

# البنك الأهلي اليمني National Bank Of Yemen



Trust & Experience الخبرة و التمتع



## Annual Report 2013



# Annual Report

البنك الأهلي اليمني  
**National Bank Of Yemen**



Trust & Experience الخبرة و الثقة

[www.nbyemen.com](http://www.nbyemen.com)

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## *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.

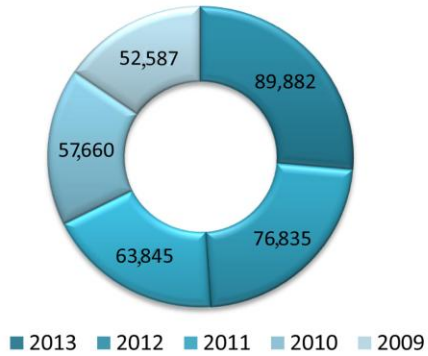
### **Our strategic objectives:**

- 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.
- Investing financial resources available in the bank in a way that realizes reasonable returns compared to risks resulting from operations in financing and investment.
- Realizing remunerative returns to shareholders exceeding opportunity cost of funds invested in the bank.
- Offering necessary financial,banking and investment services to meet corporate and individual customer needs with the highest quality possible in a wide geographic area.
- 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.

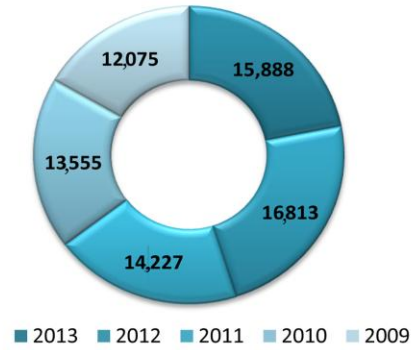


## Main Basic Financial Indicators

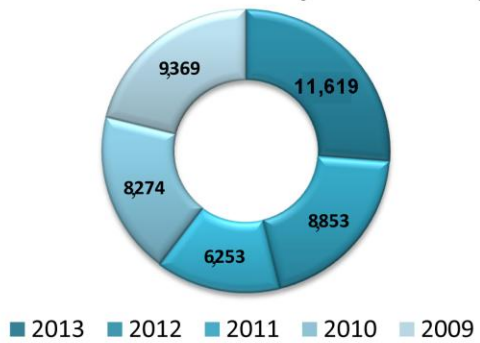
Local Investments (YR millions)



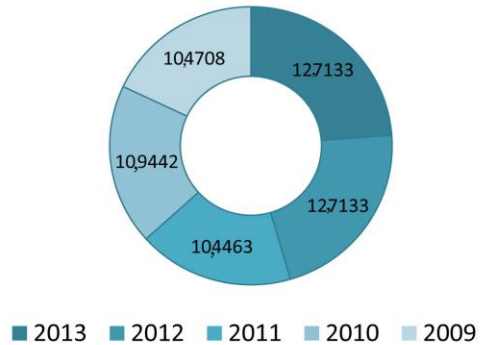
Equity (YR millions)



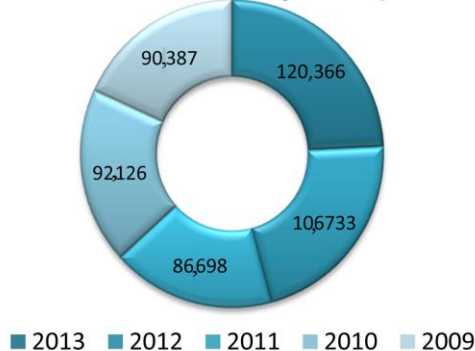
Loans and Advances (YR millions)



Total Assets (YR millions)

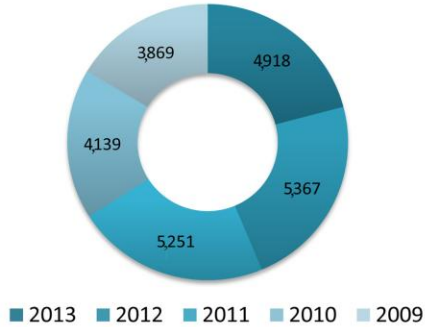


Customers & Bank Deposits (millions)

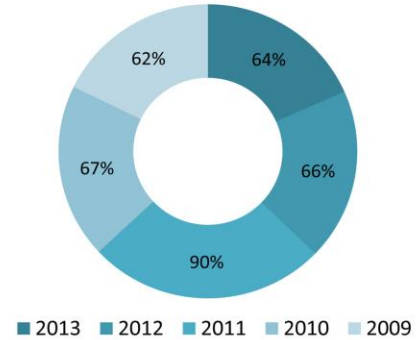


## Main Basic Financial Indicators (continue)

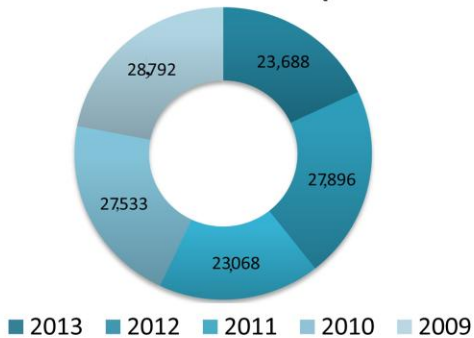
Net Interest Income(YR millions)



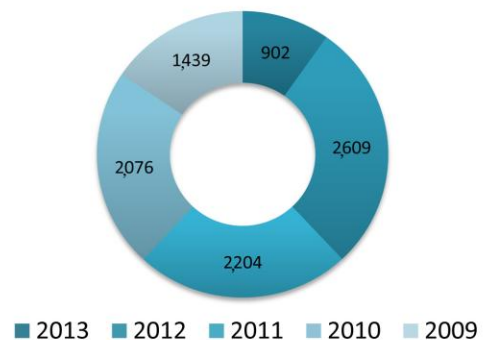
Capital Adequacy Rate(%)



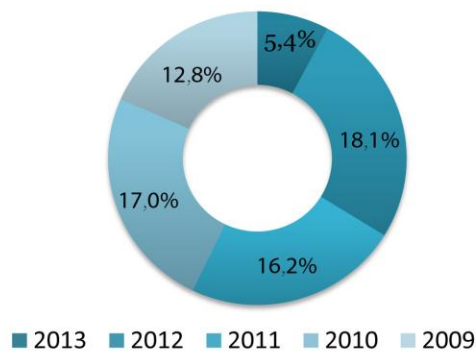
Balances with Banks(YR millions)



Net Profit(YR millions)



Return on Average Equity (%)



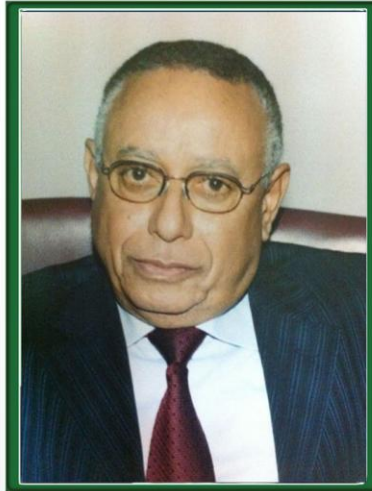


## Financial Statement Summary

(YR millions amounts)

Statement	Years				
	2013م	2012م	2011م	2010م	2009م
<b>Financial Position:</b>					
Total Assets	139,372	127,133	104,463	109,442	105,441
Loans and Advances	11,619	8,853	6,253	8,274	9,369
Customers & Bank Deposits	120,366	106,733	86,698	92,126	90,387
Local Investments	89,882	76,835	63,845	57,660	52,587
Capital	10,000	10,000	10,000	10,000	9,000
Equity	15,888	16,813	14,227	13,555	12,075
Balances with Banks	23,688	27,896	23,068	27,533	28,792
Contra Items	20,839	24,437	17,308	22,895	19,914
<b>Income Statement:</b>					
Net Interest Income	4,918	5,367	5,251	4,139	3,869
Operation Income	1,618	2,183	2,060	1,490	1,273
Profit Before Tax	1,167	3,213	2,755	2,595	2,213
Net Profit	902	2,609	2,204	2,076	1,439
<b>Financial Ratios:</b>					
Return on Assets	% 0,6	%2,1	%2,1	%1,9	%1,4
Return on Average Equity	% 5,4	%18,1	%16,2	%17,0	%12,8
Capital Adequacy Rate	%64	%66	%90	%67	%62
Liquidity Rate	%54	%58	%67	%71	%64
U.S.Dollar Price	YR 214,89	YR 214,89	YR 213,80	YR 213,80	YR 207,31
Share Profit	YR 90	YR 261	YR 220	YR 219	YR164
Number of Branches	27	27	27	28	28
Number of Employees	963	916	881	738	797

