are considered part of these investments and are recorded at face value and the balance of unearned discount is recorded under credit balances and other liabilities. Treasury bills are presented in the statement of financial position net of the balance of unearned discount outstanding at the financial statements date according to the instructions of the Central Bank of Yemen.

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

3. *Available-for-sale investments*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities are carried at cost less impairment, and all other available-for-sale investments are carried at fair value.

Interest income is recognized in the statement of comprehensive income using the effective interest method. Dividend income is recognized in the statement of comprehensive income when the bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in the statement of comprehensive income.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive income as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loan and receivables and if the Bank had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

- **Financial liabilities**

The Bank has classified and measured its financial liabilities at amortized cost.

c. **Derecognition**

- Financial assets are derecognized when the contractual rights related to the financial instruments have expired which ordinarily coincide with the sale or transfer of the contractual right to receive cash flows related to the asset to an independent party.

- Financial liabilities are derecognized when they extinguished, that is when the contractual obligation is discharged, canceled or expired.

d. **Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

e. Measurement principles

Financial assets are measured by amortized cost or fair value

- Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

- Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Bank measures the fair value of listed investments at the market closing price for the investment. For unlisted investments, the Bank recognizes any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between desirous and informed parties who do not have any reactions which might affect the price.

f. Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has a negative impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of the Bank's borrowers or issuers, or economic conditions that correlate with defaults.

The Bank consider evidence of impairment loss for loans and advances to customers and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances to customers and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances to customers and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

Impairment losses on assets carried at amortized costs are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in statement of comprehensive income and reflected in an allowance account against loans and advances to customers.

For listed investments, a decline in the market value by 20% from cost or more, or for a continuous period of 9 months or more, are considered to be indicators of impairment.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of an impaired available-for-sale investment securities is recorded in fair value reserves.

3.3 Revenue recognition

- Interest income and expenses for all interest bearing financial instruments are recognized in the statement of comprehensive income using the effective interest rate method except for interest on non-performing credit facilities, in order to comply with the requirements of CBY circular No. 6 of 1996, the Bank does not accrue interest on non-performing loans and advances. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

The effective interest rate is a method of calculating the amortized costs of financial assets and financial liabilities and of allocating the interest income and expenses over the relevant period.

- Income from held to maturity investment securities is recognized based on the effective interest rate method.
- Dividends income is recognized when the right to receive income is established.
- In accordance with CBY instructions, the reversed provisions, no longer required provisions, are recorded in the statement of comprehensive income under "other operating income".

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

- Commissions' revenues and bank service charges are recognized when the related services are performed.

3.4 Provision of loans, advances and contingent liabilities

In order to comply with CBY circular No. 6 of 1996 and No. 5 of 1998 relating to classification of assets and liabilities, provision is provided for specific loans, advances and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, advances and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. The provision is determined based on periodical comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is provided in accordance with the following minimum rates:

<u>Performing loans and advances and contingent liabilities, including watchlist accounts</u>	1%
<u>Non-performing loans and advances and contingent liabilities:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans and advances 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 and advances to customers and banks are presented on the statement of financial position net of provision and interest in suspense.

3.5 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off financial position, net of any margins held from customers, under "contingent liabilities and commitments" as they do not represent actual assets or liabilities at financial statements date.

3.6 Statement of cash flows

The Bank uses the indirect method to present cash flows, whereby net profit or loss is adjusted with net cash flows from (used in) operating, investing and financing activities.

3.7 Cash and cash equivalent

For the purpose of preparing the statement of cash flows, cash and cash equivalent consist of cash balances, due from banks other than reserve balances, and treasury bills-held to maturity which are due within three months from the issuance date.

3.8 Property, equipment and depreciation

- a. Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any, (land and buildings are measured at fair value).

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Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items, (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognized net within "other income/expenses" in the statement of comprehensive income. When revalued assets are sold, any related amount included in the revaluation surplus reserve is transferred to retained earnings.

b. Subsequent costs

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive income as incurred.

c. Depreciation

Depreciation is based on the cost of an asset less its residual value, if any. Significant components of individual assets are assessed and if a component has useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation for property and equipment, except land, is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Buildings and constructions	50 years
Improvement to leasehold property	years of lease or estimated useful life whichever is less
Furniture, fixtures and vaults	10 - 50 years
Motor vehicles	5 years
Computer equipment	5 years

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

On December 31, 1999, the Bank revalued the property and equipment by an independent professional. The surplus resulting from the revalued had been recorded under equity in the revaluation of property surplus reserve (Note no. 21.d).

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3.9 Impairment of Non-Financial Assets

The Bank reviews the carrying amounts of the assets, according to their materiality, at each financial statements date to determine whether there is any indication of impairment, if any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

The Bank's corporate assets that do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rate basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.10 Other provisions

A provision is provided for present legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation based on the study prepared by the Bank in order to estimate the amount of the obligation.

3.11 Lease contracts

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All the leases entered into by the Bank are operating leases. Rentals payable under these leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

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3.12 Taxation

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

Due to the characteristics of the tax accounting in Yemen, application of International Accounting Standard on Income Taxes does not usually result in deferred tax liabilities. In the case that deferred tax assets have resulted from the application of this standard, these assets are not booked unless there is assurance that these assets will be realized in the near future.

3.13 Zakat due on equity

The Bank remits the Zakat due on equity to the relevant governmental authority which decides on the allocation of the Zakat.

3.14 End of service benefits

- All the employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (25) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Bank's contribution is charged to the statement of comprehensive income.
- The provisions of Social Insurance Law are applied to all employees of the Bank concerning the end of service benefits.

3.15 Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of statement of financial position are dealt as a separate disclosure.

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

- 15% to legal reserve;
- 15% to general reserve;
- 65% to the government for its share of profit;
- 2% to employee's incentive; and
- 3% to employee's social fund

3.16 Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

3.17 Comparatives

Except when standard or an interpretation permits or requires otherwise are reported or disclosed with comparative information.

NOTES TO THE FINANCIAL STATEMENTS (continued)
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4. APPLICABLE NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

For the avoidance of doubt, the following applicable new standards, amendments to standards and interpretations, which were issued by IASB before December 31, 2012 and are not yet in effect, have not been early adopted.

- IAS 1 (amendment) 'Presentation of items of other comprehensive income' The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.
- IAS 28 (2011) "Investment in Associates and joint ventures" has been amended to include IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively.

- IFRS 9, Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortised cost and fair value.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015.

- IFRS 10, Consolidated Financial Statements.
- IFRS 11, Joint Arrangements.
- IFRS 12, Disclosure of Interest in Other Entities.
- IFRS 13, Fair Value Measurement.

The above standards are effective for annual periods beginning on or after 1 January 2013.

The Bank is currently assessing the impact of these standards on future periods.

