

# البنك الأهلي اليمني National Bank Of Yemen



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## Annual Report 2011

عام 1433  
من الخبرة والثقة

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فروع البنك الأهلي اليمني

**Our New vision**  
**Of banking service is first choice is**  
**customers and out stand as the**  
**distinct bank in Yemen.**

بنك الأهلي اليمني



## Our vision, our message, strategic objectives

### Our Vision:

We in the national bank of Yemen , have determined to fulfill all our customers' needs and to be pioneer in providing innovated banking services and products depending on best and modernized banking services techniques in order to be the first choice to customers and become the distinct bank in Yemen.

### Our Mission:

The bank is obliged to achieve quality in services and products according to international quality standards, to meet customers needs and achieve objectives and expectations of all those concerned with the interests of the bank, in the framework of comprehensive benefits of society and Yemen economy.

Our strategic objectives:

- o Attract deposits and funds from resident and un resident corporations and individuals and working to achieve continued growth rates to ensure the necessary financial resources for the bank's operations in financing and investment.
- o Investing financial resources available in the bank in a way that realizes reasonable returns compared to risks resulting from operations in financing and investment.
- o Realizing remunerative returns to shareholders exceeding opportunity cost of funds invested in the bank.
- o Offering necessary financial, banking and investment services to meet corporate and individual customer needs with the highest quality possible in a wide geographic area.
- o Attract and develop the necessary human resources to execute main and assisting bank operations in order to find the suitable organizational environment and climate to stimulate and increase productivity and qualification of employees in offering the banking, financial and investment services.



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NATIONAL BANK OF YEMEN  
STATEMENT OF FINANCIAL POSITION  
As at 31 December 2011



	Note	31 December 2011 YR' 000	31 December 2010 YR' 000
<b>ASSETS</b>			
Cash on hand and reserve balances with the Central Bank of Yemen	4	7,811,174	11,449,716
Due from banks	5	23,068,091	27,533,176
Treasury bills, net	6	63,844,593	57,660,128
Loans and advances to customers, net of provision	7	6,252,715	8,273,929
Available for sale investments, net	8	312,756	301,977
Debit balances and other assets	9	2,008,581	1,498,462
Property, plant and equipment, net of accumulated depreciation	10	<u>2,713,339</u>	<u>2,724,718</u>
TOTAL ASSETS		<u><b>106,011,249</b></u>	<u><b>109,442,106</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	11	423,360	291,537
Customers' deposits	12	86,274,925	91,834,327
Credit balances and other liabilities	13	4,535,226	3,342,511
Income tax	14	<u>550,999</u>	<u>418,969</u>
Total Liabilities		<u><b>91,784,510</b></u>	<u><b>95,887,344</b></u>
<b>EQUITY</b>			
Capital	15-a	10,000,000	10,000,000
Statutory reserve	15-b	2,499,084	2,168,485
General reserve	15-c	1,014,462	683,863
Surplus on revaluation of property reserve	15-d	639,762	639,762
Cumulative changes in the fair value reserve	15-e	<u>73,431</u>	<u>62,652</u>
Total Equity		<u><b>14,226,739</b></u>	<u><b>13,554,762</b></u>
TOTAL LIABILITIES AND EQUITY		<u><b>106,011,249</b></u>	<u><b>109,442,106</b></u>
<b>CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET</b>	16	<u><b>15,761,036</b></u>	<u><b>22,895,116</b></u>

Independent Auditors' Report attached (page 1).

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

Sami Abdul Hamid Mackawee  
First Deputy General Manager

Esam Ahmed Alawi AlSaqaf  
General Manager

Ahmed Obaid AlFadli  
Acting Chairman



STATEMENT OF COMPREHENSIVE INCOME  
For the Year Ended 31 December 2011

	Note	2011 YR' 000	2010 YR' 000
<b>OPERATING REVENUE</b>			
Interest on loans and advances and due from banks	17	1,655,127	1,680,480
Interest on treasury bills		13,042,970	9,960,935
Interest on certificates of deposit with the Central Bank of Yemen		-	-
Total interest revenue		<u>14,698,097</u>	<u>11,641,415</u>
Cost of deposits	18	(9,447,007)	(7,501,937)
Net interest revenue		<u>5,251,090</u>	<u>4,139,478</u>
Commissions and fee income on banking services	19	535,955	710,184
Income on available for sale investments		32,373	23,202
Gain / (Loss) on foreign currency transactions	20	88,575	(152,794)
Other operating revenue	21	1,403,161	909,296
Net Operating Revenue		<u>7,311,154</u>	<u>5,629,366</u>
<b>OPERATING EXPENSES</b>			
Commissions and fee expenses on banking services		21,025	39,268
General and administration expenses	22	2,186,086	1,803,631
Provisions	23	2,184,050	1,041,624
Total Operating Expenses		<u>4,391,161</u>	<u>2,884,523</u>
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		<u>2,919,993</u>	<u>2,744,843</u>
Zakat	13-c	(165,000)	(150,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		<u>2,754,993</u>	<u>2,594,843</u>
Income tax	14	(550,999)	(518,969)
<b>PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX</b>		<u>2,203,994</u>	<u>2,075,874</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Net movement in fair value for the year		10,779	7,799
Other Comprehensive Income For The Year		<u>10,779</u>	<u>7,799</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>2,214,773</u>	<u>2,083,673</u>
<b>Total comprehensive income attributable to controlling interest (100%)</b>		<u>2,214,773</u>	<u>2,083,673</u>
Basic earnings per share	24	<u>220YR</u>	<u>219 YR</u>

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

**STATEMENT OF CHANGES IN EQUITY**  
For the Year Ended 31 December 2011

	<b>Capital</b> <b>YR'000</b> <b>(Note 15-a)</b>	<b>Statutory</b> <b>Reserve</b> <b>YR'000</b> <b>(Note 15-b)</b>	<b>General</b> <b>Reserve</b> <b>YR'000</b> <b>(Note 15-c)</b>	<b>Surplus On</b> <b>Revaluation</b> <b>Of Property</b> <b>Reserve</b> <b>YR'000</b> <b>(Note 15-d)</b>	<b>Cumulative</b> <b>Changes in</b> <b>Fair Value</b> <b>Reserve</b> <b>YR'000</b> <b>(Note 15-e)</b>	<b>Retained</b> <b>Earnings</b> <b>YR'000</b>	<b>Total</b> <b>YR'000</b>
Balance at 31 December 2009	9,000,000	1,857,104	523,164	639,762	54,853	-	12,074,883
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	2,075,874	2,075,874
Net movement in fair value for the year	-	-	-	-	7,799	-	7,799
Total comprehensive income	-	-	-	-	7,799	2,075,874	2,083,673
<b>Transaction with owners</b>							
Transfer to statutory reserve	-	311,381	-	-	-	(311,381)	-
Transfer to general reserve	-	-	311,381	-	-	(311,381)	-
Government share in profit for the year	-	-	-	-	-	(500,000)	(500,000)
Government's share in profit transferred to capital	849,318	-	-	-	-	(849,318)	-
Transfer from general reserve to capital	150,682	-	(150,682)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(103,794)	(103,794)
Total transaction with owners	1,000,000	311,381	160,699	-	-	(2,075,874)	(603,794)
Balance at 31 December 2010	10,000,000	2,168,485	683,863	639,762	62,652	-	13,554,762
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	2,203,994	2,203,994
Net movement in fair value for the year	-	-	-	-	10,779	-	10,779
Total comprehensive income	-	-	-	-	10,779	2,203,994	2,214,773
<b>Transaction with owners</b>							
Transfer to statutory reserve	-	330,599	-	-	-	(330,599)	-
Transfer to general reserve	-	-	330,599	-	-	(330,599)	-
Government share in profit for the year	-	-	-	-	-	(1,432,596)	(1,432,596)
Government's share in profit transferred to capital	-	-	-	-	-	-	-
Transfer from general reserve to capital	-	-	-	-	-	-	-
Employees' share in profit	-	-	-	-	-	(110,200)	(110,200)
Total transaction with owners	-	330,599	330,599	-	-	(2,203,994)	(1,542,796)
Balance at 31 December 2011	10,000,000	2,499,084	1,014,462	639,762	73,431	-	14,226,739

The Bank's Board of Directors fulfilled the execution of their resolution in their meeting held on 15 April 2007 to increase the capital of the Bank to YR 10,000,000 thousand with H.E. the Minister of Finance approval on this increase in the year 2010. Accordingly no transfer from retained earnings or reserves to capital were made during the year 2011..