## Chairman and Members of Board of Directors



**Mr. Mohammed Abdullah Al-Ameri**  
Chairman of the Board of Directors



**MR. ESAM AHMEDAL-SAKKAF**  
MEMBER OF THE BOARD  
GENERAL MANAGER



**DR. AHMED ALI OMER BIN SUNKER**  
MEMBER OF THE BOARD  
DEPUTY GENERAL MANAGER  
SUPPORTING DEPT



**MR. KALED AHMED KAYNA**  
MEMBER OF THE BOARD  
DEPUTY GENERAL MANAGER



**DR. SAMIR A. RAZACK TALEB**  
REPRESENTATIVE/MINISTRY OF PLANING &  
INTERNATIONAL COOPERATION  
GENERAL MANAGER OF PLANING &  
INTERNATIONAL COOPERATION. ADEN



**MR. HUSSEIN MACKAWEE**  
REPRESENTATIVE/ MINISTRY  
OF INDUSTRY & TRADE  
GENERAL MANAGER OF INDUSTRY &  
TRADE OFFICE. ADEN



**MR. ABDUL HAKI M ZAEED AL DAREE**  
REPRESENTATIVE/OF MINISTRY  
OF FINANCE GENERAL MANAGER  
OF FINANCIAL OFFICE ADEN



# Executive Management



**SAKINA ABDULHUSSEIN MOHAMED**  
Manager, Foreign Relations Dept..



**FADHAA MOHAMMED ABDO SROOR**  
Manager, Central Accounts



**ARWA ALI SULEMAN**  
Manager, Statistic & Research



**ABDULHAKEM AHMED BA'ABAD**  
Manager Branches Dept.



**OMAR ABDULRAHMAN ABDULGABAR**  
Manager, Administrative Affairs



**OMAR ABDULLAH AL SHEBA**  
Manager, Credit Dept



**Waled Watq Shadli**  
Manager, Legal Dept.



**SALEH EASA SALEH**  
Manager, Audit Dept



**FAIZA AHMED MUSALI**  
Manager Human Resources Dept

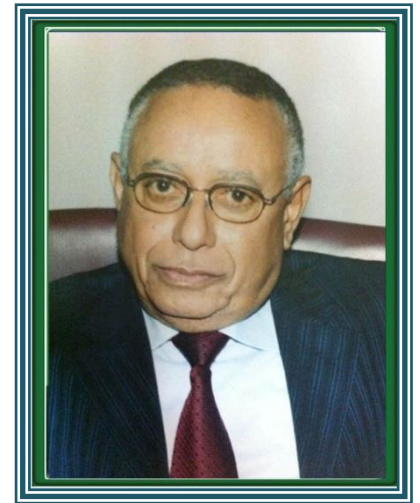


**HANI AHMED OBEID**  
Manager Of IT Department



**ZIAD. A.. BASUNAID**  
I.T Project Manager

**SPEECH OF THE CHAIRMAN OF THE BOARD OF DIRECTORS,  
MR. MOHAMED ABDULLA MUQBEL AL-AMRI**



I am pleased, on behalf of brothers/Members of the Board of directors to put into your hands the annual report of the National Bank of Yemen– Aden for the fiscal year expiring on 31/12/2013.

The budget has shown a modest development in the item of the net interests, whereas the interest after deduction of all expenses and taxation, amounted to 9.2 million riyals in comparison with 2.6 milliard riyals in the year 2012, the main reason for this reduction is attributed to the disbursement of the entitlements of the Bank Staff, which were postponed from earlier years and were disbursed during 2013.

Also, the commercial and banking activity is still suffering from the situation prevailing in the country, in addition to the low rate of interest on the treasury promissory notes has played a role in reaching this result.

In spite of that the assets have raised from 127 milliard riyals in the year 2012 to the amount of 139 milliard riyals at the end of the year 2013, and the deposits of the clients increased from 1.6 milliard riyal in the year 2012 to the amount of 120 milliard riyals at the end of 2013.

The net credits and facilitations increased from 8.9 milliard riyals to the amount of 11.6 milliard riyals in the year 2013.

These figures reflect the historical role of the National Bank of Yemen and the established confidence which it enjoys and its ability to adapt itself with the economical and political changes.

A number of performances have been achieved in the field of development and updating, whereas contacts were made with the IT system companies to submit their offers and such offers were analyzed and evaluated by the Consulting Company, and the results were submitted to the High Commission of Tenders and Biddings to approve the successful company. The manuals and policies, as well as the organizational structure of the Bank have been completed by the Consultant in accordance with the most recent banking methods.



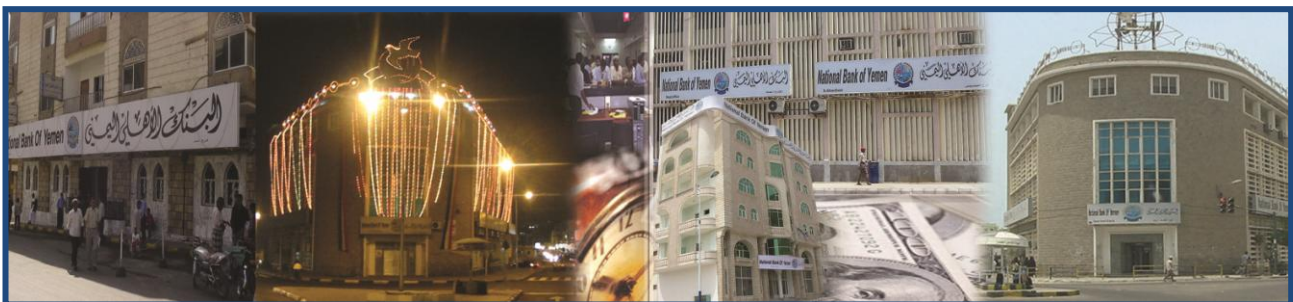
In the field of Islamic banking work, the Bank is now putting the final touches to open the Islamic Transactions Branch in the Capital Sana'a. the assistance of the Islamic Corporation for the Development of the Private Sector, subordinated to the Islamic Bank for Development in Jeddah has been consulted and it had played a basic role in the preparation and the revision of the products relating to the Islamic transactions and the training of the staff in the way to completing the procedures of opening the branch during the coming period by God's willing.

Such performances would not have been realized, save for the enormous mutual understanding and cooperation between the Board Directors and the Executive management and staff, for whom we are very thankful.

Finally, I must not forget, while we are being within the blessed anniversary to submit the sincere congratulations of His majesty, President of the Republic , Counselor Abdo Rabu Mansoor Hadi and to His Excellency Brother/Prime Minister Khaled Bahah, His Excellency, the Minister of Finance and His Excellency of the Governor of the Central Bank of Yemen.

With thanks.

**Mr. Mohammed Abdullah Al-Ameri**  
**Chairman of the Board**



## **Report of the board of Directors for the year 2013**

The Board of Directors of the National Bank of Yemen is pleased to submit its annual report. Including the result of the activity and its audited financial statements for the year ending 31/12/2013.

The national Bank of Yemen has witnessed during the year 2013 a number of achievements to be added to its credit, the most important of which is the approval of the Council of Ministers on 5<sup>th</sup> August, 2013 of the Statute of the Bank to replace the resolution of the Prime Minister no. (60) for the year 1990 with the aim of consolidating the confidence in the Bank and its different activities, and to bring about conformity with the Bank in respect of the tasks of the Board, its responsibilities, its committees and the tasks of the High Executive Management and its responsibilities. This year has also witnessed the maintenance by the Bank of the quality of its assets and its strength and the achievement of the efficiency of the capital which is one of the best averages of capital efficiency amongst the Banks which is consolidating the financial strength of the bank and maintains its crediting classification with a continued profitability for a number of years, assets with high cash-flow and a continued standing for a number of years in the volume of the client's deposits and a Bank owned 100% to the Government of Yemen.

### The Financial Position:

Efforts continued to maintain balancing between safe profitability and investment and the evading of crediting transactions of high risks and the rendering available of the necessary cash-flow to face the financial obligations of different terms, as well as the optimum utilization of available funds with efficiency and effectiveness represented in supporting the financial position of the Bank and the achievement of increasing development.

The total assets reached at the end of 2013 about 139.4 milliard riyals which represents an increase of an amount of 12.3 milliard riyals at a development rate that reached 10%. Cash in the fund as well as reservation balances with the National Bank of Yemen have also increased at the rate of 11.6% and the balances of the local investments (treasury promissory notes) at the rate of 17% to reach an amount of 89.9 billion riyals at the year of 2012 and 11.6 billion riyals at the end of the year 2013 i.e. with an increase of 2.7 billion riyals than the last year which is equivalent to 30.3%, the rate of irregular credits and loans at the end of 2013 reached 31.3% from the total credits and loans in comparison with 41.9% at the end of last year. The rate of appropriations to net credits and loans, without taking



into consideration the appropriation of the year, reached 27% as at the end of 2013 in comparison with 36% at the end of the year 2012. with regard to the appropriations of the regular and irregular credits and loans have decreased at the end of the year 2013 up to 3.146 millions riyals in comparison with 3.203 million riyals i.e. at a decreased rate of 1.8% in comparison with the year 2012.

The deposits of the clients which has reached 120.4 billion riyals as at the end of 2013 an increase of 14.1 billion riyals than last year i.e. an equivalent of 13.3% . Moreover, he systematic accounts and other obligations as (net) have recorded an amount of 20.8 billion riyals at the end of the year 2013 with a decrease of 3.6 billion riyals than the year 2012.