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 FOR THE YEAR ENDED DECEMBER 31, 2012

5. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

5.1 *Financial instruments*

- a. The Bank's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, due from banks, treasury bills – held to maturities, loans and advances to customers and other financial assets. Financial liabilities include customers' deposits, due to banks and other financial liabilities. 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.

- b. Fair value of financial instruments

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

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

The following table provides a comparison by class of the carrying amount and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial asset and non-financial liabilities.

	2012		2011	
	Carrying amount YR 000s	Fair Value YR 000s	Carrying amount YR 000s	Fair value YR 000s
Financial assets				
Cash on hand and reserve balances with CBY	9,508,477	9,508,477	7,811,174	7,811,174
Due from banks	27,896,311	27,896,311	23,068,091	23,068,091
Treasury bills – held to maturity	76,835,274	76,835,274	63,844,593	63,844,593
Loans and advances (net)	8,853,256	8,853,256	6,252,715	6,252,715
Available for sale investments	306,577	306,577	333,756	333,756
Financial liabilities				
Due to banks	431,196	431,196	423,360	423,360
Customers' deposits	106,301,560	106,301,560	86,274,925	86,274,925

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c. Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.

Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Fair values are based on inputs for assets that are not based on observable market data.

The fair value for available-for-sale investments comprise YR 306,577 thousand as at December 31, 2012 (as at December 31, 2011: YR 333,756 thousand) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

d. Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.

5.2 Risk management of financial instruments

- Risk management frame work

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

- Risk management structure

The Board of Director is ultimately responsible for identifying and controlling risks in addition to other parties which are responsible for risk management.

- Risk measurement

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks.

The Bank is exposed to credit risk, liquidity risk, market risk (which include interest rate risk and currency risk), operating risk and other risks.

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a. 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 applies some procedures in order to properly manage its credit risk. The following are examples of the procedures applied by the Bank:

- 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 periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans.
- Distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Cash on hand and reserve balances with CBY (excluding cash on hand)	7,841,083	6,438,550
Due from bank	27,896,311	23,068,091
Treasury bill - held to maturity	76,835,274	63,844,593
Loans and advances (net)	8,853,256	6,252,715
Available for sale investments	306,577	333,756
Debit balances and other assets (excluding prepaid expenses) (net)	<u>998,230</u>	<u>410,654</u>
	122,730,731	100,348,359
Contingent liabilities and commitments	<u>27,507,457</u>	<u>19,634,380</u>
Total credit risk exposure	<u>150,238,188</u>	<u>119,982,739</u>

The following analysis of the Bank financial assets and contingent liabilities by industry sector, before and after taking into account collateral held of other credit enhancements (risk concentration for maximum exposure to credit risk by industry sector) is as follows:

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	2012		2011	
	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s
Government	89,974,322	-	72,058,004	-
Finance	24,572,317	22,904,923	22,999,610	21,626,986
Industry	991,340	991,340	1,297,754	1,297,754
General trade	3,874,353	3,874,353	1,983,245	1,983,245
Contractors	195,607	195,607	265,030	265,030
Consumer	2,124,562	2,124,562	1,334,062	1,334,062
Others	998,230	998,230	410,654	410,654
	<u>122,730,731</u>	<u>31,089,015</u>	<u>100,348,359</u>	<u>26,917,731</u>
Contingent liabilities and commitments	<u>27,507,457</u>	<u>24,436,706</u>	<u>19,634,380</u>	<u>17,308,405</u>
	<u>150,238,188</u>	<u>55,525,721</u>	<u>119,982,739</u>	<u>44,226,136</u>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 33 to the financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 34 to the financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on geographical locations at the financial statements date.

b. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the Bank's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The Central Bank of Yemen circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity rate as at December 31, 2012 was 58% (as at December 31, 2011 was 67%).

The table below shows the maturity analysis for financial liabilities that shows the remaining contractual maturities:

	2012				
	Due within three months YR 000s	Due within three to six months YR 000s	Due within six months to one year YR 000s	Due over one year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	431,196	-	-	-	431,196
Customers' deposits	72,462,149	11,440,359	22,165,643	233,409	106,301,560
Credit balances and other liabilities	<u>2,103,367</u>	<u>790,650</u>	<u>367,711</u>	<u>-</u>	<u>3,261,728</u>
Total liabilities	<u>74,996,712</u>	<u>12,231,009</u>	<u>22,533,354</u>	<u>233,409</u>	<u>109,994,484</u>

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	2011				Total YR 000s
	Due within three months YR 000s	Due within three to six months YR 000s	Due within six months to one year YR 000s	Due over one year YR 000s	
<u>Liabilities</u>					
Due to banks	423,360	-	-	-	423,360
Customers' deposits	57,434,771	9,723,836	18,856,195	260,123	86,274,925
Credit balances and other liabilities	<u>2,909,964</u>	<u>162,486</u>	<u>326,480</u>	<u>-</u>	<u>3,398,930</u>
Total liabilities	<u>60,768,095</u>	<u>9,886,322</u>	<u>19,182,675</u>	<u>260,123</u>	<u>90,097,215</u>

In addition to the above, note no. 31 to the financial statements shows the maturity analysis of assets and liabilities and the net gap between them at the financial statements date.

c. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of some of the 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.
- Monitoring the matching of maturity dates of financial assets and liabilities.

The table below shows the Bank's exposure to interest rate risks:

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	2012					Average interest rates		
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	9,508,477	9,508,477	-	-
Due from banks	17,143,207	2,664,510	1,679,546	-	6,409,048	27,896,311	19.75	0.67
Treasury bills - held to maturity	42,886,957	12,800,580	21,147,737	-	-	76,835,274	20.26	-
Loans and advances (net)	1,587,070	149,549	3,379,502	3,737,135	-	8,853,256	26.38	7.63
Available for sale investments	-	-	-	-	306,577	306,577	-	-
Other assets (net)	69,421	10,090	6,360	-	3,647,091	3,732,962	-	-
Total Assets	61,686,655	15,624,729	26,213,145	3,737,135	19,871,193	127,132,857		
Liabilities and Equity								
Due to banks	-	-	-	-	431,196	431,196	-	-
Customers' deposits	48,664,965	9,507,373	18,692,428	-	29,436,794	106,301,560	19.50	0.25
Credit balances and other liabilities	957,039	186,971	367,603	-	1,750,115	3,261,728	-	-
Other provisions	-	-	-	-	325,671	325,671	-	-
Equity	-	-	-	-	16,812,702	16,812,702	-	-
Total Liabilities and Equity	49,622,004	9,694,344	19,060,031	-	48,756,478	127,132,857		
Interest rate sensitivity gap	12,064,651	5,930,385	7,153,114	3,737,135	(28,885,285)	-		
Cumulative interest rate sensitivity gap	12,064,651	17,995,036	25,148,150	28,885,285	-	-		