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



NATIONAL BANK OF YEMEN  
STATEMENT OF CASH FLOWS  
For the Year Ended 31 December 2011



	Note	2011 YR 000	2010 YR 000
<b>OPERATING ACTIVITIES</b>			
Profit for the year before the Zakat and income tax		2,919,993	2,744,843
<i>Adjustments for:</i>			
Provision for losses on loans and advances and on contra accounts made during the year		2,119,576	1,001,178
Provision for losses on loans and advances and contra accounts written back during the year		(1,155,045)	(893,179)
Amount utilized during the year from provision for losses on loans and advances		(24,299)	(426)
Revaluation of balances of provision for losses on loans and advances and on contra accounts		(2,160)	43,751
Zakat paid	13-c	(140,000)	(100,000)
Income tax paid	14	(418,969)	(874,586)
Depreciation of property, plant and equipment	10-a	133,389	98,657
Loss due to writing off damaged property, plant and equipment of Zunjubar Branch, Abyan	10-a	4,755	-
Net Operating Profit Before Changes In Banking Assets And Liabilities Related To Operating Activities		<b>3,437,240</b>	<b>2,020,238</b>
<b>CHANGES IN BANKING ASSETS</b>			
Reserve balances with the Central Bank of Yemen		3,591,259	(342,487)
Treasury bills maturing after three months, net of unamortized discount		(13,991,362)	(3,157,718)
Due from banks maturing after three months		1,767,210	(211,546)
Loans and advances to customers before provision but after suspended interest		1,069,481	920,798
Debit balances and other assets		(510,119)	(377,895)
Net (increase) in banking assets		<b>(8,073,531)</b>	<b>(3,168,848)</b>
<b>CHANGES IN BANKING LIABILITIES</b>			
Due to banks		131,823	(281,873)
Customers' deposits		(5,559,402)	2,019,907
Credit balances and other liabilities		1,181,376	1,111,797
Net (decrease) / increase in banking liabilities		<b>(4,246,203)</b>	<b>2,849,831</b>
Net Cash Flows (Used In) Investing Activities (1)		<b>(8,882,494)</b>	<b>1,701,221</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10	(134,339)	(520,100)
Disposal of property, plant and equipment		7,574	-
Purchase of available for sale investments		-	(77,854)
Net Cash Flows (Used In) Investing Activities (2)		<b>(126,765)</b>	<b>(597,954)</b>
<b>FINANCING ACTIVITIES</b>			
Government's share paid in the profit for the year		(1,432,596)	(500,000)
Employees' share in the profit for the year		(110,200)	(103,794)
Net Cash Flow (Used In) Financing Activities (3)		<b>(1,542,796)</b>	<b>(603,794)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)</b>		<b>(10,552,055)</b>	<b>499,473</b>
Cash and cash equivalents at 1 January		<b>68,094,478</b>	<b>67,595,005</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	26	<b>57,542,423</b>	<b>68,094,478</b>

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

## 1 INCORPORATION AND ACTIVITY

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 number 1748.

The Bank undertakes all banking activities and carries out banking retail activity in the Republic of Yemen through its head office and 27 branches spread all over the Southern and Eastern Governorates and through one branch in each of Sana'a, Hodeidah and Taiz.

The Head Office of the Bank is located at Queen Arwa Street. Its postal address is P. O. Box 5, Crater, Aden, Republic of Yemen.

The number of employees with the Bank as on 31 December 2011 was 881 (31 December 2010: 738 employees).

## 2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies, which comply with International Financial Reporting Standards (IFRS), have been applied consistently in dealing with items which are considered material in relation to the Bank's financial statements.

### 2-a Statement of Compliance

These financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretation Committee of the IASB and the requirements of the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen including those covered by the Central Bank of Yemen circular no. 2 of 2002 regarding the format of the financial statements.

### 2-b Basis of Preparation of Financial Statements

These financial statements have been prepared on a historical cost basis, except for the available for sale investments, financial assets and financial liabilities held at fair value through profit or loss and that have been measured at fair value. The financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise is indicated.

The disclosure on risks from financial instruments are presented in Risk Management report in note 3-b

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 26 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Profit for the year is therefore adjusted by non-cash items, such as measurement gains and losses, changes in provisions, as well as changes from receivables and payables. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interests received or paid are classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach)

a) *New and amended standards, and interpretations mandatory for the first time affecting amounts reported in the current year (and/or prior years):*

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material effect on the financial statements are set out in section (b):

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material effect on the financial statements are set out in section (b):

- Amendments to IAS 1: Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.

The Bank chose to present such an analysis in the notes to the financial statements, with a single-line presentation of other comprehensive income in the statement of changes in equity.

b) *New and amended standards, and interpretations mandatory for the first time and applied but with no material effect on the financial statements:*

The following new and revised IFRSs have also been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-b Basis of Preparation of Financial Statements (Continued)

b) *New and amended standards, and interpretations mandatory for the first time and applied but with no material effect on the financial statements (continued):*

- IAS 24: Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

- Amendments to IFRS 3: Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

- Amendments to IAS 32: Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

c) *New and amended standards, and interpretations issued but not yet effective and not early adopted:*

For the avoidance of doubt, the following standards amendments and interpretations, which were issued by IASB before 31 December 2011 and are not yet in effect, have not been adopted early:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These are effective for annual periods beginning on or after 1 July 2011. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's disclosures. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

- IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of IFRS 9 are described as follows:



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-b Basis of Preparation of Financial Statements (Continued)

c) *New and amended standards, and interpretations issued but not yet effective and not early adopted:*

- IFRS 9: Financial Instruments (Continued)
  - IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
  - The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
  - IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

- Standards On Consolidation, Joint Arrangements, Associates And Disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements, IFRS 12: Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011): Separate Financial Statements, IAS 28 (as revised in 2011): Investments in Associates and Joint Ventures. Key requirements of these five Standards are described below:

- IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.
- IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.
- In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.
- IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The management believes that since the Bank does not have any investments in subsidiaries, joint ventures or associates, these standards and amendments will not have any impact on the Bank's financial statements. However if in the future, the Bank does invest in any subsidiaries, joint ventures or associates, accounting for such transactions would be affected.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-b Basis of Preparation of Financial Statements (Continued)

c) *New and amended standards, and interpretations issued but not yet effective and not early adopted:*

- IFRS 13: Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 'Financial Instruments: Disclosures' will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The management anticipates that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

- Amendments to IAS 1: Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

- Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. However, the management does not believe that the amendments would impact the Bank's financial statements.

- IAS 19 (as revised in 2011): Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. However, the management does not believe that the amendments would impact the Bank's financial statements.

The exceptions to International Financial Reporting Standards in compliance with local laws and regulations issued by the Central Bank of Yemen are:

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

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2011.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-c Significant Accounting Judgments and Estimates

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of policies and reported amounts of the financial assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates considered by the management of the Bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The Bank takes into consideration the following factors when determining the provisions for loans and advances and contingent liabilities:

- The overall customer's financial position;
- Risk percentage i.e. the ability of the customer to conduct profitable business activities and collect enough money to pay the debt;
- Value of the collateral and possibility of transferring ownership to the Bank; and
- Cost of settling the debt.

#### Management Estimates

The estimates and associated assumptions are based on historical experience of the Bank and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 2-d Summary of Principal Accounting Policies

#### Trade And Settlement Date Accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### Foreign Currencies

- (i) The Bank maintains its records in Yemeni Rials which are the Bank's functional and presentation currency.
- (ii) Transactions denominated in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the value date of the transactions. Balances of monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Yemeni Rials at the rate of exchange rate ruling on that date. All realized and unrealized gains or losses resulting from revaluation are taken to "other operating income" or "other operating expense" in the statement of comprehensive income.
- (iii) The Bank does not deal in forward foreign exchange contracts.

#### Cash and Cash Equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand, cash balances with the Central Bank of Yemen other than statutory reserve balances, demand deposits with other banks, treasury bills maturing within three months from the date of acquisition.

#### Due from Banks and other Money Market Placements

Deposits and balances due from banks are presented at cost after deducting any amount that has been written off and any impairment in their value. All money market and customer deposits are carried at amortised cost.

#### Treasury Bills

Treasury bills issued by the Central Bank of Yemen on behalf of the Ministry of Finance are stated at their nominal value, adjusted for any unamortized discount outstanding at the reporting date. In accordance with the instructions of the Central Bank of Yemen, treasury bills, which mature within a period not exceeding three months, are considered as part of cash and cash equivalent assets.

#### Provision for Losses on Loans and Contingent Liabilities

In order to comply with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998, provision is made for specific loans, overdrafts, advances and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities after deducting balances secured by deposits and banks' guarantees.