#### Property rights:

The properties of the owners (Yemen Government) have reduced to reach 15.9 billion riyals at the end of the year 2013 at a rate that reached 5.4% than the year 2012 due to the proposed low distribution of cash interests, while the Bank has maintained a high rate of efficiency of the Capital which has reached 65% in comparison with the demands of the Yemeni Central Bank and the requirements of Bazel Committee which has reached 8% and 12% respectively.

#### Fiscal Operational Performance:

The grand total income for the year 2013 reached 9.2 million riyals with a decrease of 1.684 million riyals than the comprehensive total income realized in the year 2012 i.e. an equivalent of 65% as a result of 65% as a result of the decrease in the operational revenues which was met simultaneously by high costs of staff which have both affected by about 2 billion riyals.

The net income from profits for the year 2013 reached 4.918 million riyals with a decrease of 449 million riyals for the year 2012 i.e. a rate equivalent to 8.4%. the revenues of the commissions, fees and incomes of other operations an amount of 1.599 million riyals by a decrease of 571 million riyals than the year 2012 i.e. an equivalent of the rate of 26.3%. The main reason for such decrease is mainly attributed to the decrease in the total revenues of other operational activities, particularly the appropriations in lieu of losses of credits and items beyond for demand is no more existing.

The cost of employment has increase at the end of the year 2013 by an amount of 884 million riyals at the rate of 36.9% in the year 2013, while the other expenses of the other administrative, general depreciation by about 16 million riyals and at the rate of 1.6% than the year 2012 to reach 993 millions riyals in the year 2013. Also the return per share from the net profits amounted to 90 riyals in the year 2013 in comparison with 261 riyals in the year 2012 i.e. by a decrease of 171 riyals.

**Board of Directors**  
**National Bank of Yemen**  
Aden 25 - 5- 201 4





**KPMG Yemen Mejanni & Co.**  
**Public Accountants**  
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Fax +967 (1) 206 130  
Internet www.kpmg.com.ye

## **English Translation of the Original Arabic Text**

### **INDEPENDENT AUDITOR'S REPORT**

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of National Bank of Yemen (the Bank), which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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



**English Translation of the Original Arabic Text**

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Bank of Yemen as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen.

**Report on Other Legal and Regulatory Requirements**

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books. We are not aware of any violations of the terms of Articles of Association, Yemeni Commercial Companies Law No. 22 of 1997 and its amendments and the provisions of Banking Law No. 38 of 1998 having occurred during the year which might have had a material effect on the business of the Bank or its financial position as at December 31, 2013.

**M. Zohdi Mejanni**  
*Associated Accountant*



Sana'a, May 25, 2014

STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2013

	Note	2013 YR 000s	2012 YR 000s
<b>ASSETS</b>			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	7	10,573,184	9,508,477
Due from banks	8	23,688,388	27,896,311
Treasury bills – held to maturity	9	89,882,004	76,835,274
Loans and advances (net)	10	11,619,462	8,853,256
Available-for-sale investments	13	239,811	306,577
Debit balances and other assets (net)	14	643,445	1,037,274
Property and equipment (net)	16	2,725,484	2,695,688
<b>TOTAL ASSETS</b>		<u>139,371,778</u>	<u>127,132,857</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	17	2,774	431,196
Customers' deposits	18	120,362,808	106,301,560
Credit balances and other liabilities	19	2,868,757	3,261,728
Other provisions	20	249,216	325,671
<b>Total Liabilities</b>		<u>123,483,555</u>	<u>110,320,155</u>
<b>EQUITY</b>			
Share capital	21-a	10,000,000	10,000,000
Legal reserve	21-b	3,025,785	2,890,480
General reserve	21-c	1,541,163	1,405,858
Revaluation of property surplus reserve	21-d	639,762	639,762
Fair value reserve	21-e	50,090	50,090
Proposed cash dividends		631,423	1,826,512
Retained earnings		-	-
<b>Total Equity</b>		<u>15,888,223</u>	<u>16,812,702</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>139,371,778</u>	<u>127,132,857</u>
Contingent liabilities and commitments (net)	22	<u>20,838,872</u>	<u>24,436,706</u>

The attached notes on pages 19 to 62 are an integral part of these financial statements. Independent auditor's report is set out on pages 1 and 2.

Mohamed Abdulla Muqbil Alamery  
Chairman



Esam Ahmed Alawi Alsaqaf  
General Manager



**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Note	2013 YR 000s	2012 YR 000s
Interest income	23	15,977,352	16,519,869
Less: interest expenses	24	( 11,059,289)	( 11,152,734)
Net interest income		<u>4,918,063</u>	<u>5,367,135</u>
Fee and commissions income	25	496,168	624,569
Less: Fee and commissions expenses		( 19,307)	( 13,593)
Net fee and commissions income		<u>476,861</u>	<u>610,976</u>
		5,394,924	5,978,111
Income from available for sale investments		33,514	39,563
Gain on foreign currency transactions	26	33,755	17,884
Other operating income	27	<u>1,055,055</u>	<u>1,501,269</u>
Operating income		6,517,248	7,536,827
Less: impairment on available-for-sale investments	13-a	( 66,766)	-
Less: provisions	28	( 867,262)	( 778,051)
Less: staff cost	29	( 3,279,043)	( 2,395,127)
Less: depreciation of property and equipment	16	( 143,999)	( 142,057)
Less: other expenses	30	( 993,361)	( 1,008,501)
Net profit of the year before income tax		1,166,817	3,213,091
Less: income tax for the year	19.a	( 264,784)	( 603,787)
Net profit for the year after tax		<u>902,033</u>	<u>2,609,304</u>
<b>Other comprehensive income</b>			
Net change in fair value		-	( 25,104)
Gain on revaluation of available for sale investments (during the year)		-	3,761
Revaluation differences of available for sale investments (reversed)		-	( 1,998)
Total other comprehensive income		-	( 23,341)
Total comprehensive income for the year		<u>902,033</u>	<u>2,585,963</u>
Earnings per share	31	<u>YR 90</u>	<u>YR 261</u>

The attached notes on pages 19 to 62 are an integral part of these financial statements. Independent auditor's report is set out on pages 1 and 2.

Mohamed Abdulla Muqbil Alamery  
Chairman



Esam Ahmed Alawi Alsaqaf  
General Manager





**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Year 2013	Share Capital YR 000s	Legal Reserve YR 000s	General Reserve YR 000s	Revaluation of Property Surplus Reserve YR 000s	Fair Value Reserve YR 000s	Retained Earnings YR 000s	Proposed Cash Dividends YR 000s	Total YR 000s
Balance as at January 1, 2013	10,000,000	2,890,480	1,405,858	639,762	50,090	-	1,826,512	16,812,702
<b>Total comprehensive income for the year</b>								
Net profit for the year	-	-	-	-	-	902,033	-	902,033
<b>Other comprehensive income</b>								
Net change in fair value reserve	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	-	902,033	-	902,033
<b>Transactions with owners, recorded directly in equity</b>								
Proposed dividends	-	-	-	-	-	-	( 1,826,512)	( 1,826,512)
Transfer to legal reserve (proposed)	-	135,305	-	-	-	( 135,305)	-	-
Transfer to general reserve (proposed)	-	-	135,305	-	-	( 135,305)	-	-
Government share in profit (proposed)	-	-	-	-	-	( 541,220)	541,220	-
Employees' share in profit (proposed)	-	-	-	-	-	( 90,203)	90,203	-
<b>Total transactions with owners</b>	-	135,305	135,305	-	-	( 902,033)	( 1,195,089)	( 1,826,512)
Balance as at December 31, 2013	10,000,000	3,025,785	1,541,163	639,762	50,090	-	631,423	15,888,223

**STATEMENT OF CHANGES IN EQUITY (continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Year 2012	Share Capital YR 000s	Legal Reserve YR 000s	General Reserve YR 000s	Revaluation of Property Surplus Reserve YR 000s	Fair Value Reserve YR 000s	Retained Earnings YR 000s	Proposed Cash Dividends YR 000s	Total YR 000s
Balance as at January 1, 2012	10,000,000	2,499,084	1,014,462	639,762	73,431	-	1,542,796	15,769,535
<b>Total comprehensive income for the year</b>								
Net profit for the year	-	-	-	-	-	2,609,304	-	2,609,304
<b>Other comprehensive income</b>								
Net change in fair value reserve	-	-	-	-	(23,341)	-	-	(23,341)
<b>Total comprehensive income for the year</b>								
<b>Transactions with owners, recorded directly in equity</b>								
Proposed dividends	-	-	-	-	-	-	(1,542,796)	(1,542,796)
Transfer to legal reserve (proposed)	-	391,396	-	-	-	(391,396)	-	-
Transfer to general reserve (proposed)	-	-	391,396	-	-	(391,396)	-	-
Government share in profit (proposed)	-	-	-	-	-	(1,696,048)	1,696,048	-
Employees' share in profit (proposed)	-	-	-	-	-	(130,464)	130,464	-
<b>Total transactions with owners</b>								
Balance as at December 31, 2012	10,000,000	2,890,480	1,405,858	639,762	50,090	2,609,304	283,716	15,812,702

The attached notes on pages 19 to 62 are an integral part of these financial statements.  
Independent auditor's report is set out on pages 1 and 2.