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	2011					Average interest rates		
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	7,811,174	7,811,174	-	-
Due from banks	15,009,650	1,582,090	588,590	-	5,887,761	23,068,091	-	1.25
Treasury bills - held to maturity	38,681,739	10,725,533	14,437,321	-	-	63,844,593	22.62	-
Loans and advances	1,839,434	140,210	1,840,048	2,433,023	-	6,252,715	23	7.75
Available for sale investments	-	-	-	-	333,756	333,756	-	-
Other assets (net)	4,342	466	148	-	3,148,103	3,153,059	-	-
Total Assets	<u>55,535,165</u>	<u>12,448,299</u>	<u>16,866,107</u>	<u>2,433,023</u>	<u>17,180,794</u>	<u>104,463,388</u>		
Liabilities and Equity								
Due to banks	-	-	-	-	423,360	423,360	-	-
Customers' deposits	38,847,708	8,156,507	16,388,679	-	22,882,031	86,274,925	20	0.25
Credit balances and other liabilities	773,887	162,486	326,480	-	2,136,077	3,398,930	-	-
Other provisions	-	-	-	-	139,434	139,434	-	-
Equity	-	-	-	-	14,226,739	14,226,739	-	-
Total Liabilities and Equity	<u>39,621,595</u>	<u>8,318,993</u>	<u>16,715,159</u>	<u>-</u>	<u>39,807,641</u>	<u>104,463,388</u>		
Interest rate sensitivity gap	15,913,570	4,129,306	150,948	2,433,023	(22,626,847)	-		
Cumulative interest rate sensitivity gap	<u>15,913,570</u>	<u>20,042,876</u>	<u>20,193,824</u>	<u>22,626,847</u>	<u>-</u>	<u>-</u>		

Note no. 32 to the financial statements shows the average interest rates on assets and liabilities applied during this year compared with last year.

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Interest rate sensitivity

The following table demonstrates the sensitivity to a possible and reasonable change in interest rates, with all other variables held constant. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities. The sensitivity of the equity is the net change in interest income after deducting the income tax effect.

December 31, 2012

<u>Currency</u>	<u>The effect of increase in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	17,981,989	359,640	287,712
US Dollars	5,868,999	117,380	93,904
Sterling Pound	332,004	6,640	5,312
Euro	307,734	6,155	4,924
Other Currencies	657,424	13,148	10,519

<u>Currency</u>	<u>The effect of decrease in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	17,981,989	(359,640)	(287,712)
US Dollars	5,868,999	(117,380)	(93,904)
Sterling Pound	332,004	(6,640)	(5,312)
Euro	307,734	(6,155)	(4,924)
Other Currencies	657,424	(13,148)	(10,519)

December 31, 2011

<u>Currency</u>	<u>The effect of increase in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	15,007,435	300,149	240,119
US Dollars	4,280,378	85,608	68,486
Sterling Pound	325,582	6,512	5,209
Euro	174,963	3,499	2,799
Other Currencies	405,466	8,109	6,487

<u>Currency</u>	<u>The effect of decrease in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	15,007,435	(300,149)	(240,119)
US Dollars	4,280,378	(85,608)	(68,486)
Sterling Pound	325,582	(6,512)	(5,209)
Euro	174,963	(3,499)	(2,799)
Other Currencies	405,466	(8,109)	(6,487)

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d. 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 position in compliance with CBY 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.

In order to comply with CBY circular No. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing rates on the dates of sale.

The table below shows the Bank's significant net exposures to foreign currencies:

	2012					
	US\$ Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies YR 000s	Total YR 000s
Assets	50,956,436	1,653,352	2,930,693	2,909,530	102,420	58,552,431
Liabilities and equity	(49,929,047)	(1,630,433)	(2,937,779)	(2,912,452)	68,805	(57,478,516)
Net currency position	<u>1,027,389</u>	<u>22,919</u>	<u>(7,086)</u>	<u>(2,922)</u>	<u>33,615</u>	<u>1,073,915</u>
	2011					
	US\$ Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies YR 000s	Total YR 000s
Assets	40,619,648	1,573,870	2,003,373	2,641,444	207,536	47,045,871
Liabilities and equity	(41,184,508)	(1,518,419)	(1,972,611)	(2,438,888)	(238,129)	(47,352,555)
Net currency position	<u>(564,860)</u>	<u>55,451</u>	<u>30,762</u>	<u>202,556</u>	<u>(30,593)</u>	<u>(306,684)</u>

Effect of change in fair value of currency

The table below indicates the effect of a reasonably possible movement of the currency rate against the Yemeni Riyal on the statement of comprehensive income and equity, with all other variables held constant:

Currency	Change in Currency Rate%	Effect on Statement of Comprehensive Income		Effect on equity	
		2012	2011	2012	2011
US\$	+2	20,547	11,297	16,438	9,038
Sterling Pound	+2	458	1,109	367	887
Euro	+3	212	922	170	738
Saudi Rial	+2	58	4,051	47	3,240
Other Currencies	+2	672	612	538	489
US\$	-2	(20,547)	(11,297)	(16,438)	(9,038)
Sterling Pound	-2	(458)	(1,109)	(367)	(887)
Euro	-3	(212)	(922)	(170)	(738)
Saudi Rial	-2	(58)	(4,051)	(47)	(3,240)
Other Currencies	-2	(672)	(612)	(538)	(489)

Note 35 to the financial statements indicates the significant foreign currencies' positions at the financial statements date compared with the last year.

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e. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process, infrastructure, personnel and other risks having an operational risk impact. The Bank seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

f. Other risks

Other risks to which the Bank is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

6. **CAPITAL MANAGEMENT**

The primary objectives of the Bank's capital management are to ensure that the Bank complies with capital requirements which issued by the Central Bank of Yemen (CBY), the rules and ratios established by the Basel committee on banking supervision and that the Bank maintains strong credit ratings and excellently by capital ratios. The capital adequacy are monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the CBY for supervisory purposes. The required information is filed with the CBY on a quarterly basis, in order to comply with the requirements of CBY circular no. (2) of 1997.

The CBY requires each bank in Yemen to maintain a minimum ratio of total capital to the risk-weighted assets at or above the internationally agreed minimum of 8%. In addition, the Bank is required to maintain a minimum ratio of total capital to the customer deposits at or above 5%.

The capital adequacy ratio calculated in accordance with the guidelines of the Central Bank of Yemen compares between the bank core and supplementary capital with risk weighted total assets and liabilities at the financial statements date, is as follows:

	<u>2012</u> <u>YR Million</u>	<u>2011</u> <u>YR Million</u>
Core capital	16,035	13,426
Supplementary capital	<u>229</u>	<u>100</u>
Total capital	<u>16,264</u>	<u>13,526</u>
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	11,445	11,586
Contingent liabilities and commitments	<u>13,386</u>	<u>3,487</u>
Total risk weighted assets and contingent liabilities and commitments	<u>24,831</u>	<u>15,073</u>
Capital adequacy ratio	<u>65.5%</u>	<u>89.7%</u>

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The core capital consists of paid-up capital, reserves and retained earnings (after deducting investment in any local bank or financial company, if any) while supplementary capital consists of general provisions on performing debts with percentage 1% which should not exceed more than 2% of risk weighted assets.