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-d Summary of Principal Accounting Policies (Continued)

#### Provision for Losses on Loans and Contingent Liabilities

The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, provision is made in accordance with the following rates:

• Performing loans including watch loans	1%
• Performing contingencies including watch accounts	1%
• Non-performing loans and contingencies:	
- Substandard debts	15%
- Doubtful debts	45%
- Bad debts	100%

When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, or if directed by the Central Bank of Yemen upon review of the portfolio, it will be written off by debiting the provision. Loans to customers are presented in the statement of financial position net of provision and uncollected interest. Proceeds from loans and advances previously written off in prior years are credited to "other operating income".

#### Suspended Interests

These represent interest on non-performing loans and advances in accordance with the Central Bank of Yemen regulations and which are recognised as revenue only when collected. The suspended interests are considered part of the provision for doubtful debts in accordance to article 85 of Banks Law No. 38 of 1998

#### Investments

As at the financial statements date, all non trading investments are classified either as available for sale investments or held for maturity investments.

##### i) Available for sale investments:

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss. Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with profit and loss being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

If an available for sale financial asset is determined to be impaired, the cumulative profit or loss previously recognised in the statement of comprehensive income, is recognised in the income statement. However, interest is calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available for sale investments are recognised in the statement of the comprehensive income. Dividends on available for sale equity instruments are recognised in the statement of comprehensive income in 'dividend income' item when the Bank's right to receive payment is established.

##### ii) Held to maturity investments:

Where the Bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses. Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and are taken to interest income.

#### Real Estate Properties Acquired from Customers in Settlement of Loans Pending Sale /Collateral Pending Sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. In accordance with the Banks Law No. 38 of 1998 and the Central Bank of Yemen instructions, assets acquired from customers in settlement of loans are included in the statement of financial position under "debit balances and other assets" use the value at which these assets were acquired less any decline in their value. Any decline is charged to the statement of comprehensive income.

#### Acceptances

Under IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" with corresponding liability disclosed under "credit balances and other liabilities". As a result, there is no off statement of financial position commitment for acceptances.

#### Property, Plant and Equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment used by the Bank is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to general and administration expenses during the financial period in which they are incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-d Summary of Principal Accounting Policies (Continued)

#### Capital Work In Progress

These are projects that have started but not been completed as at reporting date. They are stated at cost and are transferred to property, plant and equipment and become subject to depreciation when are ready for use.

#### Depreciation

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

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost or revalued amount, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life using the straight-line method at the rates stated in the Council of Ministers' Resolution no. 144 of 1999 as shown below:

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2011 (2010: nil).

Gains and losses on property, plant and equipment disposals are determined by comparing proceeds with carrying amount. These are included in general and administration expenses in the statement of comprehensive income.

#### Zakat

The Bank pays zakat for the year based on the amount defined in the General Budget Project approved by the Ministry of Finance to the Zakat General Directorate.

#### Income Tax

Tax liability payable on the Bank is calculated according to tax laws, regulation and orders effective in the Republic of Yemen.

#### Contra Accounts and Other Commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

#### Contingent Liabilities and Commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off statement of financial position, net of margins, under "contra accounts and other commitments" as they do not represent actual assets or liabilities at the reporting date.

#### Revenue Recognition

- (i) Interest income is recognized in the statement of comprehensive income on the accrual basis using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. However, in order to comply with the requirements of the Central Bank of Yemen circular no. 6 of 1996, the Bank does not accrue interest income on non-performing loans and credit facilities. When an account is classified as non-performing, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest income. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established.
- (ii) In accordance with the Central Bank of Yemen circular no. 2 of 2000, any provisions written back are included under "other operating income".
- (iii) Commission and fee income on banking services are recognized when earned.

#### Financial Assets at Fair Value through profit or loss

This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the statement of comprehensive income in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2-d Summary of Principal Accounting Policies (Continued)

#### Social Security

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. The Bank's annual contribution is charged to the statement of comprehensive income.

#### Financial Guarantees Contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the income statement within general and administration expenses.

#### Related Party Transactions

In its ordinary course of business, the Bank conducts transactions with related parties as defined in International Accounting Standard 24, *Related Party Disclosures*. A party is considered related if being able to either control or exercise significant and material influence over the Bank's financial and operating decision making process. Transactions made with related parties such as Board of Directors members, senior management, their families and companies in which they own 25% or more of its share capital as well as major shareholders, other than the government, who own, directly or indirectly, 5% or more of the voting rights are disclosed in the financial statement. The pricing policies and terms of these transactions are approved by the Bank's management.

#### Fiduciary Assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements

#### Impairment of Assets

The Bank, at each reporting date, assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash generation unit's fair value less costs to sell and its value in use and determined for an individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of comprehensive income consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systemic basis over its remaining useful life.

#### Offsetting the Financial Assets and Liabilities

Financial assets and financial liabilities are only offset and the resultant net balance is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

## 3 FINANCIAL INSTRUMENTS

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

### 3-a Fair Value Of Financial Instruments

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



### 3 FINANCIAL INSTRUMENTS (CONTINUED)

#### 3-b Risk Management Of Financial Instruments

The Bank's business involves taking on risks in a targeted manner and managing the risks professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to credit risk, liquidity risk, interest rate risk and exchange rate risk.

#### Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

In order to comply with the Central Bank of Yemen circular no. 10 of 1997 pertaining to the management of credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk.

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

- preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates;
- obtaining sufficient collateral to minimize the credit risk exposure which may result from financial problems facing customers or banks;
- follow-up and period reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans;
- distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk

**3 FINANCIAL INSTRUMENTS (CONTINUED)****3-b Risk Management Of Financial Instruments(Continued)**

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

ASSETS:	2011 YR'000	2010 YR'000
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	6,438,550	10,030,365
Due from Bank	23,068,091	27,533,176
Treasury bills, net	63,844,593	57,660,128
Loans and advances to customers, net of provision	6,252,715	8,273,929
Available for sale investments, net	312,756	301,977
Debit balances and other assets	1,979,515	1,485,022
<b>Total assets</b>	<b>101,896,220</b>	<b>105,284,597</b>
Contra accounts and other commitments	15,761,036	22,895,116
<b>Total credit risk exposure</b>	<b>117,657,256</b>	<b>128,179,713</b>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 27 shows the distribution of financial instruments over different economic sectors and note no. 28 shows the distribution of financial instruments based on geographical locations.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal circumstances. To limit this risk, the Bank's management in addition to its core deposit base, manages assets with liquidity in mind, monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

Liabilities	2011					Total YR'000
	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000		
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	4,046,260	162,486	326,480	-		4,535,226
<b>Total liabilities</b>	<b>61,904,391</b>	<b>9,886,322</b>	<b>19,182,675</b>	<b>260,123</b>		<b>91,233,511</b>

  

Liabilities	2010					Total YR'000
	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000		
Due to banks	291,537	-	-	-		291,537
Customers' deposits	58,432,513	9,865,868	23,308,730	227,216		91,834,327
Credit balances and other liabilities	2,829,437	149,779	363,295	-		3,342,511
<b>Total liabilities</b>	<b>61,553,487</b>	<b>10,015,647</b>	<b>23,672,025</b>	<b>227,216</b>		<b>95,468,375</b>

In addition to the above, note no. 29 shows the maturity analysis of assets and liabilities and the net gap between the two.