**Mohamed Abdulla Muqbil Alamery**  
Chairman





**Esam Ahmed Alawi Alsaqaf**  
General Manager

**STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Note	2013 YR 000s	2012 YR 000s
<b>Cash flows from operating activities</b>			
Net profit for the year before income tax		1,166,817	3,213,091
<b>Adjustments in:</b>			
Depreciation of property and equipment		143,999	142,057
Provisions provided during the year	28	867,262	778,051
Retranslation differences of provisions in foreign currencies		3,175	8,530
Retranslation difference of available-for-sale investments (reversed)		-	( 1,998)
Provisions reversed	27	( 1,000,617)	( 1,441,910)
Reversal of impairment on available-for-sale investments		-	( 2,000)
Impairment on available-for sale-investments		66,766	-
Provisions used during the year		( 2,757)	( 430,749)
Loss on foreign currency translation (unrealized)		7,840	1,835
		<u>1,252,485</u>	<u>2,266,907</u>
<b>Change in:</b>			
Due from banks maturing after three months		2,136,142	( 2,148,998)
Reserve balances with the Central Bank of Yemen		( 1,103,885)	( 1,390,498)
Treasury bills maturity after three months		( 9,448,428)	( 8,785,463)
Loans and advances		( 2,704,790)	( 1,708,779)
Debit balances and other assets		393,258	( 585,598)
Due to banks		( 428,422)	7,836
Customers' deposits		13,983,450	19,837,099
Credit balances and other liabilities		( 30,105)	1,328,943
Income tax paid		( 627,650)	( 527,136)
<b>Net cash from operating activities</b>		<u>3,422,055</u>	<u>8,294,313</u>
<b>Cash flows from investing activities</b>			
Cash payments for acquisition of property and equipment		( 173,795)	( 124,406)
Decrease in available-for-sale investments		-	388,538
Proceeds from financial investments		-	5,372
<b>Net cash (used in) from investing activities</b>		<u>( 173,795)</u>	<u>269,504</u>
<b>Cash flows from financing activities</b>			
Government share (cash dividends)		( 1,826,512)	( 1,542,796)
<b>Net cash (used in) financing activities</b>		<u>( 1,826,512)</u>	<u>( 1,542,796)</u>
Net change in cash and cash equivalents		1,421,748	7,021,021
Cash and cash equivalents, beginning of the year		68,106,606	60,951,774
Effect of exchange rate fluctuation on cash held		70,843	133,811
<b>Cash and cash equivalents at the end of the year</b>		<u>69,599,197</u>	<u>68,106,606</u>
<b>Cash and cash equivalents at the end of the year consist of:</b>			
Cash on hand and reserve balances with CBY	7	10,573,184	9,508,477
Due from banks	8	23,688,388	27,896,311
Treasury bills – held to maturity (net)	9	89,882,004	76,835,274
		<u>124,143,576</u>	<u>114,240,062</u>
Less: Reserve balances with CBY		( 8,944,968)	( 7,841,083)
Less: Due from banks due after three months		( 2,202,666)	( 4,344,056)
Less: Treasury bills due after 3 months (net)		( 43,396,745)	( 33,948,317)
		<u>69,599,197</u>	<u>68,106,606</u>

The attached notes on pages 19 to 62 are an integral part of these financial statements.  
 Independent auditor's report is set out on pages 1 and 2.

Mohamed Abdulla Muqbil Alamery  
 Chairman



Esam Ahmed Alawi Alsaqaf  
 General Manager





0.332548  
0.89521453

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**1. BACKGROUND INFORMATION**

- The National Bank of Yemen (the Bank) was incorporated in Aden in 1969. It is wholly owned by the Government of Yemen and is registered under Commercial Registration No. 1748. On August 5, 2013, the President of Council of Ministers issued Decision No. 405 of 2013 to reorganize the National Bank of Yemen, which was established under Law No. (37) of 1969 as amended by Law No. (36) of 1972 (both laws are now cancelled) in accordance with the provisions of the prevailing Banking Law, the Islamic Banks Law and the Yemeni Commercial Companies Law as a bank fully owned by the state.
- The Bank undertakes all banking activities and carries out banking retail activity in the Republic of Yemen through its head office in Aden and 27 branches spread all over the governorates of the Republic of Yemen.

**2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS**

*2.1 Statement of compliance*

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

The effect of these deviations is immaterial on the financial statements of the Bank as at December 31, 2013.

- The financial statements were approved by the Board of Directors on May 25, 2014.

*2.2 Basis of measurements*

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

*2.3 Functional and presentation currency*

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

#### 2.4 Significant accounting judgments and estimates

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 5, 11, 15, 16, 19 and 20.

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

##### a. Provision for impairment of assets

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

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

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

##### c. Useful lives of property and equipment

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Foreign currencies transaction

- The Bank maintains its book of account in Yemeni Rial, which the Bank's functional currency. Transactions in other currencies are translated to the respective functional currency during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates at that date. Gains or losses resulting from translation are taken to the statement of profit or loss and other comprehensive income.



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

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

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

### 3.2 *Financial assets and financial liabilities*

#### a. Recognition and Initial Measurement

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

#### b. Classification

##### - **Financial assets**

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

##### 1. *Loans and receivables*

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

##### 2. *Held-to-maturity financial assets*

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

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



3. *Available-for-sale investments*

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

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

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

- **Financial liabilities**

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

c. *Derecognition*

- Financial assets are derecognized when the contractual rights related to the financial instruments have expired which ordinarily coincide with the sale or transfer of the contractual right to receive cash flows related to the asset to an independent party.
- Financial liabilities are derecognized when they extinguished, that is when the contractual obligation is discharged, canceled or expired.

d. *Offsetting financial assets and liabilities*

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

e. *Measurement principles*

Financial assets are measured by amortized cost or fair value

- *Amortized cost measurement*

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



- Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at the date. The fair value of a liability reflects its non-performance risk.

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

In the absence of a reliable measure of fair value, the investment is carried at cost.

f. Identification and measurement of impairment

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

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

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

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



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

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

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

### 3.3 Revenue recognition

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

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

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

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

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**3.4 Provision of loans, advances and contingent liabilities**

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

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

- Loans and advances are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.
- Loans and advances to customers and banks are presented on the statement of financial position net of provision and interest in suspense.

**3.5 Contingent liabilities and commitments**

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

**3.6 Statement of cash flows**

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

**3.7 Cash and cash equivalent**

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

**3.8 Property, equipment and depreciation**

a. Recognition and measurement

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

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

**b. Subsequent costs**

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

**c. Depreciation**

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

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

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

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

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



### 3.9 Impairment of Non-Financial Assets

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

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

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

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

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

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

### 3.10 Other provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### 3.11 Valuation of assets whose titles have been transferred to the Bank as a repayment of loans

According to CBY instructions, assets whose titles have been transferred to the Bank are presented in the statement of financial position under debit balances and other assets at the acquired values, less any impairment in their values, if any, at the financial statements date. Impairment losses are charged to the statement of profit or loss and other comprehensive income.



### 3.12 Lease contracts

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

### 3.13 Taxation

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

### 3.14 Zakat due on equity

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

### 3.15 End of service benefits

- All the employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (25) of 1991. Payments are made to the Social Security General Corporation before the 10<sup>th</sup> day of next month. The Bank's contribution is charged to the statement of comprehensive income.
- The provisions of Social Insurance Law are applied to all employees of the Bank concerning the end of service benefits.
- In accordance with the Bank Articles of Association which is issued according to the President of Council of Ministers Decision No. 405 of 2013 dated August 12, 2013, the Bank provides 5% from the total permanent wages and salaries at end of each year to end of services fund. The related accrued amount is included in the credit balances and other liabilities in the statement of financial position.

### 3.16 Dividends on ordinary shares

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

According to the Bank Articles of Association, the annual profit after tax and zakat are allocated as follows:

- 15% to legal reserve;
- 15% to general reserve;
- 60% to the government's share of surplus profits;
- 10% incentives for employees according to their activity according to the performance reports and, at the suggestion of the Bank's management and Board approval.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

3.17 *Earnings per share*

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

3.18 *Comparatives*

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

**4. NEW STANDARDS AND INTERPRETATIONS AND AMENDMENTS TO STANDARDS**

4.1 The following amendments to IFRS and new IFRSs have been applied by the Bank in preparation of these financial statements which are effective from January 1, 2013.

- IAS 1 – Financial statement presentation (Amendment), regarding other comprehensive income.
- IFRS 7 – Financial instruments: Disclosures (Amendment).
- IFRS 13 – Fair Value Measurement.

The adoption of the above did not result in any changes to previously reported net profit or equity. However, the above resulted in additional disclosures.

4.2 Standard issued but not yet effective.

For the avoidance of doubt, the following applicable new standards, amendments to standards and interpretations, which were issued by IASB before December 31, 2013 and are not yet in effect, have not been early adopted.

- IAS 32, Financial Instruments, – (*Amendments to IAS 32 Offsetting financial assets and financial liabilities*): clarifies the offsetting criteria by explaining when an entity has a legal and enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective on or after January 1, 2014.
- IFRS 9, Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortized cost and fair value.