7. CASH AND RESERVE BALANCES WITH CENTRAL BANK OF YEMEN

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Cash on hand – local currency	551,407	621,525
Cash on hand – foreign currency	<u>1,115,987</u>	<u>751,099</u>
	<u>1,667,394</u>	<u>1,372,624</u>
Mandatory reserve with CBY – local currency	5,238,311	4,077,984
Mandatory reserve with CBY – foreign currency	<u>2,602,772</u>	<u>2,360,566</u>
	<u>7,841,083</u>	<u>6,438,550</u>
	<u>9,508,477</u>	<u>7,811,174</u>

The mandatory reserve balances with CBY represent the minimum reserve requirements against customers' accounts in Yemeni Rial and foreign currencies (without interest). These funds are not available for the Bank's daily business.

8. DUE FROM BANKS

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Central Bank of Yemen		
Current accounts – local currency	2,029,207	1,418,700
Current accounts – foreign currency	<u>768,758</u>	<u>356,161</u>
	2,797,965	1,774,861
CBY certificates of deposits maturing within three months	<u>2,500,000</u>	-
	<u>5,297,965</u>	<u>1,774,861</u>
Local Banks		
Current accounts – local currency	10,615	1,829
Time deposits – foreign currency	<u>289,582</u>	<u>283,458</u>
	<u>300,197</u>	<u>285,287</u>
Foreign banks		
Current accounts – foreign currency	3,600,468	4,111,071
Time deposits – foreign currency	<u>18,697,681</u>	<u>16,896,872</u>
	<u>22,298,149</u>	<u>21,007,943</u>
	<u>27,896,311</u>	<u>23,068,091</u>

- Time deposits with local and foreign banks carry variable interest rates while current accounts with Central Bank of Yemen, local and foreign banks do not carry any interest.
- The certificates of deposits carry an interest rate between 19.58% and 19.75% during the year 2012. In accordance with the Central Bank of Yemen instructions, certificates of deposits which mature within a period not exceeding three months are considered as a part of cash and cash equivalents.

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9. TREASURY BILLS - HELD TO MATURITY

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Treasury bills maturing within 90 days	43,900,902	39,612,729
Treasury bills maturing within 180 days	13,485,360	11,400,350
Treasury bills maturing within 360 days	<u>22,668,740</u>	<u>15,349,210</u>
	80,055,002	66,362,289
Less: Unearned discount balance	(<u>3,219,728</u>)	(<u>2,517,696</u>)
	<u>76,835,274</u>	<u>63,844,593</u>

The treasury bills carry an interest rate between 19.42% and 22.93% during the year 2012 (between 22.5% and 22.9% during the year 2011). In accordance with the Central Bank of Yemen instructions, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalents.

10. LOANS AND ADVANCES (NET)

a. Loans and advances by type

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Overdraft		4,300,310	6,056,004
Loans to customers		8,769,091	5,026,163
L/Cs financing		<u>26,005</u>	<u>66,786</u>
		13,095,406	11,148,953
Less:			
Provision for loans and advances	11	(<u>3,203,481</u>)	(<u>4,077,766</u>)
Uncollected interest	12	(<u>1,038,669</u>)	(<u>818,472</u>)
		<u>8,853,256</u>	<u>6,252,715</u>

- According to Article No. 85 of the Banks Law No. 38 of 1998, and Article No. 14 of the Income Tax Law No. 17 of 2010, all provisions made in compliance with the Central Bank of Yemen instructions on loans, advances, and contingent liabilities are exempt from income tax.
- Non-performing loans and advances classified as bad debts amounted to YR 3,709,841 thousand as at December 31, 2012 after deducting uncollected interest and balances secured by cash deposits (as at December 31, 2011: YR 5,551,561 thousand) broken down as follows:

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Substandard loans and advances	502,343	328,144
Doubtful loans and advances	198,372	729,428
Bad loans and advances	<u>3,009,126</u>	<u>4,493,989</u>
	<u>3,709,841</u>	<u>5,551,561</u>

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b. Loans and advances by industry

	2012			
	Overdraft YR 000s	Loans to Customers YR 000s	L/C Financing YR 000s	Total YR 000s
Trade	4,163,778	4,871,314	26,005	9,061,097
Industry	84,876	906,464	-	991,340
Service	51,656	9,155	-	60,811
Finance	-	134,746	-	134,796
Individuals and others	-	2,847,362	-	2,847,362
Total	<u>4,300,310</u>	<u>8,769,091</u>	<u>26,005</u>	<u>13,095,406</u>

	2011			
	Overdraft YR 000s	Loans to Customers YR 000s	L/C Financing YR 000s	Total YR 000s
Trade	5,968,811	1,229,508	66,786	7,265,105
Industry	55,658	1,242,096	-	1,297,754
Service	31,535	17,651	-	49,186
Finance	-	215,844	-	215,844
Individuals and others	-	2,321,064	-	2,321,064
Total	<u>6,056,004</u>	<u>5,026,163</u>	<u>66,786</u>	<u>11,148,953</u>

The amounts above are shown gross figures before subtracting the provision for loans and advances and uncollected interest.

11. PROVISION FOR LOANS AND ADVANCES (PERFORMING AND NON-PERFORMING)

a. Provision for loans and advances by type

	Note	2012		Total YR 000s
		Specific YR 000s	General YR 000s	
Balance as at January 1, 2012		4,056,966	20,800	4,077,766
Revaluation differences of provision in foreign currencies		5,253	20	5,273
Add: provided during the year	28	540,283	11,593	551,876
Less: used during the year		(42,211)	-	(42,211)
Less: provision reversed	27	(1,386,546)	(2,677)	(1,389,223)
Balance as at December 31, 2012		<u>3,173,745</u>	<u>29,736</u>	<u>3,203,481</u>

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	Note	2011		
		Specific YR 000s	General YR 000s	Total YR 000s
Balance as at January 1, 2011		3,072,785	53,248	3,126,033
Revaluation differences of provision in foreign currencies	(2,160)	-	(2,160)
Add: provided during the year	28	2,086,747	5,611	2,092,358
Less: used during the year	(24,299)	-	(24,299)
Less: provisions reversed	27	(1,076,107)	(38,059)	(1,114,166)
Balance as at December 31, 2011		<u>4,056,966</u>	<u>20,800</u>	<u>4,077,766</u>

b. Provision for loans and advances by sector

	2012		
	Corporate Lending YR 000s	Consumer Lending YR 000s	Total YR 000s
Balance as at January 1, 2012	4,056,966	20,800	4,077,766
Revaluation differences of provision in foreign currencies	5,253	20	5,273
Add: provided during the year	540,283	11,593	551,876
Less: used during the year	(42,211)	-	(42,211)
Less: provisions reversed	(1,386,546)	(2,677)	(1,389,223)
Balance as at December 31, 2012	<u>3,173,745</u>	<u>29,736</u>	<u>3,203,481</u>