Interest Rate Risk

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

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

**3 FINANCIAL INSTRUMENTS (CONTINUED)****3-b Risk Management Of Financial Instruments (Continued)**Interest Rate Risk (Continued)

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

	2011					
	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
<b>Assets</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	7,811,174	7,811,174
Due from banks	16,327,011	1,582,090	503,070	-	4,655,920	23,068,091
Treasury bills, net	35,272,388	14,134,884	14,437,321	-	-	63,844,593
Loans and advances to customers, net of provision	1,839,434	140,210	1,840,047	2,433,024	-	6,252,715
Available for sale Investments, net	-	-	-	-	312,756	312,756
Debit balances and other assets	4,342	466	148	-	2,003,625	2,008,581
Total assets	<u>53,443,175</u>	<u>15,857,650</u>	<u>16,780,586</u>	<u>2,433,024</u>	<u>14,783,475</u>	<u>103,297,910</u>
<b>Liabilities</b>						
Due to banks	-	-	-	-	423,360	423,360
Customers' deposits	38,847,708	8,156,507	16,388,679	-	22,882,031	86,274,925
Credit balances and other liabilities	773,887	162,486	326,480	-	3,272,373	4,535,226
Total liabilities	<u>39,621,595</u>	<u>8,318,993</u>	<u>16,715,159</u>	<u>-</u>	<u>26,577,764</u>	<u>91,233,511</u>
Interest rate sensitivity gap	<u>13,821,580</u>	<u>7,538,657</u>	<u>65,427</u>	<u>2,433,024</u>	<u>(11,794,289)</u>	<u>12,064,399</u>

  

	2010					
	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 months to 1 year</i>	<i>Over 1 year</i>	<i>Non Interest Sensitive</i>	<i>Total</i>
<b>Assets</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,449,716	11,449,716
Due from banks	18,469,196	1,382,530	2,469,840	-	5,211,610	27,533,176
Treasury bills, net	43,079,285	6,588,116	7,992,727	-	-	57,660,128
Loans and advances to customers, net of provision	2,667,481	500,513	4,091,731	1,014,204	-	8,273,929
Available for sale Investments, net	-	-	-	-	301,977	301,977
Debit balances and other assets	9,103	868	1,551	-	1,486,940	1,498,462
Total assets	<u>64,225,065</u>	<u>8,472,027</u>	<u>14,555,849</u>	<u>1,014,204</u>	<u>18,450,243</u>	<u>106,717,388</u>
<b>Liabilities</b>						
Due to banks	-	-	-	-	291,537	291,537
Customers' deposits	34,537,971	8,360,911	20,269,578	-	28,665,867	91,834,327
Credit balances and other liabilities	619,039	149,779	363,295	-	2,210,398	3,342,511
Total liabilities	<u>35,157,010</u>	<u>8,510,690</u>	<u>20,632,873</u>	<u>-</u>	<u>31,167,802</u>	<u>95,468,375</u>
Interest rate sensitivity gap	<u>29,068,055</u>	<u>(38,663)</u>	<u>(6,077,024)</u>	<u>1,014,204</u>	<u>(12,717,559)</u>	<u>(11,249,013)</u>

In addition to the above, note no. 30 shows the average interest rates on assets and liabilities applied during the year ended 31 December 2011 and the year ended 31 December 2010.

Exchange Rate Risk

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



### 3 FINANCIAL INSTRUMENTS (CONTINUED)

#### 3-b Risk Management Of Financial Instruments (Continued)

##### Exchange Rate Risk (Continued)

In order to comply with the Central Bank of Yemen Circular No. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies to the Central Bank of Yemen at the prevailing rates on the date of sale. The significant foreign currency positions of the Bank are shown in note no. 33.

The Bank had the following significant net exposures to foreign currencies:

----- 2011 -----						
	<i>United States Dollar YR'000</i>	<i>Pound Sterling YR'000</i>	<i>Euro YR'000</i>	<i>Saudi Rial YR'000</i>	<i>Other currencies YR'000</i>	<i>Total YR'000</i>
Assets	40,619,648	1,573,870	2,003,373	2,641,444	207,536	47,045,781
Liabilities	<u>(41,184,508)</u>	<u>(1,518,419)</u>	<u>(1,972,611)</u>	<u>(2,438,888)</u>	<u>(238,129)</u>	<u>(47,352,555)</u>
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>
----- 2010 -----						
	<i>United States Dollar YR'000</i>	<i>Pound Sterling YR'000</i>	<i>Euro YR'000</i>	<i>Saudi Rial YR'000</i>	<i>Other currencies YR'000</i>	<i>Total YR'000</i>
Assets	51,472,564	1,799,900	4,744,011	2,856,087	692,303	61,564,865
Liabilities	<u>(51,601,699)</u>	<u>(1,795,918)</u>	<u>(4,715,414)</u>	<u>(2,802,327)</u>	<u>(641,475)</u>	<u>(61,556,833)</u>
Net currency position	<u>(129,135)</u>	<u>3,982</u>	<u>28,597</u>	<u>53,760</u>	<u>50,828</u>	<u>8,032</u>

#### 3-c Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with external imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios. The capital adequacy is monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the Central Bank of Yemen for supervisory purposes. The required information is filed with the Central Bank of Yemen on a quarterly basis.

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

The total capital of the Bank is divided in two tiers:

Tier 1 capital: which comprises the capital, statutory reserve and general reserve.

Tier 2 capital: which comprises the revaluation reserves and unrealized gains arising from any changes in fair value of available for sale investments.

Investment in any local bank or finance company is deducted from the Tier 1 and Tier 2 capital. The balance of general provision for loans and advances is added to the Tier 1 and Tier 2 capital.

The risk - weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off statement of financial position exposure, with some adjustments to reflect the more contingent nature of potential losses.

The Bank complied with all the externally imposed capital requirements to which they are subject.

**3 FINANCIAL INSTRUMENTS (CONTINUED)****3-c Capital Management (Continued)**

The capital adequacy is calculated as follows:

	2011 YR' million	2010 YR' million
<b>Tier 1 capital</b>		
Capital	10,000	10,000
Statutory reserve	2,499	2,168
General reserve	1,014	684
Total Tier 1 capital	<u>13,513</u>	<u>12,852</u>
<b>Tier 2 capital</b>		
Property revaluation reserve	640	640
Fair value reserve	73	63
Total Tier 2 capital	<u>713</u>	<u>703</u>
Investment in local banks or financial companies	(66)	(66)
General provision balance as at year end	21	53
Total qualifying capital	<u>14,182</u>	<u>13,542</u>
<b>Risk weighted assets:</b>		
On statement of financial position	11,586	14,664
Off statement of financial position	3,487	4,605
Total risk - weighted assets	<u>15,073</u>	<u>19,269</u>
<b>Capital adequacy ratios</b>		
Tier 1 capital	90%	67%
Total capital	94%	70%

**4 CASH ON HAND AND RESERVE BALANCES WITH THE CENTRAL BANK OF YEMEN**

	2011 YR'000	2010 YR'000
<b>Cash on hand:</b>		
In local currency	621,525	615,310
In foreign currencies	751,099	804,041
Cheques purchased, net	-	556
Total cash on hand	<u>1,372,624</u>	<u>1,419,907</u>
<b>Reserve balances with the Central Bank of Yemen:</b>		
In local currency	4,077,984	3,787,490
In foreign currencies	2,360,566	6,242,319
Total reserve balances with the Central Bank of Yemen	<u>6,438,550</u>	<u>10,029,809</u>
Total cash on hand and reserve balances with the Central Bank of Yemen	<u>7,811,174</u>	<u>11,449,716</u>

During the year, cash amounting YR 5,344 thousand was stolen from the Bank's branch in Abyan (Zunjubar) due to rebellion acts of what is called AlQaeda. Although the management of the Bank has charged the loss of this amount to the statement of comprehensive income expensed such amount, it believes of the possibility to recover the amount as a compensation from the Government.

In accordance with the Yemeni Banks Law No. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank of Yemen for its demand, time and other deposits at 7% on local currency and 10% on foreign currencies of deposits.

**5 DUE FROM BANKS**

	2011 YR '000	2010 YR '000
<i>Due from the Central Bank of Yemen and other local banks</i>		
Current accounts with the Central Bank of Yemen:		
In local currency	1,418,700	2,456,092
In foreign currencies	356,161	212,588
Total due from the Central Bank of Yemen	<u>1,774,861</u>	<u>2,668,680</u>
Current accounts with other local banks	1,829	936
Islamic investment deposits with local bank	283,458	392,926
Total due from the Central Bank of Yemen and other local banks	<u>2,060,148</u>	<u>3,062,542</u>
<i>Due from foreign banks and other financial institutions</i>		
Current and demand account balances	4,131,110	6,051,420
Provision for outstanding reconciling items	(20,039)	(20,149)
Time deposits	16,896,872	18,439,363
Total due from foreign banks and other financial institutions	<u>21,007,943</u>	<u>24,470,634</u>
Total due from banks	<u>23,068,091</u>	<u>27,533,176</u>

Current accounts and time deposits with foreign banks carry variable interest rates (0.15 % to 2.71%), while current accounts with the Central Bank of Yemen and local banks do not carry any interest.

**6 TREASURY BILLS, NET**

	2011 YR '000	2010 YR '000
Nominal value of treasury bills (6-a)	66,362,289	59,818,096
Unamortized discount (6-b)	(2,517,696)	(2,157,968)
Net book value of treasury bills	<u>63,844,593</u>	<u>57,660,128</u>

The treasury bills and repurchased treasury bills carry interest rates ranging from 22.485% to 22.980% (31 December 2010: 12.97% to 22.985%).