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

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



## 5. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

### 5.1 *Financial instruments*

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

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

- b. Fair value hierarchy

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

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

Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

The fair values for available-for-sale investments comprise YR 239,811 thousand as at December 31, 2013 (YR 306,577 thousand as at December 31, 2012) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

- c. Financial instruments for which fair value approximates carrying value

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

- d. Fair value of financial instruments

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



0.332548  
0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

	<b>Held to Maturity YR 000s</b>	<b>Loans and Advances YR 000s</b>	<b>Available- For-Sale YR 000s</b>	<b>Other Amortized Cost YR 000s</b>	<b>Total Carrying Amount YR 000s</b>	<b>Fair Value YR 000s</b>
<b>At 31 December 2013</b>						
<b>Financial assets</b>						
Cash on hand and reserve balances with CBY	-	-	-	10,573,184	10,573,184	10,573,184
Due from banks	-	-	-	23,688,388	23,688,388	23,688,388
Treasury bills – held to maturity						
Carried at amortized cost	89,882,004	-	-	-	89,882,004	89,882,004
Loans and advances (net)	-	11,619,462	-	-	11,619,462	11,619,462
Available-for-sale-investments	-	-	239,811	-	239,811	239,811
	<u>89,882,004</u>	<u>11,619,462</u>	<u>239,811</u>	<u>34,261,572</u>	<u>136,002,849</u>	<u>136,002,849</u>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	2,774	2,774	2,774
Customers' deposits	-	-	-	120,362,808	120,362,808	120,362,808
	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,365,582</u>	<u>120,365,582</u>	<u>120,365,582</u>
	<b>Held to Maturity YR 000s</b>	<b>Loans and Advances YR 000s</b>	<b>Available- For-Sale YR 000s</b>	<b>Other Amortized Cost YR 000s</b>	<b>Total Carrying Amount YR 000s</b>	<b>Fair Value YR 000s</b>
<b>At 31 December 2012</b>						
<b>Financial assets</b>						
Cash on hand and reserve balances with CBY	-	-	-	9,508,477	9,508,477	9,508,477
Due from banks	-	-	-	27,896,311	27,896,311	27,896,311
Treasury bills – held to maturity						
Carried at amortized cost	76,835,274	-	-	-	76,835,274	76,835,274
Loans and advances (net)	-	8,853,256	-	-	8,853,256	8,853,256
Available-for-sale investments	-	-	306,577	-	306,577	306,577
	<u>76,835,274</u>	<u>8,853,256</u>	<u>306,577</u>	<u>37,404,788</u>	<u>123,399,895</u>	<u>123,399,895</u>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	431,196	431,196	431,196
Customers' deposits	-	-	-	106,301,560	106,301,560	106,301,560
	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,732,756</u>	<u>106,732,756</u>	<u>106,732,756</u>

5.2 *Risk management of financial instruments*

- Risk management frame work

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

- Risk management structure

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

- Risk measurement

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

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

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

a. Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due.

Management of credit risk

The Bank uses an internal risk rating system to assess the credit quality of borrowers and counterparties. The risk rating system has 5 grades. Grades 1 and 2 are performing loans and advances and Grades 3-5 are non-performing. Non-performing grades are classified based on the below criteria which agree with CBY instructions.

<u>Grade</u>	<u>Classification</u>	<u>Criteria</u>
3	Sub-standard loans and advances	Overdue greater than 90 days, and shows some loss due to adverse factors that hinder repayment.
4	Doubtful loans and advances	Overdue greater than 180 days, and based on available information, full recovery seems doubtful, leading to loss on portion of these loans.
5	Bad loans and advances	Overdue greater than 360 days, and probability of no recovery.



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

The performing loans and advances portfolio of the Bank based on the internal credit ratings is as follows (excluding cash secured loans and advances):

<u>Grade</u>	<u>Classification</u>	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
1 - 2	Performing and watchlist	<u>4,246,659</u>	<u>3,751,838</u>

In order to comply with CBY circular No. 10 of 1997 regarding to the credit risk exposure, the Bank applies some procedures in order to properly manage its credit risk. The following are examples of the procedures applied by the Bank:

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

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

	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
Cash on hand and reserve balances with CBY (excluding cash on hand)	8,944,968	7,841,083
Due from bank	23,688,388	27,896,311
Treasury bill - held to maturity	89,882,004	76,835,274
Loans and advances (net)	11,619,462	8,853,256
Available for sale investments	239,811	306,577
Debit balances and other assets (excluding prepaid expenses) (net)	<u>93,782</u>	<u>677,925</u>
	134,468,415	122,410,426
Contingent liabilities and commitments	<u>23,510,581</u>	<u>27,507,457</u>
Total credit risk exposure	<u>157,978,996</u>	<u>149,917,883</u>

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



NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013



	2013		2012	
	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s
Government	102,180,017	-	89,974,322	-
Finance	22,023,370	20,575,154	24,572,317	22,904,923
Industry	657,868	657,868	991,340	991,340
General trade	7,460,125	7,460,125	3,874,353	3,874,353
Contractors	275,414	275,414	195,607	195,607
Consumer	1,777,839	1,777,839	2,124,562	2,124,562
Others	93,782	93,782	677,925	677,925
	<u>134,468,415</u>	<u>30,840,182</u>	<u>122,410,426</u>	<u>30,768,710</u>
Contingent liabilities and commitments	<u>23,510,581</u>	<u>20,838,872</u>	<u>27,507,457</u>	<u>24,436,706</u>
	<u>157,978,996</u>	<u>51,679,054</u>	<u>149,917,883</u>	<u>55,205,416</u>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 34 to the financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 35 to the financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on geographical locations at the financial statements date.

b. Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, not being matched in currency, size and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis.

Management liquidity risk

The Bank's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The Central Bank of Yemen Circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity ratio as at December 31, 2013 was 54% (as at December 31, 2012 was 58%).

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

	2013				
	Due within three months YR 000s	Due within three to six months YR 000s	Due within six months to one year YR 000s	Due over one year YR 000s	Total YR 000s
<b>Liabilities</b>					
Due to banks	2,774	-	-	-	2,774
Customers' deposits	83,946,429	11,874,656	24,397,192	144,531	120,362,808
Credit balances and other liabilities	<u>2,375,620</u>	<u>264,784</u>	<u>228,353</u>	<u>-</u>	<u>2,868,757</u>
Total liabilities	<u>86,324,823</u>	<u>12,139,440</u>	<u>24,625,545</u>	<u>144,531</u>	<u>123,234,339</u>
	2012				
	Due within three months YR 000s	Due within three to six months YR 000s	Due within six months to one year YR 000s	Due over one year YR 000s	Total YR 000s
<b>Liabilities</b>					
Due to banks	431,196	-	-	-	431,196
Customers' deposits	72,462,149	11,440,359	22,165,643	233,409	106,301,560
Credit balances and other liabilities	<u>2,103,367</u>	<u>790,650</u>	<u>367,711</u>	<u>-</u>	<u>3,261,728</u>
Total liabilities	<u>74,996,712</u>	<u>12,231,009</u>	<u>22,533,354</u>	<u>223,409</u>	<u>109,994,484</u>

Note no. 32 to the financial statements shows the maturity analysis of financial assets and liabilities and the net gap between them at the financial statements date.

c. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income, future cash flows or the value of its holdings of financial instruments. Market risk consists of exchange rate risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank separate exposure market risk between two portfolios, one for trading portfolios and non-trading portfolios.

The Bank has no trading positions in equity and the main source of market risk for the Bank is its foreign exchange exposure and interest rate gap.



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

All foreign exchange income/losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury department. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with the Asset and Liability Management Committee. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approving authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

**Exposure to interest rate risk - non-trading portfolios**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Asset and Liability Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Bank Central Treasury in its day-to-day monitoring activities.

The Bank performs a number of procedures to limit the effect of such risk to the minimal level as follows:

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

The table below shows interest rate gap position on non-trading portfolios:

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

2013

	2013			Average interest rates		Total YR 000s		
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s		Local Currency %/o	Foreign Currency %/o
<b>Assets</b>								
Cash on hand and reserve balances with CBY	-	-	-	-	10,573,184	10,573,184	-	-
Due from banks	19,997,993	515,610	526,650	-	2,648,135	23,688,388	-	0.21
Treasury bills - held to maturity	40,572,122	21,784,921	27,524,961	-	-	89,882,004	15.96	-
Loans and advances (net)	1,286,771	819,760	1,547,677	7,965,254	-	11,619,462	21.00	7.60
Available for sale investments	-	-	-	-	239,811	239,811	-	-
Other assets (net)	2,498	95	98	-	3,366,238	3,368,929	-	-
<b>Total Assets</b>	<b>61,859,384</b>	<b>23,120,386</b>	<b>29,599,386</b>	<b>7,965,254</b>	<b>16,827,368</b>	<b>139,371,778</b>		
<b>Liabilities and Equity</b>								
Due to banks	-	-	-	-	2,774	2,774	-	-
Customers' deposits	59,800,515	9,885,073	20,677,436	-	29,999,784	120,362,808	15.25	0.25
Credit balances and other liabilities	944,828	156,181	328,289	-	1,439,459	2,868,757	-	-
Other provisions	-	-	-	-	249,216	249,216	-	-
Equity	-	-	-	-	15,888,223	15,888,223	-	-
<b>Total Liabilities and Equity</b>	<b>60,745,343</b>	<b>10,041,254</b>	<b>21,005,725</b>	<b>-</b>	<b>47,579,456</b>	<b>139,371,778</b>		
Interest rate sensitivity gap	1,114,041	13,079,132	8,593,661	7,965,254	(30,752,088)	-		
Cumulative interest rate sensitivity gap	1,114,041	14,193,173	22,786,834	30,752,088	-	-		



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

2012

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

Note no. 33 to the financial statements shows the average interest rates on financial assets and liabilities applied during the year compared with last year.