	2011		
	Corporate Lending YR 000s	Consumer Lending YR 000s	Total YR 000s
Balance as at January 1, 2011	3,072,785	53,248	3,126,033
Revaluation differences of provision in foreign currencies	(2,160)	-	(2,160)
Add: provided during the year	2,086,747	5,611	2,092,358
Less: used during the year	(24,299)	-	(24,299)
Less: provisions reversed	(1,076,107)	(38,059)	(1,114,168)
Balance as at December 31, 2011	<u>4,056,966</u>	<u>20,800</u>	<u>4,077,766</u>

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12. UNCOLLECTED INTEREST

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Balance at beginning of the year	818,472	730,250
Provided during the year	476,201	531,354
Written off during the year	(96,500)	(94,953)
Recovered during the year	(170,563)	(110,541)
Revaluation differences of uncollected interest – foreign currencies	<u>11,059</u>	<u>(237,638)</u>
Balance at end of the year	<u><u>1,038,669</u></u>	<u><u>818,472</u></u>

13. AVAILABLE-FOR-SALE INVESTMENTS

	<u>Note</u>	<u>Ownership Percentage %</u>	<u>No. of shares</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
i. <u>Financing investments - foreign</u>					
UBAC Curacao - Paris		0.88	45,202	97,135	483,209
Alubaf Arab International - Bahrain		0.344	6,880	147,866	165,209
Arab Financial Services Co. - Bahrain		0.167	10,000	<u>10,745</u>	<u>22,919</u>
				<u>255,746</u>	<u>671,337</u>
ii. <u>Financing investments - local</u>					
Yemen Financial Services Co. - Yemen		10,000	3,107	66,766	66,428
Yemen Mobile Co. for Telecommunication		0.139	120,000	61,200	61,200
Al-Amal Bank for Microfinance - Yemen		1.00	200	20,000	20,000
Al-Tadhamon Microfinance - Yemen		1.00	100	<u>1,000</u>	<u>1,000</u>
				<u>148,966</u>	<u>148,628</u>
				404,712	819,965
Less: Impairment losses	13a			<u>(98,135)</u>	<u>(486,209)</u>
				<u><u>306,577</u></u>	<u><u>333,756</u></u>

- All available-for-sale investments are unquoted financial investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows are not determinable, these investments are carried at cost.
- The Bank recognized impairment on some of the available-for-sale investments because the Bank did not receive any dividends from these investments during prior years and furthermore, no dividends are expected to be received in the coming years.
- All the available-for-sale investments are non-classified by any international ratings companies.

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13.a Impairment losses

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Balance at beginning of the year		486,209	486,209
Less: used during the year		(388,538)	-
Less: reversed during the year	27	(2,000)	-
Revaluation differences – foreign currency		<u>2,464</u>	<u>-</u>
Balance at end of the year		<u><u>98,135</u></u>	<u><u>486,209</u></u>

14. DEBIT BALANCES AND OTHER ASSETS (NET)

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Prepaid expenses		39,044	29,066
Accrued interest		70,808	4,982
Projects in process (advances)		320,305	200,404
Assets transferred to the Bank's ownership		56,832	163,875
Other debit balances		<u>1,460,409</u>	<u>963,473</u>
		1,947,398	1,361,800
Less: Provision for doubtful debts	15	(910,124)	(922,080)
		<u><u>1,037,274</u></u>	<u><u>439,720</u></u>

15. PROVISIONS FOR DOUBTFUL DEBTS

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Balance at beginning of the year		922,080	1,085,478
Revaluation differences of provision in foreign currencies		447	(877)
Add: provided during the year	28	2,660	-
Less: provisions reversed	27	(15,063)	(162,521)
Balance at end of the year		<u><u>910,124</u></u>	<u><u>922,080</u></u>

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16. PROPERTY AND EQUIPMENT (NET)

	<u>2012</u>					
	<u>Land, Buildings and Constructions YR 000s</u>	<u>Leasehold Improvements YR 000s</u>	<u>Furniture and Equipment YR 000s</u>	<u>Motor Vehicles YR 000s</u>	<u>Computer Equipment YR 000s</u>	<u>Total YR 000s</u>
Cost						
Balance as at January 1, 2012	2,382,204	110,072	417,981	121,516	495,131	3,526,904
Additions during the year	32,346	10,881	44,451	15,410	22,914	126,002
Disposals during the year	(1,605)	-	-	-	-	(1,605)
Balance as at December 31, 2012	<u>2,412,945</u>	<u>120,953</u>	<u>462,432</u>	<u>136,926</u>	<u>518,045</u>	<u>3,651,301</u>
Accumulated depreciation						
Balance as at January 1, 2012	137,318	58,794	247,665	115,636	254,152	813,565
Depreciation	25,864	9,111	30,870	6,067	70,145	142,057
Disposals	(9)	-	-	-	-	(9)
Balance as at December 31, 2012	<u>163,173</u>	<u>67,905</u>	<u>278,535</u>	<u>121,703</u>	<u>324,297</u>	<u>955,613</u>
Net book value						
December 31, 2012	<u>2,249,772</u>	<u>53,048</u>	<u>183,897</u>	<u>15,223</u>	<u>193,748</u>	<u>2,695,688</u>

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	2011					
	Land, Buildings and Constructions YR 000s	Leasehold Improvements YR 000s	Furniture and Equipment YR 000s	Motor Vehicles YR 000s	Computer Equipment YR 000s	Total YR 000s
<u>Cost</u>						
Balance as at January 1, 2011	2,333,685	102,185	395,056	121,516	452,452	3,404,894
Additions during the year	51,114	7,887	30,299	-	45,039	134,339
Disposals during the year	(2,595)	-	(7,374)	-	(2,360)	(12,329)
Balance as at December 31, 2011	<u>2,382,204</u>	<u>110,072</u>	<u>417,982</u>	<u>121,516</u>	<u>495,131</u>	<u>3,526,904</u>
<u>Accumulated depreciation</u>						
Balance as at January 1, 2011	112,474	49,955	221,798	106,308	189,641	680,176
Depreciation	24,844	8,839	29,565	9,328	65,568	138,144
Disposals	-	-	(3,698)	-	(1,057)	(4,755)
Balance as at December 31, 2011	<u>137,318</u>	<u>58,794</u>	<u>247,665</u>	<u>115,636</u>	<u>254,152</u>	<u>813,565</u>
<u>Net book value</u>						
December 31, 2011	<u>2,244,886</u>	<u>51,278</u>	<u>170,316</u>	<u>5,880</u>	<u>240,979</u>	<u>2,713,339</u>