**6-a Nominal Value Of Treasury Bills**

	2011 YR '000	2010 YR '000
Within:		
42 days	-	-
49 days	-	721,597
90 days	39,612,729	42,815,039
182 days	11,400,350	7,701,100
364 days	15,349,210	8,580,360
Total nominal value of treasury bills	<u>66,362,289</u>	<u>59,818,096</u>

**6-b Unamortized Discount**

	2011 YR '000	2010 YR '000
Within:		
42 days	(-)	(-)
49 days	(-)	(10,141)
90 days	(930,990)	(1,160,967)
182 days	(674,817)	(399,228)
364 days	(911,889)	(587,632)
Net unamortized discount	<u>(2,517,696)</u>	<u>(2,157,968)</u>



**7 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION**

	2011 YR'000	2010 YR'000
Loans and advances to customers in the private sector:		
Overdraft facilities	6,056,004	6,169,882
Short term loans	5,026,163	5,960,330
Discounted commercial papers	66,786	-
Total loans and advances to customers in the private sector	<u>11,148,953</u>	<u>12,130,212</u>
Provision for losses on non performing loans and advances (note 7-a)	(4,077,766)	(3,126,033)
Suspended interest (note 7-b)	(818,472)	(730,250)
Total provision for losses on non performing loans and advances and suspended interest	<u>(4,896,238)</u>	<u>(3,856,283)</u>
Net loans and advances to customers	<u>6,252,715</u>	<u>8,273,929</u>

Gross non-performing loans and advances as at 31 December 2011 amounted to YR 5,551,561 thousand (31 December 2010: YR 4,414,718 thousand).

The breakup of the above amount is as follows:

	2011 YR'000	2010 YR'000
Substandard debts	328,144	410,801
Doubtful debts	729,428	491,872
Bad debts	4,493,989	3,512,045
Total gross non performing loans and advances	<u>5,551,561</u>	<u>4,414,718</u>

**7-a Movement of Provision For Losses On Non-Performing Loans And Advances**

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

	----- 31 December 2011 -----			----- 31 December 2010 -----		
	Specific YR'000	General YR'000	Total YR'000	Specific YR'000	General YR'000	Total YR'000
Balance at 1 January	3,072,785	53,248	3,126,033	2,846,709	104,778	2,951,487
Revaluation of opening balances in foreign currencies	(2,160)	-	(2,160)	39,908	(67)	39,841
Amount utilized during the year	(24,299)	-	(24,299)	(426)	-	(426)
Adjusted opening balances	<u>3,046,326</u>	<u>53,248</u>	<u>3,099,574</u>	<u>2,886,191</u>	<u>104,711</u>	<u>2,990,902</u>
Amounts recovered of loans previously written off (note 21)	(1,076,107)	(38,059)	(1,114,166)	(744,584)	(84,087)	(828,671)
Provision for the year (note 23)	2,086,747	5,611	2,092,358	931,178	32,624	963,802
Charged to the statement of comprehensive income	1,010,640	(32,448)	978,192	186,594	(51,463)	135,131
Balance at 31 December	<u>4,056,966</u>	<u>20,800</u>	<u>4,077,766</u>	<u>3,072,785</u>	<u>53,248</u>	<u>3,126,033</u>

The Bank has, during the year, written-off fully provided loans and advances amounting to YR 24,299 thousand (2010: YR 426 thousand) against impairment provisions where all possible actions for recoveries have been exhausted and the Bank's management believes the possibility of recoveries is remote. The Bank's management, however, continues to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the statement of comprehensive income.

**7-b Suspended Interests**

	2011 YR'000	2010 YR'000
Balance at 1 January	730,250	405,514
Exchange differences for the year	(237,638)	69,688
Amounts written-off during the year	(94,953)	(3,573)
Recovered during the year	(110,541)	(42,965)
Suspended during the year	531,354	301,586
Balance at 31 December	<u>818,472</u>	<u>730,250</u>

**8 AVAILABLE FOR SALE INVESTMENTS, NET**

These comprise investments, available for sale, in the following banks and financial institution:

	Ownership Percentage %	No. of Shares	2011 YR '000	2010 YR'000
Unquoted investments in shares of UBAC Group:				
UBAC - Curacao - A Shares of USD 50 / share	0.788	29,944	320,101	320,101
UBAC - Curacao - B Shares of USD 50 / share	0.782	4,693	50,168	50,168
UBAC - Curacao - C Shares of USD 50 / share	1.221	10,565	112,940	112,940
Total investment in shares in UBAF Group		<u>45,202</u>	<u>483,209</u>	<u>483,209</u>
Other unquoted investments:				
ALUBAF Arab International Bank - Bahrain (note 8-a)	0.344	6,880	165,209	154,985
Arab Financial Services Company-Bahrain of USD 7.5 / share (note 8-b)	0.167	10,000	22,919	22,364
Yemen Financial Services Company-Yemen of USD 100 / share	10.000	3,107	66,428	66,428
Yemen Mobile Company for Telecommunication-Yemen of YR 500 / share	0.139	120,000	61,200	61,200
Total other unquoted investments			<u>315,756</u>	<u>304,977</u>
Total available for sale investments			<u>798,965</u>	<u>788,186</u>
Provision for impairment (note 8-c)			<u>(486,209)</u>	<u>(486,209)</u>
Net book value of investments available for sale			<u>312,756</u>	<u>301,977</u>

**8-a ALUBAF Arab International Bank - Bahrain**

The calculation of fair value of the investment in ALUBAF Arab International Bank - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2010) which amounted to USD 56.15 per share (2009: USD 55.35 per share).

**8-b Arab Financial Services Company - Bahrain**

The calculation of fair value of the investment in Arab Financial Services Company - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2010) which amounted to USD 10.72 per share (2010: USD 10.46 per share).

**8-c Provision for Impairment**

	2011 YR'000	2010 YR'000
Provision for impairment of:		
Investments in UBAC - Curacao (note 8-a-i)	483,209	483,209
Investment in Yemen Financial Services Company-Yemen	3,000	3,000
Total provision for impairment	<u>486,209</u>	<u>486,209</u>

**8-a-i Investments In UBAC - Curacao**

Since no dividends were received from the investments in UBAC - Curacao during the last few years and no dividends are expected to be received in the coming years, a full impairment provision was taken for the balances of those investments because their net present value is nil.

**9 DEBIT BALANCES AND OTHER ASSETS**

	2011 YR'000	2010 YR'000
Prepaid expenses and other debit balances	29,066	13,440
Interest receivable	4,982	11,575
Capital work in progress expenses (note 9-a)	200,404	231,327
Real estate properties acquired from customers, net of provision (note 9-b)	154,656	154,657
Al Amal Bank for Microfinance -Yemen (note 9-c)	20,000	10,000
Al Tadhamon Microfinance - Yemen (note 9-d)	1,000	1,000
Customer acceptances (note 9-e)	1,547,369	1,031,830
Sundry debit balances, net of provision	51,104	44,633
Total debit balances and other assets	<u>2,008,581</u>	<u>1,498,462</u>

**9-a Capital Work In Progress Expenses**

This amount represents the expenses of modernisation and rehabilitation of some of the Bank's branches and also the maintenance and repairs of others. These works will be transferred to property, plant and equipment when accomplished and ready to use.

**9 DEBIT BALANCES AND OTHER ASSETS (CONTINUED)****9-b Real Estate Properties Acquired From Customers, Net Of Provision**

The balance of real estate properties acquired from customers is net of a provision of YR 9,219 thousand (2010: YR 9,219 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

**9-c Al Amal Bank for Microfinance -Yemen**

The shareholdings in Al Amal Bank for Microfinance - Yemen has been included in the "debit balance and other assets" rather than "available for sale investments" as management is of the opinion that these amounts would be fully refundable in the future.

The Bank subscribed additional shares of 100 equal to its share in the increase of Al AMAL FOR Microfinance – Yemen share capital. The value per share is YR100 thousand with a total value of YR10 million.

**9-d Al Tadhamon Microfinance – Yemen**

The shareholdings in Al Tadhamon Microfinance - Yemen has been included in the "debit balance and other assets" rather than "available for sale investments" as management is of the opinion that these amounts would be fully refundable in the future.

**9-e Customer Acceptances**

In accordance with IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" and the corresponding liability is disclosed under "credit balances and other liabilities".