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0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Interest rate sensitivity

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

December 31, 2013

<u>Currency</u>	<u>The effect of increase in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	17,802,611	356,052	284,842
US Dollars	3,818,052	76,361	61,089
Sterling Pound	302,652	6,053	4,842
Euro	298,785	5,976	4,781
Other Currencies	564,734	11,295	9,036

<u>Currency</u>	<u>The effect of decrease in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap YR 000s</u>	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income) YR 000s</u>	<u>Sensitivity of equity YR 000s</u>
Yemeni Rials	17,802,611	( 356,052)	( 284,842)
US Dollars	3,818,052	( 76,361)	( 61,089)
Sterling Pound	302,652	( 6,053)	( 4,842)
Euro	298,785	( 5,976)	( 4,781)
Other Currencies	564,734	( 11,295)	( 9,036)

December 31, 2012

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

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



0.332548  
0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

d. Exposure to exchange rate risk for foreign currency

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the Yemeni Rial.

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

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

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

	2013					
	US Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies YR 000s	Total YR 000s
Assets	48,346,597	1,713,233	2,681,234	3,377,475	301,623	56,420,162
Liabilities and equity	( 46,877,394)	( 1,689,462)	( 2,636,182)	( 3,499,445)	( 217,744)	( 54,920,227)
Net currency position	<u>1,469,203</u>	<u>23,771</u>	<u>45,052</u>	<u>( 121,970)</u>	<u>83,879</u>	<u>1,499,935</u>
	2012					
	US\$ Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies YR 000s	Total YR 000s
Assets	50,956,436	1,653,352	2,930,693	2,909,530	102,420	58,552,431
Liabilities and equity	(49,929,047)	( 1,630,433)	(2,937,779)	(2,912,452)	68,805	(57,478,516)
Net currency position	<u>1,027,389</u>	<u>22,919</u>	<u>( 7,086)</u>	<u>( 2,922)</u>	<u>33,615</u>	<u>1,073,915</u>

Effect of change in fair value of currency

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

<u>Change in currency rate (1%)</u>	<b>Effect on Statement of Profit or Loss and other Comprehensive Income</b>	
	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
US\$	14,692	10,274
Sterling Pound	238	229
EURO	450	( 71)
Saudi Rial	( 1,220)	( 29)
Other Currencies	839	336

Note no. 36 to the financial statements indicates the significant foreign currencies' positions at the financial statements date compared with the last year.

e. Operational risk

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

f. Other risks

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

## 6. CAPITAL MANAGEMENT

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

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

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

	<u>2013</u> <u>YR Million</u>	<u>2012</u> <u>YR Million</u>
Core capital	15,109	16,035
Supplementary capital	136	229
Total capital	<u>15,245</u>	<u>16,264</u>
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	11,563	11,445
Contingent liabilities and commitments	<u>12,399</u>	<u>13,386</u>
Total risk weighted assets and contingent liabilities and commitments	<u>23,962</u>	<u>24,831</u>
Capital adequacy ratio	<u>63.6%</u>	<u>65.5%</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
Cash on hand – local currency	865,501	551,407
Cash on hand – foreign currency	<u>762,715</u>	<u>1,115,987</u>
	<u>1,628,216</u>	<u>1,667,394</u>
Mandatory reserve with CBY – local currency	6,053,169	5,238,311
Mandatory reserve with CBY – foreign currency	<u>2,891,799</u>	<u>2,602,772</u>
	<u>8,944,968</u>	<u>7,841,083</u>
	<u>10,573,184</u>	<u>9,508,477</u>

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

**8. DUE FROM BANKS**

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
<b>Central Bank of Yemen</b>		
Current accounts – local currency	1,736,040	2,029,207
Current accounts – foreign currency	<u>1,617,005</u>	<u>768,758</u>
	3,353,045	2,797,965
CBY certificates of deposits maturing within three months	-	2,500,000
	<u>3,353,045</u>	<u>5,297,965</u>
<b>Local Banks</b>		
Current accounts – local currency	413	10,615
Time deposits – foreign currency	-	289,582
	<u>413</u>	<u>300,197</u>
<b>Foreign banks</b>		
Current accounts – foreign currency	5,690,944	3,600,468
Time deposits – foreign currency	<u>14,643,986</u>	<u>18,697,681</u>
	<u>20,334,930</u>	<u>22,298,149</u>
	<u>23,688,388</u>	<u>27,896,311</u>

- Time deposits with local and foreign banks carry variable interest rates while current accounts with Central Bank of Yemen, local and foreign banks do not carry any interest.
- The certificates of deposits carry an interest rate between 19.58% and 19.75% during the year 2013 (interest rate between 19.58% and 19.75% during the year 2012). In accordance with the Central Bank of Yemen instructions, certificates of deposits which mature within a period not exceeding three months are considered as a part of cash and cash equivalents.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**9. TREASURY BILLS - HELD TO MATURITY**

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
Treasury bills maturing within 90 days	47,372,675	43,900,902
Treasury bills maturing within 180 days	16,096,000	13,485,360
Treasury bills maturing within 360 days	29,696,040	22,668,740
	<u>93,164,715</u>	<u>80,055,002</u>
Less: Unearned discount balance	( 3,282,711)	( 3,219,728)
	<u>89,882,004</u>	<u>76,835,274</u>

The treasury bills carry an interest rate between 17.4% and 22.9% during the year 2013 (between 19.42% and 22.93% during the year 2012). In accordance with the Central Bank of Yemen instructions, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalents.

**10. LOANS AND ADVANCES (NET)**

a. Loans and advances by type

	<b>Note</b>	<b>2013</b>	<b>2012</b>
		<b>YR 000s</b>	<b>YR 000s</b>
Overdraft		9,297,656	4,300,310
Loans to customers		5,935,433	8,769,091
L/Cs financing		41,057	26,005
		<u>15,274,146</u>	<u>13,095,406</u>
Less:			
Provision for loans and advances	11	( 3,146,428)	( 3,203,481)
Uncollected interest	12	( 508,256)	( 1,038,669)
		<u>11,619,462</u>	<u>8,853,256</u>

- According to Article No. 85 of the Banks Law No. 38 of 1998, and Article No. 14 of the Income Tax Law No. 17 of 2010, all provisions made in compliance with the Central Bank of Yemen instructions on loans, advances, and contingent liabilities are exempt from income tax.
- Non-performing loans and advances amounted to YR 3,632,424 thousand as at December 31, 2013 after deducting uncollected interest by amount of YR 508,256 thousand and balances secured by cash deposits by amount of YR 7,395,063 thousand. As at December 31, 2012, the non-performing loans and advances amounted to YR 3,709,841 thousand after deducting uncollected interest by amount of YR 1,038,669 thousand and balances secured by cash deposits by amount of YR 5,633,727 thousand. The break-up of the above amount is as follows:

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
Substandard loans and advances	487,475	502,343
Doubtful loans and advances	198,201	198,372
Bad loans and advances	2,946,748	3,009,126
	<u>3,632,424</u>	<u>3,709,841</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

b. Loans and advances by industry

	2013			
	<u>Overdraft YR 000s</u>	<u>Loans to Customers YR 000s</u>	<u>L/C Financing YR 000s</u>	<u>Total YR 000s</u>
Trade	9,170,141	1,524,485	41,057	10,735,683
Industry	89,066	568,802	-	657,868
Service	38,449	-	-	38,449
Finance	-	236,965	-	236,965
Individuals and others	-	3,605,181	-	3,605,181
<b>Total</b>	<u>9,297,656</u>	<u>5,935,433</u>	<u>41,057</u>	<u>15,274,146</u>

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

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

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

a. Provision for loans and advances by type

	<u>Note</u>	2013		
		<u>Specific YR 000s</u>	<u>General YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2013		3,173,745	29,736	3,203,481
Retranslation differences of provision in foreign currencies		2,939	-	2,939
Add: provided during the year	28	740,620	15,534	756,154
Less: used during the year		( 2,092)	-	( 2,092)
Less: provision reversed	27	( 806,153)	( 7,901)	( 814,054)
<b>Balance as at December 31, 2013</b>		<u>3,109,059</u>	<u>37,369</u>	<u>3,146,428</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

b. Provision for loans and advances by sector

	2013		
	Corporate Lending YR 000s	Consumer Lending YR 000s	Total YR 000s
Balance as at January 1, 2013	3,173,745	29,736	3,203,481
Retranslation differences of provision in foreign currencies	2,939	-	2,939
Add: provided during the year	740,620	15,534	756,154
Less: used during the year	( 2,092)	-	( 2,092)
Less: provisions reversed	( 806,153)	( 7,901)	( 814,054)
Balance as at December 31, 2013	<u>3,109,059</u>	<u>37,369</u>	<u>3,146,428</u>

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



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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**12. UNCOLLECTED INTEREST**

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
Balance at beginning of the year	1,038,669	818,472
Provided during the year	453,009	476,201
Written off during the year	( 960,455)	( 96,500)
Recovered during the year	( 13,612)	( 170,563)
Retranslation differences of uncollected interest in foreign currencies	( 9,355)	11,059
Balance at end of the year	<u>508,256</u>	<u>1,038,669</u>

Uncollected interest is interest on non-performing loans and advances, which is recognized as revenue only when collected in accordance with CBY regulations.