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17. DUE TO BANKS

	2012	2011
	YR 000s	YR 000s
Local banks - current account – local currency	1,853	-
Foreign banks - current account – foreign currency	429,343	423,360
	<u>431,196</u>	<u>423,360</u>

18. CUSTOMERS' DEPOSITS

a. Customers' deposits by type

	2012	2011
	YR 000s	YR 000s
Current accounts	20,057,323	15,601,786
Time deposits	50,681,387	39,990,915
Saving accounts	31,869,851	27,688,854
Margins of LC's and LG's	3,070,751	2,325,975
Other deposits	622,248	667,395
	<u>106,301,560</u>	<u>86,274,925</u>

Customers' deposits as at December 31, 2012 include YR 6,081,547 thousand of margins held for direct and indirect facilities (as at December 31, 2011: YR 2,632,309 thousand).

b. Customers' deposits by sector

	2012	2011
	YR 000s	YR 000s
Public and mixed sectors	11,224,368	3,783,615
Individuals	81,531,477	70,205,103
Corporations	7,111,238	7,328,894
Others	6,434,477	4,957,313
	<u>106,301,560</u>	<u>86,274,925</u>

19. CREDIT BALANCES AND OTHER LIABILITIES

		2012	2011
	Note	YR 000s	YR 000s
Income tax for the year	19.a	627,650	550,999
Interest payable		1,511,613	1,262,853
Unclaimed balances*		197,903	204,883
Employees share in profit		-	110,439
Accrued expenses		40,000	25,000
Other credit balances		884,562	1,244,756
		<u>3,261,728</u>	<u>3,398,930</u>

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*Unclaimed balances represent balances from previous years which have not been claimed by the beneficiaries. Management regularly reviews the likelihood that these amounts will be claimed, and based on the outcome of such review, the Bank considers the amount that should be transferred to the Ministry of Finance in accordance with the relevant Article No. 79 of the Banks Law No. 38 of 1998.

19.a Income tax for the year

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Balance at beginning of the year	550,999	418,969
Less: paid during the year	(527,136)	(402,899)
Add: provided during the year	603,787	550,999
Less: reversed during the year	<u>-</u>	<u>(16,070)</u>
Balance at the end of the year	<u><u>627,650</u></u>	<u><u>550,999</u></u>

20. OTHER PROVISIONS

<u>Description</u>	<u>Note</u>	<u>2012</u>		
		<u>Provision for Contingent Liabilities YR 000s</u>	<u>Provision for Contingent Claims YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2012		78,973	60,461	139,434
Add: provided during the year	28	223,515	-	223,515
Revaluation differences of provision in foreign currencies		166	180	346
Less: provisions reversed	27	<u>(37,624)</u>	<u>-</u>	<u>(37,624)</u>
Balance as at December 31, 2012		<u><u>265,030</u></u>	<u><u>60,641</u></u>	<u><u>325,671</u></u>
<u>Description</u>	<u>Note</u>	<u>2011</u>		
		<u>Provision for Contingent Liabilities YR 000s</u>	<u>Provision for Contingent Claims YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2011		92,634	60,461	153,095
Add: provided during the year	28	27,218	-	27,218
Less: provisions reversed	27	<u>(40,879)</u>	<u>-</u>	<u>(40,879)</u>
Balance as at December 31, 2011		<u><u>78,973</u></u>	<u><u>60,461</u></u>	<u><u>139,434</u></u>

Provision for general risk on contingent liabilities is calculated at 1% on the total contingent liabilities after deducting balances secured by deposits and guarantees issued by high credit rated banks.

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21. EQUITY

a. Paid-up capital

As at December 31, 2012, the paid-up capital is YR 10 billion (as at December 31, 2011: YR 10 billion) divided into 10 million shares of YR 1,000 par value according to the Board of Directors' meeting held on April 15, 2007.

b. Legal reserve

According to the provisions of the Banks Law no. 38 of 1998, 15% of the net profit for the year is transferred to legal reserve until the reserve equals two times the paid-up capital. The Bank can not use this reserve without the prior approval of the Central Bank of Yemen.

c. General reserve

According to the provisions of the Public Corporations, Establishments and Companies Law No. 35 of 1991, 15% of the net profit for the year is transferred to general reserve. The balance of this reserve can be used for purposes approved by the Bank.

d. Revaluation of property surplus reserve

This reserve represents the difference between the revalued amounts of the owned land and buildings and their book values as at December 31, 1999.

e. Fair value reserve

Fair value reserve represents the revaluation profit and loss on the available-for-sale financial investments as at December 31, 2012 with a positive fair value of YR 50,090 thousand (as at December 31, 2011: YR 73,431 thousand).

22. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2012		
	Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of credit	13,602,996	(1,995,043)	11,607,953
Letters of guarantee	13,704,392	(1,065,125)	12,639,267
Others	200,069	(10,583)	189,486
	<u>27,507,457</u>	<u>(3,070,751)</u>	<u>24,436,706</u>
	2011		
	Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of credit	7,741,794	(1,318,947)	6,422,847
Letters of guarantee	11,820,963	(994,360)	10,826,603
Others	71,623	(12,668)	58,955
	<u>19,634,380</u>	<u>(2,325,975)</u>	<u>17,308,405</u>

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23. INTEREST INCOME

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
<u>Interest on loans to customers</u>		
Interest earned on loans and overdrafts	1,523,552	1,535,316
Other interest	<u>260</u>	<u>204</u>
	<u>1,523,812</u>	<u>1,535,520</u>
<u>Interest on due from banks</u>		
Interest on certificates of deposit with CBY	66,284	-
Interest from deposits	104,479	116,583
Interest from current accounts	<u>184</u>	<u>3,024</u>
	<u>170,947</u>	<u>119,607</u>
Interest on treasury bills held to maturity	<u>14,825,110</u>	<u>13,042,970</u>
	<u>16,519,869</u>	<u>14,698,097</u>

24. INTEREST EXPENSE

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
<u>Interest on customers' deposits</u>		
Interest on time deposits	7,893,305	6,450,139
Interest on saving accounts	<u>3,259,429</u>	<u>2,996,868</u>
	<u>11,152,734</u>	<u>9,447,007</u>

25. COMMISSIONS' REVENUES AND BANKING SERVICE CHARGES

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Commissions on letters of credits	115,475	65,656
Commissions on letters of guarantee	194,931	129,078
Commissions on transfer of funds	23,236	25,458
Other banking service charges	<u>290,927</u>	<u>315,763</u>
	<u>624,569</u>	<u>535,955</u>

26. GAIN ON FOREIGN CURRENCY TRANSACTIONS

	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
(Loss) from translation of foreign currencies	(15,906)	(51,621)
Gain from dealing in foreign currencies transactions	<u>33,790</u>	<u>140,196</u>
	<u>17,884</u>	<u>88,575</u>