**10 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION**

	<i>Freehold land and buildings YR'000</i>	<i>Leasehold improvements YR'000</i>	<i>Furniture &amp; equipment YR'000</i>	<i>Motor vehicles YR'000</i>	<i>Swift &amp; computers YR'000</i>	<i>Total YR'000</i>
<b>Cost Or Valuation</b>						
At 1 January 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)
At 31 December 2011	<u>2,382,204</u>	<u>110,072</u>	<u>417,981</u>	<u>121,516</u>	<u>495,131</u>	<u>3,526,904</u>
At 1 January 2010	2,069,644	92,523	370,460	121,516	230,651	2,884,794
Additions during the year	264,041	9,662	24,596	-	221,801	520,100
Disposals during the year	-	-	-	-	-	-
At 31 December 2010	<u>2,333,685</u>	<u>102,185</u>	<u>395,056</u>	<u>121,516</u>	<u>452,452</u>	<u>3,404,894</u>
<b>Accumulated Depreciation</b>						
At 1 January 2011	112,474	49,955	221,798	106,308	189,641	680,176
Charge for the year (note 10-a)	24,844	8,839	29,565	9,328	65,568	138,144
Disposals during the year	-	-	(3,698)	-	(1,057)	(4,755)
At 31 December 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>
At 1 January 2010	92,893	41,451	191,506	90,435	165,234	581,519
Charge for the year (note 10-a)	19,581	8,504	30,292	15,873	24,407	98,657
At 31 December 2010	<u>112,474</u>	<u>49,955</u>	<u>221,798</u>	<u>106,308</u>	<u>189,641</u>	<u>680,176</u>
<b>Net Book Value</b>						
At 31 December 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>
At 31 December 2010	<u>2,221,211</u>	<u>52,230</u>	<u>173,258</u>	<u>15,208</u>	<u>262,811</u>	<u>2,724,718</u>

Freehold land, land leased from the Government and buildings on freehold and leasehold were revalued at their open market value for existing use on 1 December 1999, effective from 31 December 1999, by an independent professional real estate firm. In accordance with IAS 16, the cost and related accumulated depreciation as at 31 December 1999 were eliminated and the revalued amount has been considered to be the new gross book carrying amount (note 15-d)

**10-a Depreciation Charge For The Year**

	2011 YR'000	2010 YR'000
Depreciation of property, plant and equipment	133,389	98,657
Loss due to writing of property, plant and equipment of Bank's branch in Zunjubar, Abyan (note 10-a-i)	4,755	-
Total depreciation charge for the year	<u>138,144</u>	<u>98,657</u>



**10 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (CONTINUED)****10-a Depreciation Charge For The Year (Continued)****10-a-i Loss due to writing of property, plant and equipment of Bank's branch in Zunjubar, Abyan**

During the year ended 31 December 2011 the Bank's branch in Zunjubar, Abyan was broken into, contents got stolen and was then put on fire. Accordingly, the amount of YR 4,755 thousand which represents the net book value of the damaged property, plant and equipment was written off. The management is of the opinion that the amount will be recovered as a compensation from the Government, although it was charged to statement of comprehensive income.

**11 DUE TO BANKS**

	2011 YR'000	2010 YR'000
Current and under demand accounts:		
Local banks	-	-
Foreign banks	423,360	291,537
Total due to banks	<u>423,360</u>	<u>291,537</u>

**12 CUSTOMERS' DEPOSITS**

	2011 YR'000	2010 YR'000
Current accounts	15,601,786	20,856,321
Savings accounts	27,688,854	29,155,629
Term deposits	39,990,915	38,117,416
Other deposit margins	667,395	474,147
Cash deposits for documentary letters of credit, guarantees and others	2,325,975	3,230,814
Total customers' deposits	<u>86,274,925</u>	<u>91,834,327</u>

**13 CREDIT BALANCES AND OTHER LIABILITIES**

	2011 YR'000	2010 YR'000
Accrued interest payable	1,262,853	1,132,113
Unclaimed balances (note 13-a)	204,883	205,200
Provision for employees' leave pay	71,155	62,833
Provision for off-statement of financial position items (note 13-b)	78,973	92,634
Employees' share in profit	110,439	106,785
Other provisions	492	-
Provision for contingent liabilities (note 32)	60,461	60,461
Customer acceptances	1,547,369	1,031,830
Accrued Zakat (note 13-c)	25,000	50,000
Sundry credit balances	1,173,601	600,655
Total credit balances and other liabilities	<u>4,535,226</u>	<u>3,342,511</u>

**13-a Unclaimed Balances**

This amount represents balances that are over 15 years old and have not been claimed by the beneficiaries. Management regularly reviews the likelihood of these amounts being claimed and based on the outcome of such review; it considers the amount that should be transferred to the Ministry of Finance in accordance with the relevant article in the Banks Law No. 38 of 1998.

**13-b Provision For Off-Statement Of Financial Position Items**

	2011 YR'000	2010 YR'000
Balance at 1 January	92,634	115,856
Revaluation of opening balance in foreign currencies	-	3,910
Provision charged during the year (note 23)	27,218	37,376
Provision written back during the year (note 21)	(40,879)	(64,508)
Balance at 31 December	<u>78,973</u>	<u>92,634</u>

**13 CREDIT BALANCES AND OTHER LIABILITIES (CONTINUED)**

**13-c Accrued Zakat**

	2011 YR'000	2010 YR'000
Balance at 1 January	50,000	-
Written back during the year (note 21)	(50,000)	(-)
Charged for the year in the statement of comprehensive income	165,000	150,000
Paid during the year	(140,000)	(100,000)
Balance at 31 December	<u>25,000</u>	<u>50,000</u>

**14 INCOME TAX**

	2011 YR'000	2010 YR'000
Balance at 1 January	418,969	774,586
Charged for the year in the statement of comprehensive income (note 14-a)	550,999	518,969
Paid during the year (note 14-b)	(402,899)	(874,586)
Written back during the year (note 21)	(16,070)	-
Balance at 31 December	<u>550,999</u>	<u>418,969</u>

In accordance with article no. 85 of the Banks Law No. 38 of 1998, which came into effect on 27 December 1998, and article 14-a-2 in the Income Tax Law No. 17 of 2010, any provision for losses on loans and advances made by the Bank in compliance with the regulations of the Central Bank of Yemen in this respect, is not subject to the provisions of any income tax law and are allowable as a deduction in arriving at the taxable income. Suspended interests are part of these provisions.

**14-a Charge For The Year**

The income tax charge for the year has been calculated on the basis of 20% (2010: 20%) of profit for the year according to the provisions of Tax Law no. 17 for 2010.

**14-b Prior Year Tax Assessments**

The Bank has paid the income tax in accordance to the tax declaration provided to the Tax Authority as follows:

	2011 YR'000	2010 YR'000
Amount paid during the year for income tax of:		
Prior year	402,899	774,586
Current year	-	100,000
Total amount paid for income tax during the year	<u>402,899</u>	<u>874,586</u>

**15 EQUITY**

**15-a Capital**

	Number of shares 1000 shares	Value of share YR	2011 YR'000	2010 YR'000
Authorised	10,000	1,000	<u>10,000,000</u>	<u>10,000,000</u>
Declared and paid up	10,000	1,000	<u>10,000,000</u>	<u>10,000,000</u>

**15-b Statutory Reserve**

In accordance with article 12-1 of the Banks Law no. 38 of 1998, 15% of the net profit for the year is transferred to the statutory reserve until the balance of this reserve reaches twice the capital. The Bank cannot use this reserve without the prior approval of the Central Bank of Yemen. As at 31 December 2011, the amount of YR 330,599 thousand was transferred to this reserve (31 December 2010: YR 311,381).

**15-c General Reserve**

As at 31 December 2011, the amount of YR 330,599 thousand was transferred to this reserve (31 December 2010: YR 311,381). The balance of this reserve can be used for the purposes approved by the Bank.

**15-d Surplus On Revaluation Of Property Reserve**

The difference between the revalued amounts of the freehold land and the buildings and their book value as at 31 December 1999 had been credited to this account and included in equity.