**13. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>Ownership Percentage</b>	<b>No. of shares</b>	<b>2013</b>	<b>2012</b>
<b>Note</b>	<b>%</b>		<b>YR 000s</b>	<b>YR 000s</b>
<b>i. <u>Financing investments - foreign</u></b>				
UBAC Curacao - Paris	0.88	45,202	97,135	97,135
Alubaf Arab International - Bahrain	0.344	6,880	147,866	147,866
Arab Financial Services Co. - Bahrain	0.167	10,000	<u>10,745</u>	<u>10,745</u>
			<u>255,746</u>	<u>255,746</u>
<b>ii. <u>Financing investments - local</u></b>				
Yemen Financial Services Co. - Yemen	10	3,107	66,766	66,766
Yemen Mobile Co. for Telecommunication	0.139	120,000	61,200	61,200
Al-Amal Bank for Microfinance - Yemen	1	200	20,000	20,000
Al-Tadhamon Microfinance - Yemen	1	100	<u>1,000</u>	<u>1,000</u>
			<u>148,966</u>	<u>148,966</u>
			404,712	404,712
Less: Impairment on available-for-sale investments	13a		( 164,901)	( 98,135)
			<u>239,811</u>	<u>306,577</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

13.a Impairment on available-for-sale investments

	<u>Note</u>	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
Balance at beginning of the year		98,135	486,209
Add: Impairment during the year		66,766	-
Less: used during the year		-	( 388,538)
Less: reversed during the year	27	-	( 2,000)
Retranslation differences – foreign currency		-	2,464
Balance at end of the year		<u>164,901</u>	<u>98,135</u>

**14. DEBIT BALANCES AND OTHER ASSETS (NET)**

	<u>Note</u>	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
Prepaid expenses		169,254	39,044
Accrued interest		2,707	70,808
Projects in process (advances)		380,409	320,305
Assets transferred to the Bank's ownership		56,867	56,832
Other debit balances		<u>944,903</u>	<u>1,460,409</u>
		1,554,140	1,947,398
Less: Provision for doubtful debts	15	( 910,695)	( 910,124)
		<u>643,445</u>	<u>1,037,274</u>

**15. PROVISIONS FOR DOUBTFUL DEBTS**

	<u>Note</u>	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
Balance at beginning of the year		910,124	922,080
Retranslation differences of provision in foreign currencies		236	447
Add: provided during the year	28	1,000	2,660
Less: used during the year		( 665)	-
Less: provisions reversed	27	-	( 15,063)
Balance at end of the year		<u>910,695</u>	<u>910,124</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

16. PROPERTY AND EQUIPMENT (NET)

	2013					Total YR 000s
	Land, Buildings and Constructions YR 000s	Leasehold Improvements YR 000s	Furniture and Equipment YR 000s	Motor Vehicles YR 000s	Computer Equipment YR 000s	
<b>Cost</b>						
Balance as at January 1, 2013	2,412,945	120,953	462,432	136,926	518,045	3,651,301
Additions during the year	34,603	24,938	81,878	16,843	15,533	173,795
Disposals during the year	-	-	-	-	-	-
Balance as at December 31, 2013	<u>2,447,548</u>	<u>145,891</u>	<u>544,310</u>	<u>153,769</u>	<u>533,578</u>	<u>3,825,096</u>
<b>Accumulated depreciation</b>						
Balance as at January 1, 2013	163,173	67,905	278,535	121,703	324,297	955,613
Depreciation	26,615	10,759	34,752	5,116	66,757	143,999
Disposals	-	-	-	-	-	-
Balance as at December 31, 2013	<u>189,788</u>	<u>78,664</u>	<u>313,287</u>	<u>126,819</u>	<u>391,054</u>	<u>1,099,612</u>
<b>Net book value</b>						
December 31, 2013	<u>2,257,760</u>	<u>67,227</u>	<u>231,023</u>	<u>26,950</u>	<u>142,524</u>	<u>2,725,484</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**2012**

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





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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**17. DUE TO BANKS**

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
Local banks - current account – local currency	1,342	1,853
Foreign banks - current account – foreign currency	1,432	429,343
	<u>2,774</u>	<u>431,196</u>

Current accounts which are due to banks do not carry any interest.

**18. CUSTOMERS' DEPOSITS**

a. Customers' deposits by type

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
Current accounts	19,916,965	20,057,323
Time deposits	62,148,278	50,681,387
Saving accounts	34,764,109	31,869,851
Margins of LC's and LG's	2,671,709	3,070,751
Other deposits	861,747	622,248
	<u>120,362,808</u>	<u>106,301,560</u>

Customers' deposits as at December 31, 2013 include YR 7,733,345 thousand of margins held for direct and indirect facilities (as at December 31, 2012: YR 6,081,547 thousand).

b. Customers' deposits by sector

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
Public and mixed sectors	10,541,175	11,224,368
Individuals	94,126,833	81,531,477
Corporations	10,700,122	7,111,238
Others	4,994,678	6,434,477
	<u>120,362,808</u>	<u>106,301,560</u>

**19. CREDIT BALANCES AND OTHER LIABILITIES**

	<b>Note</b>	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
Income tax for the year	19.a	264,784	627,650
Interest payable		1,427,706	1,511,613
Unclaimed balances*		198,931	197,903
Accrued expenses		37,343	40,000
End of service benefits		56,000	-
Other credit balances		883,993	884,562
		<u>2,868,757</u>	<u>3,261,728</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

19.a Income tax for the year

	<u>2013</u> <u>YR 000s</u>	<u>2012</u> <u>YR 000s</u>
Balance at beginning of the year	627,650	550,999
Add: provided during the year	264,784	603,787)
Less: paid during the year	( 627,650)	( 527,136)
Balance at the end of the year	<u>264,784</u>	<u>627,650</u>

20. OTHER PROVISIONS

<u>Description</u>	<u>Note</u>	<u>2013</u>		
		<u>Provision for</u> <u>Contingent</u> <u>Liabilities</u> <u>YR 000s</u>	<u>Provision for</u> <u>Contingent</u> <u>Claims</u> <u>YR 000s</u>	<u>Total</u> <u>YR 000s</u>
Balance as at January 1, 2013		265,030	60,641	325,671
Add: provided during the year	28	20,108	90,000	110,108
Retranslation differences of provision in foreign currencies		-	-	-
Less: provisions reversed	27	( 186,563)	-	( 186,563)
Balance as at December 31, 2013		<u>98,575</u>	<u>150,641</u>	<u>249,216</u>

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

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**21. EQUITY**

a. Share capital

According to the Bank Articles of Association which is issued by the President of Council of Ministers Decision No. 405 of 2013, the authorized capital amounted to YR 50 billion and share capital amounted to YR 20 billion.

As at December 31, 2013, the share capital is YR 10 billion (as at December 31, 2012: YR 10 billion) divided into 10 million shares of YR 1,000 per share.

The break-up of the above amount is as follows:

	<u>Amount</u> <u>YR 000s</u>
Share capital according to the Articles of Association	20,000,000
Less: amounts not yet paid	( 10,000,000)
Share capital as at December 31, 2013	<u>10,000,000</u>

b. Legal reserve

According to the provisions of the Banks Law no. 38 of 1998, 15% of the net profit for the year is transferred to legal reserve until the reserve equals twice the capital. The Bank cannot use this reserve without the prior approval of the Central Bank of Yemen.

c. General reserve

According to the Bank Articles of Association, 15% of the net profit for the year is transferred to general reserve until the reserve equals twice the capital. The balance of this reserve can be used to increase the capital or to the development of the Bank activities based on the Bank management suggestion and the approval of the Board and Minister of Finance.

d. Revaluation of property surplus reserve

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

e. Fair value reserve

As at December 31, 2013, fair value reserve for available-for-sale investment include a positive fair value amount of YR 50,090 thousand (as at December 31, 2012: YR 50,090 thousand) which represent the revaluation profit and loss on the available-for-sale investment.