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27. OTHER INCOME

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
<u>Provisions reversed</u>			
Provision for loans and advances	11	1,389,223	1,114,166
Provision for contingent liabilities	20	37,624	40,879
Provision for doubtful debts	15	<u>15,063</u>	<u>162,521</u>
		1,441,910	1,317,566
Reversal of impairment of available-for-sale investments	13.a	2000	-
Other income		<u>57,359</u>	<u>85,595</u>
		<u>1,501,269</u>	<u>1,403,161</u>

28. PROVISIONS PROVIDED DURING THE YEAR

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Provisions for loan and advances (performing and non-performing)	11	551,876	2,092,358
Provision for doubtful debts	15	2,660	-
Other provisions	20	<u>223,515</u>	<u>27,218</u>
		<u>778,051</u>	<u>2,119,576</u>

29. GENERAL AND ADMINISTRATIVE EXPENSES, AND DEPRECIATION

	<u>Note</u>	<u>2012</u> <u>YR 000s</u>	<u>2011</u> <u>YR 000s</u>
Wages and salaries		2,395,127	1,503,153
Zakat expenses		200,000	165,000
Duties and taxes		116,487	110,669
Depreciation of property and equipment	16	142,057	133,389
Training expenses		108,164	29,531
Water, electricity and fuel		69,642	66,586
Travelling and transportation		60,149	36,697
Maintenance and repairs		50,536	37,626
Donations		59,427	27,463
Rent		41,616	41,873
Advertisement and publication		41,445	41,098
Stationery and printing supplies		36,144	30,931
Professional fees		24,801	22,721
Communications		23,835	19,147
Computer maintenance		2,289	2,738
Write-off property and equipment		-	4,755
Other expenses		<u>173,966</u>	<u>142,183</u>
		<u>3,545,685</u>	<u>2,415,560</u>

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30. EARNING PER SHARE

	<u>2012</u>	<u>2011</u>
Net profit for the year (YR thousand)	2,609,304	2,203,994
Number of shares (by thousand)	10,000	10,000
Earning per share (YR)	<u>261</u>	<u>220</u>

31. MATURITIES OF ASSETS AND LIABILITIES

<u>Description</u>	<u>2012</u>				
	<u>Due within three months YR 000's</u>	<u>Due from three to six months YR 000's</u>	<u>Due from six months to one year YR 000's</u>	<u>Due over one year YR 000's</u>	<u>Total YR 000's</u>
a. Assets					
Cash on hand & reserve balances with CBY	9,508,477	-	-	-	9,508,477
Due from banks	23,552,255	2,664,510	1,679,546	-	27,896,311
Treasury bills – held to maturity	42,886,957	12,800,580	21,147,737	-	76,835,274
Loans and advances (net)	1,587,070	149,549	3,379,502	3,737,135	8,853,256
Available-for-sale investments	-	-	-	306,577	306,577
Other assets	69,421	10,090	6,360	3,647,091	3,732,962
	<u>77,604,180</u>	<u>15,624,729</u>	<u>26,213,145</u>	<u>7,690,803</u>	<u>127,132,857</u>
b. Liabilities and equity					
Due to banks	431,196	-	-	-	431,196
Customers' deposits	77,868,350	9,507,373	18,692,428	233,409	106,301,560
Other liabilities and equity	957,039	186,971	367,711	18,888,380	20,400,101
	<u>79,256,585</u>	<u>9,694,344</u>	<u>19,060,139</u>	<u>19,121,789</u>	<u>127,132,857</u>
Net	(1,652,405)	<u>5,930,385</u>	<u>7,153,006</u>	(11,430,986)	-
2011					
<u>Description</u>	<u>Due within three months YR 000's</u>	<u>Due from three to six months YR 000's</u>	<u>Due from six months to one year YR 000's</u>	<u>Due over one year YR 000's</u>	<u>Total YR 000's</u>
a. Assets					
Cash on hand & reserve balances with CBY	7,811,174	-	-	-	7,811,174
Due from banks	20,897,411	1,582,090	588,590	-	23,068,091
Treasury bills – held to maturity	38,681,739	10,725,533	14,437,321	-	63,844,593
Loans and advances (net)	1,839,433	140,210	1,840,048	2,433,024	6,252,715
Available-for-sale investments	-	-	-	333,756	333,756
Other assets	4,342	466	148	3,148,103	3,153,059
	<u>69,234,099</u>	<u>12,448,299</u>	<u>16,866,107</u>	<u>5,914,883</u>	<u>104,463,388</u>
b. Liabilities and equity					
Due to banks	423,360	-	-	-	423,360
Customers' deposits	57,434,771	9,723,836	18,856,195	260,123	86,274,925
Other liabilities and equity	773,887	162,486	326,480	16,502,250	17,765,103
	<u>58,632,018</u>	<u>9,886,322</u>	<u>19,182,675</u>	<u>16,762,373</u>	<u>104,463,388</u>
Net	<u>10,602,081</u>	<u>2,561,977</u>	(2,316,568)	(10,847,490)	-

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32. INTEREST RATES APPLIED DURING THE YEAR

The interest rates on assets and liabilities during the year compared to last year were as follows:

	<u>Year ended December 31, 2012</u>				
	<u>YR</u> <u>%</u>	<u>US\$</u> <u>%</u>	<u>Saudi</u> <u>Riyal</u> <u>%</u>	<u>Sterling</u> <u>Pound</u> <u>%</u>	<u>EUR</u> <u>%</u>
<u>Assets</u>					
Loans and advances to customers:					
- Facilities	26.38	7.63	-	-	-
Due from banks:					
- Certificates of deposits	19.75	-	-	-	-
- Time deposits	-	0.67	0.33	0.78	0.03
Treasury bills – held to maturity	20.22	-	-	-	-
<u>Liabilities</u>					
Customers' deposits:					
- Time deposits	19.50	0.25	0.25	0.25	0.25
- Savings accounts	19.50	0.25	0.25	0.25	0.25
<u>Year ended December 31, 2011</u>					
	<u>YR</u> <u>%</u>	<u>US\$</u> <u>%</u>	<u>Saudi</u> <u>Riyal</u> <u>%</u>	<u>Sterling</u> <u>Pound</u> <u>%</u>	<u>EUR</u> <u>%</u>
<u>Assets</u>					
Loans and advances to customers:					
- Facilities	23.00	7.75	-	-	-
Due from banks:					
- Certificates of deposits	-	-	-	-	-
- Time deposits	-	1.35	1.58	0.93	.50
Treasury bills – held to maturity	22.62	-	-	-	-
<u>Liabilities</u>					
Customers' deposits:					
- Time deposits	20.00	0.25	0.25	0.25	0.25
- Savings accounts	20.00	0.25	0.25	0.25	0.25

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33. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS

	2012						Total YR 000s
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	
Assets							
Cash on hand and reserve balance with CBY	-	-	-	-	9,508,477	-	9,508,477
Due from banks	-	-	-	-	27,896,311	-	27,896,311
Treasury bills	-	-	-	-	76,835,274	-	76,835,274
Loans and advances (net)	-	-	6,517,907	1,915	13,218	2,320,216	8,853,256
Available for sale investments	-	-	-	-	306,577	-	306,577
Liabilities							
Due to banks	-	-	-	-	431,196	-	431,196
Customers deposits	5,879,958	233,606	13,835,922	2,945,532	1,847,717	81,558,825	106,301,560
Contingent liabilities and commitments (net)							
	3,426,129	869,968	13,367,728	3,789,252	2,819	2,980,810	24,436,706

	2011						Total YR 000s
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	
Assets							
Cash on hand and reserve balance with CBY	-	-	-	-	7,811,174	-	7,811,174
Due from banks	-	-	-	-	23,068,091	-	23,068,091
Treasury bills	-	-	-	-	63,844,593	-	63,844,593
Loans and advances (net)	-	4,318,340	12,700	-	34,658	1,887,017	6,252,715
Available for sale investments	-	-	-	-	333,756	-	333,756
Liabilities							
Due to banks	-	-	-	-	423,360	-	423,360
Customers deposits	1,225,127	202,342	7,291,900	2,646,943	1,717,338	73,191,275	86,274,925
Contingent liabilities and commitments (net)							
	2,258,006	30,000	12,895,315	84,752	1,382,232	658,100	17,308,405

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34. DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS

	2012					Total YR 000s
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	
<u>Assets</u>						
Cash on hand and reserve balances with CBY	9,508,477	-	-	-	-	9,508,477
Due from banks	5,598,162	-	13,128,907	8,837,284	331,958	27,896,311
Treasury bills - held to maturity	76,835,274	-	-	-	-	76,835,274
Loans and advances (net)	8,853,256	-	-	-	-	8,853,256
Available for sale investments	147,966	-	-	158,611	-	306,577
<u>Liabilities</u>						
Due to Banks	1,853	-	-	429,343	-	431,196
Customers deposits	106,301,560	-	-	-	-	106,301,560
<u>Contingent liabilities and commitments (net)</u>						
	5,161,769	215,879	7,658,168	9,956,538	1,444,352	24,436,706
2011						
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
<u>Assets</u>						
Cash on hand and reserve balances with CBY	7,811,174	-	-	-	-	7,811,174
Due from banks	2,040,109	1,854,071	12,719,583	6,335,921	118,407	23,068,091
Treasury bills held to maturity	63,844,593	-	-	-	-	63,844,593
Loans and advances (net)	6,252,715	-	-	-	-	6,252,715
Available for sale investments	145,628	-	-	188,128	-	333,756
<u>Liabilities</u>						
Due to Banks	-	-	-	423,360	-	423,360
Customers deposits	86,274,925	-	-	-	-	86,274,925
<u>Contingent liabilities and commitments (net)</u>						
	3,433,150	208,028	5,639,612	6,734,746	1,292,869	17,308,405

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35. SIGNIFICANT FOREIGN CURRENCIES POSITIONS

To comply with the Central Bank of Yemen circular No. 6 of 1998, the Bank establishes limits for each individual foreign currency position as well as aggregate limits for all currencies. The limits for individual foreign currencies shall not exceed 15% of the total capital and reserves, whereas the aggregate limit for all foreign currencies shall not exceed 25% of the total capital and reserves. The following schedule reflects the Bank's significant foreign currency positions at the financial statements date:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Surplus</u>	<u>Percentage of</u>	<u>Surplus</u>	<u>Percentage of</u>
	<u>(Deficit)</u>	<u>Capital and</u>	<u>(Deficit)</u>	<u>Capital and</u>
	<u>YR 000s</u>	<u>Reserves</u>	<u>YR 000s</u>	<u>Reserves</u>
		<u>%</u>		<u>%</u>
US Dollars	1,027,389	6.84	(564,860)	(4.00)
Sterling Pound	22,919	0.15	55,451	0.41
Euro	(2,922)	(0.04)	30,762	0.23
Saudi Rial	(7,086)	(0.01)	202,556	1.50
Others	<u>33,615</u>	<u>0.21</u>	<u>(30,593)</u>	<u>(0.21)</u>
Net surplus (deficit)	<u>1,073,915</u>	<u>7.15</u>	<u>(306,684)</u>	<u>(2.16)</u>

The US Dollar exchange rate as at December 31, 2012 was YR 214.89 (as at December 31, 2011: YR 213.80).

36. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if the party has the ability to control or exercise significant influence over the Bank's operating and financial decisions.

The Bank related parties are the members of the Board of Directors and companies owned by them, as well as the Bank's key management personnel.

The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY Circular No. 4 of 1999, which limits credit transactions with related parties and requires that the Bank applies the same terms and conditions that are applied with non-related parties. The following are the nature, related balances and volume of these transactions at the financial statements date:

	<u>2012</u>	<u>2011</u>
	<u>YR 000s</u>	<u>YR 000s</u>
Loans and advances (net)	2,553	4,895
Customers' deposits	14,940	13,069
Interest received	24	80
Interest paid	899	826
Salaries and benefits	29,112	14,069

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37. TAX STATUS

- The difference between accounting and tax profit for the year 2012 represents a deducting amount of YR 194,156 thousand, as a result of adjusting the accounting profit with the provisions provided during the year and charged to the statement of comprehensive income and provisions reversed which was previously subject to tax, as well as the difference between the accounting depreciation expense and depreciation rate and useful life in accordance with the Income Tax No. 17 of 2010, on the basis of 20% tax rate.
- Corporate and salaries taxes have been cleared up to the year 2009, and the relevant taxes were paid in accordance with the Tax Authority assessment.
- The Bank has submitted the tax declaration for the year 2010, and paid the amount due within the legal deadline. The Tax Authority has performed its review for the said year and no assessment from the Tax Authority has been received yet by the Bank.
- The Bank has submitted the tax declaration for the year 2011, and paid the amount due according to the declaration. The Tax Authority has not performed the review and the Bank has not been notified of any assessment for the year 2011.

38. ZAKAT

- The Bank submits its Zakat declaration annually and remits the amount due based on the declaration.
- The Bank has paid the Zakat up to the end of 2011 according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

39. TRUST ACTIVITIES

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

40. CONTINGENT LIABILITIES

The Bank has filed a number of legal cases before the Public Fund Court and the Commercial Court against third parties, and management has provided for the required provisions for these cases. Also, there are legal cases filed against the Bank at the respective courts, and the Bank's management believes that there are no obligations on those cases except for the provisions provided and stated in other provisions.

41. COMPARATIVE FIGURES

Certain comparative figures were reclassified to comply with current year's financial statements presentation. The reclassifications have no impact on the previously reported net profit or equity.