**15 EQUITY (CONTINUED)****15-e Cumulative Changes in Fair Value Reserve**

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

**15-f Profit Distribution**

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

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

**16 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET**

The commitments on behalf of customers for which there were corresponding customer liabilities, as at the statement of financial position date, consisted of the following:

	----- 2011 -----		
	<i>Gross commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
Documentary letters of credit- import	6,120,219	1,318,947	4,801,272
Documentary letters of credit- export	74,206	-	74,206
Letters of guarantee - customers	4,130,561	994,360	3,136,201
Letters of guarantee - correspondent banks	7,690,402	-	7,690,402
Credit cards	71,623	12,668	58,955
Cheques purchased	-	-	-
Total contra accounts and other commitments	<b>18,087,011</b>	<b>2,325,975</b>	<b>15,761,036</b>
	----- 2010 -----		
	<i>Gross commitments YR'000</i>	<i>Covered by margin YR'000</i>	<i>Net commitments YR'000</i>
Documentary letters of credit- import	9,872,458	1,651,818	8,220,640
Documentary letters of credit- export	-	-	-
Letters of guarantee - customers	5,650,677	1,559,661	4,091,016
Letters of guarantee - correspondent banks	10,467,721	-	10,467,721
Credit cards	69,485	9,461	60,024
Cheques purchased	65,589	9,874	55,715
Total contra accounts and other commitments	<b>26,125,930</b>	<b>3,230,814</b>	<b>22,895,116</b>



**17 INTEREST ON LOANS AND ADVANCES TO CUSTOMERS AND DUE FROM BANKS**

	2011 YR'000	2010 YR'000
Interest on loans and advances to customers:		
Loans and advances to customers	1,534,387	1,510,952
Other facilities	204	116
Murabaha operations (note 17-a)	929	1,289
Total interest on loans and advances to customers	<u>1,535,520</u>	<u>1,512,357</u>
Interest on accounts with foreign banks:		
Current accounts	3,024	4,225
Call accounts	-	-
Deposits	116,583	163,898
Interest on accounts with foreign banks	<u>119,607</u>	<u>168,123</u>
Interest on accounts with local banks:		
Reserves balances with the Central Bank of Yemen	-	-
Total interest on accounts with local banks	<u>119,607</u>	<u>168,123</u>
Total interest on loans and advances to customers and due from banks	<u>1,655,127</u>	<u>1,680,480</u>

**17-a Murabaha Operations**

This amount represents banking services for customers who seek banking services in an Islamic manner.

**18 COST OF DEPOSITS**

	2011 YR'000	2010 YR'000
Interest on current and saving accounts	2,996,868	2,666,971
Interest on time deposits	6,450,139	4,834,966
Total cost of deposits	<u>9,447,007</u>	<u>7,501,937</u>

**19 COMMISSIONS AND FEE INCOME ON BANKING SERVICES**

	2011 YR'000	2010 YR'000
Commissions on:		
Documentary letters of credits	53,028	112,198
Letters of guarantee	129,078	253,407
Transfer of funds	25,458	28,655
Acceptances	12,628	13,199
Cheques	257,056	246,356
Fees on:	-	-
Banking services	9,085	10,063
Other services	49,622	46,306
Total commissions and fee income on banking services	<u>535,955</u>	<u>710,184</u>

**20 GAIN / (LOSS) ON FOREIGN CURRENCY TRANSACTIONS**

	2011 YR'000	2010 YR'000
Revaluation differences on foreign currency transactions	(51,621)	(245,176)
Gain on foreign exchange trading transactions	140,196	92,382
Total gain / (loss) on foreign currency transactions	<u>88,575</u>	<u>(152,794)</u>

**21 OTHER OPERATING INCOME**

	2011	2010
	YR'000	YR'000
Provision for:		
Losses on loans no longer required (note 7-a)	1,114,166	828,671
Off-statement of financial position items no longer required (note 13-b)	40,879	64,508
Misappropriated amounts written back	162,521	-
Outstanding reconciling item no longer required (BCCI- under liquidation)	-	1,180
Income tax written back during the period (note 14)	16,070	-
Zakat written back during the year (note 13-c)	50,000	-
Sundry income	19,525	14,937
	<u>1,403,161</u>	<u>909,296</u>
Total other operating income		

**22 GENERAL AND ADMINISTRATION EXPENSES**

	2011	2010
	YR'000	YR'000
Salaries, wages and related expenses	1,438,679	1,126,912
Depreciation of property, plants and equipment (note 10-a)	133,389	98,657
Loss due to writing off damaged property, plant and equipment of Bank's branch in Zunjubar, Abyan (note 10-a-i)	4,755	-
Rent	41,873	35,318
Electricity and water	66,586	62,325
Repairs and maintenance	37,626	33,733
Telephone, telex and postage	19,147	22,379
Transportation and allowances	36,697	39,038
Promotions and publications	41,098	30,050
Computer maintenance	2,738	1,412
Training	29,531	42,405
Taxes and government fees (note 22-a)	110,669	104,202
Donations	27,463	17,524
Stationery and printing supplies	30,931	29,923
Consultancy fees for programme for development and improvement of the Bank	22,721	30,841
Other	142,183	128,912
	<u>2,186,086</u>	<u>1,803,631</u>
Total general and administration expenses		

**22-a Taxes And Government Fees**

This account includes the amount of YR 100,581 thousand paid during the year as contribution in Banking Deposit Insurance Corporation according to the Law No. 21 for 2008 on establishment of the Banking Deposit Insurance Corporation.

**23 PROVISIONS**

	2011	2010
	YR'000	YR'000
Provision for:		
Losses on loans and advances (note 7-a)	2,092,358	963,802
Off-statement of financial position items (note 13-b)	27,218	37,376
Cash stolen from Bank's branch in Zunjubar, Abyan (note 4)	5,344	-
Other provisions	59,130	40,446
	<u>2,184,050</u>	<u>1,041,624</u>
Total provisions		

**24 BASIC EARNINGS PER SHARE**

		2011	2010
Profit for the year	YR'000	<u>2,203,994</u>	<u>2,075,874</u>
Weighted average number of shares	Share	<u>10,000</u>	<u>9,500</u>
Basic earnings per share	YR	<u>220</u>	<u>219</u>

**25 RELATED PARTY TRANSACTIONS**

	2011 YR'000	2010 YR'000
Board members and parties related to them:		
Loans and advances, gross	4,895	27,121
Customers' deposits	13,069	11,525
Interest income for the year	80	1,437
Interest expense for the year	826	848

**26 CASH AND CASH EQUIVALENTS**

	2011 YR'000	2010 YR'000
Cash on hand and reserve balances with the central Bank of Yemen (note 4)	7,811,174	11,449,716
Due from Banks (note 5)	23,068,091	27,533,176
Treasury bills with the Central Bank of Yemen (note 6)	63,844,593	57,660,128
Reserves balances with Central Bank of Yemen (note 4)	(6,438,550)	(10,029,809)
Treasury bills maturing after three months, net of unamortized discount (note 29)	(28,572,205)	(14,580,843)
Due from banks maturing after three months (note 29)	<u>(2,170,680)</u>	<u>(3,937,890)</u>
Total cash and cash equivalents	<u>57,452,423</u>	<u>68,094,478</u>

**27 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS**

----- As at 31 December 2011 -----

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Services YR'000	Financing YR'000	Personal YR'000	Total YR'000
<b>Assets</b>							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	7,811,174	-	7,811,174
Due from banks	-	-	-	-	23,068,091	-	23,068,091
Treasury bills, net	-	-	-	-	63,844,593	-	63,844,593
Loans and advances to customers, net of provision	-	-	4,318,340	12,700	34,658	1,887,017	6,252,715
Available for sale Investments, net	-	-	-	-	312,756	-	312,756
Total assets	<u>-</u>	<u>-</u>	<u>4,318,340</u>	<u>12,700</u>	<u>95,071,272</u>	<u>1,887,017</u>	<u>101,289,329</u>
<b>Liabilities</b>							
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
Total liabilities	<u>1,225,127</u>	<u>202,342</u>	<u>7,291,900</u>	<u>2,646,943</u>	<u>2,140,698</u>	<u>73,191,275</u>	<u>86,698,285</u>
<b>Contra accounts and other commitments</b>	<u>2,258,006</u>	<u>3,000</u>	<u>12,895,318</u>	<u>84,752</u>	<u>1,382,232</u>	<u>1,463,703</u>	<u>18,087,011</u>

----- As at 31 December 2010 -----

	Manufacturing YR'000	Agriculture YR'000	Trade YR'000	Services YR'000	Financing YR'000	Personal YR'000	Total YR'000
<b>Assets</b>							
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,449,716	-	11,449,716
Due from banks	-	-	-	-	27,533,176	-	27,533,176
Treasury bills, net	-	-	-	-	57,660,128	-	57,660,128
Loans and advances to customers, net of provision	757,167	-	5,328,303	13,229	6,599	2,168,631	8,273,929
Available for sale Investments, net	-	-	-	-	301,977	-	301,977
Total assets	<u>757,167</u>	<u>-</u>	<u>5,328,303</u>	<u>13,229</u>	<u>96,951,596</u>	<u>2,168,631</u>	<u>105,218,926</u>
<b>Liabilities</b>							
Due to banks	-	-	-	-	291,537	-	291,537
Customers' deposits	1,624,224	171,774	13,985,941	2,496,261	364,694	73,191,433	91,834,327
Total liabilities	<u>1,624,224</u>	<u>171,774</u>	<u>13,985,941</u>	<u>2,496,261</u>	<u>656,231</u>	<u>73,191,433</u>	<u>92,125,864</u>
<b>Contra accounts and other commitments</b>	<u>3,025,341</u>	<u>5,238</u>	<u>15,977,325</u>	<u>172,401</u>	<u>2,196,126</u>	<u>4,749,499</u>	<u>26,125,930</u>

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

	2011					
	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
<b>Assets</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	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, net	63,844,593	-	-	-	-	63,844,593
Loans and advances to customers, net of provision	6,252,715	-	-	-	-	6,252,715
Available for sale Investments, net	124,630	-	-	188,126	-	312,756
<b>Total assets</b>	<b>80,073,221</b>	<b>1,854,071</b>	<b>12,719,583</b>	<b>6,524,047</b>	<b>118,407</b>	<b>101,289,329</b>
<b>Liabilities</b>						
Due to banks	-	-	-	423,360	-	423,360
Customers' deposits	86,274,925	-	-	-	-	86,274,925
<b>Total liabilities</b>	<b>86,274,925</b>	<b>-</b>	<b>-</b>	<b>423,360</b>	<b>-</b>	<b>86,698,285</b>

	2010					
	Republic of Yemen YR'000	United States of America YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
<b>Assets</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	11,449,716	-	-	-	-	11,449,716
Due from banks	3,042,393	3,597,300	10,908,088	9,882,482	102,913	27,533,176
Treasury bills, net	57,660,128	-	-	-	-	57,660,128
Loans and advances to customers, net of provision	8,273,929	-	-	-	-	8,273,929
Available for sale Investments, net	124,628	-	-	177,349	-	301,977
<b>Total assets</b>	<b>80,550,794</b>	<b>3,597,300</b>	<b>10,908,088</b>	<b>10,059,831</b>	<b>102,913</b>	<b>105,218,926</b>
<b>Liabilities</b>						
Due to banks	-	-	-	291,537	-	291,537
Customers' deposits	91,834,327	-	-	-	-	91,834,327
<b>Total liabilities</b>	<b>91,834,327</b>	<b>-</b>	<b>-</b>	<b>291,537</b>	<b>-</b>	<b>92,125,864</b>

**29 MATURITIES OF ASSETS AND LIABILITIES**

	2011					Total YR'000
	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000		
<b>Assets</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	7,811,174	-	-	-	-	7,811,174
Due from banks	20,897,411	1,582,090	503,070	85,520	-	23,068,091
Treasury bills, net	35,272,388	14,134,884	14,437,321	-	-	63,844,593
Loans and advances to customers, net of provision	1,839,434	140,210	1,840,047	2,433,024	-	6,252,715
Available for sale Investments, net	-	-	-	312,756	-	312,756
<b>Total assets</b>	<b>65,820,407</b>	<b>15,857,184</b>	<b>16,780,438</b>	<b>2,831,300</b>	<b>-</b>	<b>101,289,329</b>
<b>Liabilities</b>						
Due to banks	-	423,360	-	-	-	423,360
Customers' deposits	57,434,771	9,723,836	18,856,195	260,123	-	86,274,925
<b>Total liabilities</b>	<b>57,434,771</b>	<b>10,147,196</b>	<b>18,856,195</b>	<b>260,123</b>	<b>-</b>	<b>86,698,285</b>
<b>Net Gap</b>	<b>7,962,276</b>	<b>5,710,000</b>	<b>(2,075,757)</b>	<b>2,571,177</b>	<b>-</b>	<b>14,591,044</b>



**29 MATURITIES OF ASSETS AND LIABILITIES (CONTINUED)**

	2010					Total YR'000
	Less than 3 months YR'000	From 3 to 6 months YR'000	From 6 months to 1 year YR'000	Over 1 year YR'000		
<b>ASSETS</b>						
Cash on hand and reserve balances with the Central Bank of Yemen	11,449,716	-	-	-	-	11,449,716
Due from banks	23,595,286	1,382,530	2,469,840	85,520	-	27,533,176
Treasury bills, net	43,079,285	6,588,116	7,992,727	-	-	57,660,128
Loans and advances to customers, net of provision	2,667,481	500,513	4,091,731	1,014,204	-	8,273,929
Available for sale Investments, net	-	-	-	301,977	-	301,977
<b>Total assets</b>	<b>80,791,768</b>	<b>8,471,159</b>	<b>14,554,298</b>	<b>1,401,701</b>		<b>105,218,926</b>
<b>LIABILITIES</b>						
Due to banks	291,537	-	-	-	-	291,537
Customers' deposits	58,432,513	9,865,868	23,308,730	227,216	-	91,834,327
<b>Total liabilities</b>	<b>58,724,050</b>	<b>9,865,868</b>	<b>23,308,730</b>	<b>227,216</b>		<b>92,125,864</b>
<b>Net Gap</b>	<b>22,067,718</b>	<b>(1,394,709)</b>	<b>(8,754,432)</b>	<b>1,174,485</b>		<b>13,093,062</b>

**30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES**

	2011				
	Yemeni Rial %	US Dollar %	Sterling Pound %	Euro %	Saudi Rial %
<b>Assets</b>					
Reserve balances with the Central Bank of Yemen	-	-	-	-	-
Due from banks:	-	-	-	-	-
Current accounts	-	1.35	0.93	0.50	1.58
Time deposits	-	-	-	-	-
Treasury bills, net	22.62	-	-	-	-
Loans and advances to customers, net of provision	23.00	7.75	-	-	-
<b>Liabilities</b>					
Customers' deposits	20.00	0.25	0.25	0.25	0.25
	2010				
	Yemeni Rial %	US Dollar %	Sterling Pound %	Euro %	Saudi Rial %
<b>Assets</b>					
Reserve balances with the Central Bank of Yemen	-	-	-	-	-
Due from banks:	-	-	-	-	-
Current accounts	-	-	-	-	-
Time deposits	-	1.76	0.79	0.37	0.32
Treasury bills, net	22.98	-	-	-	-
Loans and advances to customers, net of provision	23.00	7.75	-	-	-
<b>Liabilities</b>					
Customers' deposits	18.00	0.25	0.25	0.25	0.25

**31 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.

**32 CONTINGENT ASSETS AND LIABILITIES**

The Bank has filed a number of legal cases with the Public Fund Court and the Commercial Preliminary Court against former employees and customers of the Bank relating to irregularities and default in settlements of amounts due respectively. Where there are legal cases filed against the Bank at the respective courts, management fully and/or partly provided for such cases in the financial statements. In

some of the cases, although court decisions were made in favour of the Bank, their executions have not been effected, whereas the other cases are still pending in the courts.

### 33 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

As at the year end the Bank had the following significant net exposures denominated in foreign currencies:

	----- 2011-----		----- 2010-----	
	%	YR'000	%	YR'000
United States Dollar	(4,00)	(564,860)	(0.95)	(129,135)
Pound Sterling	0,41	55,451	0.03	3,982
Euro	0,23	30,762	0.21	28,597
Saudi Rial	1,50	202,556	0.40	53,760
Swiss Franc	0,15	19,815	0.20	26,986
Japan Yen	(0,42)	(58,056)	0.11	14,560
United Arab Emirates Dirham	0,06	7,632	0.07	9,263
Other	0.00	16	0.00	19
Aggregate foreign currency positions	<u>(2,16)</u>	<u>(306,684)</u>	<u>0.07</u>	<u>8,032</u>

The US Dollar exchange rate as at 31 December 2011 was 213.80 YR/USD (31 December 2010: 213.80 YR/USD).

### 34 CAPITAL COMMITMENTS

There are no capital commitments on the Bank as at 31 December 2011 (31 December 2010: nil).

### 35 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT OF THE BANK

During the year 2009, the Bank has accomplished implementing most stages related to part one of the modernization and development programme. The Bank is in the process of continuing part two of the programme involved with implementation of structuring and technology part. The Bank is financing the cost of both parts of this programme from its own financial resources.

### 36 COMPARATIVE FIGURES

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

### 37 AUTHORIZATION OF THE FINANCIAL STATEMENT

The Board of Directors of the Bank in its meeting held on 2 May 2012 approved these financial statements and to present it to H.E. the Minister of Finance as the representative of the Government the full owner of the equity.