**22. CONTINGENT LIABILITIES AND COMMITMENTS (NET)**

	<u>2013</u>		
	<u>Gross</u>		<u>Net</u>
	<u>Commitments</u>	<u>Margin Held</u>	<u>Commitments</u>
	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Letters of credit	7,900,593	( 1,380,910)	6,519,683
Letters of guarantee	14,334,785	( 1,254,024)	13,080,761
Others	1,275,203	( 36,775)	1,238,428
	<u>23,510,581</u>	<u>( 2,671,709)</u>	<u>20,838,872</u>
	<u>2012</u>		
	<u>Gross</u>		<u>Net</u>
	<u>Commitments</u>	<u>Margin Held</u>	<u>Commitments</u>
	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Letters of credit	13,602,996	( 1,995,043)	11,607,953
Letters of guarantee	13,704,392	( 1,065,125)	12,639,267
Others	200,069	( 10,583)	189,486
	<u>27,507,457</u>	<u>( 3,070,751)</u>	<u>24,436,706</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**23. INTEREST INCOME**

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
<u>Interest on loans to customers</u>		
Interest earned on loans and overdrafts	1,537,749	1,523,552
Other interest	805	260
	<u>1,538,554</u>	<u>1,523,812</u>
<u>Interest on due from banks</u>		
Interest from deposits	84,831	104,479
Interest on certificates of deposit with CBY	150,277	66,284
Interest from current accounts	311	184
	<u>235,419</u>	<u>170,947</u>
Interest on treasury bills held to maturity	<u>14,203,379</u>	<u>14,825,110</u>
	<u>15,977,352</u>	<u>16,519,869</u>

**24. INTEREST EXPENSES**

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
<u>Interest on customers' deposits</u>		
Interest on time deposits	8,207,751	7,893,305
Interest on saving accounts	2,851,538	3,259,429
	<u>11,059,289</u>	<u>11,152,734</u>

**25. FEE AND COMMISSIONS INCOME**

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
Commissions on letters of credits	136,647	115,475
Commissions on letters of guarantee	146,416	194,931
Commissions on transfer of funds	22,832	23,236
Other banking service charges	190,273	290,927
	<u>496,168</u>	<u>624,569</u>

**26. GAIN ON FOREIGN CURRENCY TRANSACTIONS**

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
(Loss) from translation of foreign currencies	( 2,174)	( 15,906)
Gain from dealing in foreign currencies transactions	<u>35,929</u>	<u>33,790</u>
	<u>33,755</u>	<u>17,884</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**27. OTHER OPERATING INCOME**

	<b>Note</b>	<b>2013 YR 000s</b>	<b>2012 YR 000s</b>
<u>Provisions reversed</u>			
Provision for loans and advances	11	814,054	1,389,223
Provision for contingent liabilities	20	186,563	37,624
Provision for doubtful debts	15	-	15,063
		<u>1,000,617</u>	<u>1,441,910</u>
Reversal of impairment of available-for-sale investments	13.a	-	2,000
Other income		<u>54,438</u>	<u>57,359</u>
		<u>1,055,055</u>	<u>1,501,269</u>

**28. PROVISIONS PROVIDED DURING THE YEAR**

	<b>Note</b>	<b>2013 YR 000s</b>	<b>2012 YR 000s</b>
Provisions for loans and advances (performing and non-performing)	11	756,154	551,876
Provision for doubtful debts	15	1,000	2,660
Other provisions	20	<u>110,108</u>	<u>223,515</u>
		<u>867,262</u>	<u>778,051</u>

**29. STAFF COST**

	<b>Note</b>	<b>2013 YR 000s</b>	<b>2012 YR 000s</b>
Basic salaries		1,194,204	846,102
Rewards and incentives		1,187,803	790,325
Allowances and benefits		692,062	470,898
Social security		95,247	66,241
Others		<u>109,727</u>	<u>221,561</u>
		<u>3,279,043</u>	<u>2,395,127</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**30. OTHER EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>YR 000s</b>	<b>YR 000s</b>
Zakat expenses	220,000	200,000
Subscriptions	161,814	152,397
Water, electricity and fuel	72,548	69,642
Security guard	69,718	63,875
Professional fees	61,601	41,004
Advertisement and publication	58,670	41,444
Travelling and transportation	52,266	60,149
Training expenses	49,127	23,145
Maintenance expenses	48,931	52,825
Rent	38,998	41,616
Stationery and printing supplies	36,523	36,144
Donations	35,608	59,427
Telephone, telex and postage	26,535	36,177
Hospitality and reception	17,490	20,842
Government fees	3,603	3,637
Other expenses	39,929	106,177
	<u>993,361</u>	<u>1,008,501</u>

**31. EARNING PER SHARE**

	<b>2013</b>	<b>2012</b>
Net profit for the year (YR thousand)	902,033	2,609,304
Number of shares (by thousand)	10,000	10,000
Earning per share (YR)	<u>90</u>	<u>261</u>



0.332548  
0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**32. MATURITIES OF ASSETS AND LIABILITIES**

Description	2013				
	Due within three months YR 000's	Due from three to six months YR 000's	Due from six months to one year YR 000's	Due over one year YR 000's	Total YR 000's
<b>a. Assets</b>					
Cash on hand & reserve balances with CBY	10,573,184	-	-	-	10,573,184
Due from banks	22,554,768	515,610	526,650	91,360	23,688,388
Treasury bills – held to maturity	40,572,122	21,784,921	27,524,961	-	89,882,004
Loans and advances (net)	1,286,771	819,760	1,547,677	7,965,254	11,619,462
Available-for-sale investments	-	-	-	239,811	239,811
Other assets	2,498	95	98	3,366,238	3,368,929
	<u>74,989,343</u>	<u>23,120,386</u>	<u>29,599,386</u>	<u>11,662,663</u>	<u>139,371,778</u>
<b>b. Liabilities and equity</b>					
Due to banks	2,774	-	-	-	2,774
Customers' deposits	83,946,429	11,874,656	24,397,192	144,551	120,362,808
Other liabilities and equity	2,624,836	264,784	228,353	15,888,223	19,006,196
	<u>86,574,039</u>	<u>12,139,440</u>	<u>24,625,545</u>	<u>16,032,754</u>	<u>139,371,778</u>
Net	( 11,584,696)	10,980,946	4,973,841	( 4,370,091)	-
<b>2012</b>					
Description	Due within three months YR 000's	Due from three to six months YR 000's	Due from six months to one year YR 000's	Due over one year YR 000's	Total YR 000's
<b>a. Assets</b>					
Cash on hand & reserve balances with CBY	9,508,477	-	-	-	9,508,477
Due from banks	23,552,255	2,664,510	1,679,546	-	27,896,311
Treasury bills – held to maturity	42,886,957	12,800,580	21,147,737	-	76,835,274
Loans and advances (net)	1,587,070	149,549	3,379,502	3,737,135	8,853,256
Available-for-sale investments	-	-	-	306,577	306,577
Other assets	69,421	10,090	6,360	3,647,091	3,732,962
	<u>77,604,180</u>	<u>15,624,729</u>	<u>26,213,145</u>	<u>7,690,803</u>	<u>127,132,857</u>
<b>b. Liabilities and equity</b>					
Due to banks	431,196	-	-	-	431,196
Customers' deposits	72,462,149	11,440,359	22,165,643	233,409	106,301,560
Other liabilities and equity	2,429,038	790,650	367,711	16,812,702	20,400,101
	<u>75,322,383</u>	<u>12,231,009</u>	<u>22,533,354</u>	<u>17,046,111</u>	<u>127,132,857</u>
Net	<u>2,281,797</u>	<u>3,393,720</u>	<u>3,679,791</u>	( 9,355,308)	-

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0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**33. INTEREST RATES APPLIED DURING THE YEAR**

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

	<b>2013</b>				
	<b>YR %</b>	<b>US\$ %</b>	<b>Saudi Riyal %</b>	<b>Sterling Pound %</b>	<b>EUR %</b>
<b><u>Assets</u></b>					
<b>Loans and advances to customers:</b>					
- Facilities	21.00	7.60	-	-	-
<b>Due from banks:</b>					
- Certificates of deposits	19.75	-	-	-	-
- Time deposits	-	0.21	0.45	0.44	0.15
Treasury bills – held to maturity	15.96	-	-	-	-
<b><u>Liabilities</u></b>					
<b>Customers' deposits:</b>					
- Time deposits	15.25	0.25	0.25	0.25	0.25
- Savings accounts	15.25	0.25	0.25	0.25	0.25
<b>2012</b>					
	<b>YR %</b>	<b>US\$ %</b>	<b>Saudi Riyal %</b>	<b>Sterling Pound %</b>	<b>EUR %</b>
<b><u>Assets</u></b>					
<b>Loans and advances to customers:</b>					
- Facilities	26.38	7.63	-	-	-
<b>Due from banks:</b>					
- Certificates of deposits	19.75	-	-	-	-
- Time deposits	-	0.67	0.33	0.78	0.03
Treasury bills – held to maturity	20.22	-	-	-	-
<b><u>Liabilities</u></b>					
<b>Customers' deposits:</b>					
- Time deposits	19.50	0.25	0.25	0.25	0.25
- Savings accounts	19.50	0.25	0.25	0.25	0.25



0.332548  
0.89521453

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

	2013						Total YR 000s
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	
<b>Assets</b>							
Cash on hand and reserve balance with CBY	-	-	-	-	10,573,184	-	10,573,184
Due from banks	-	-	-	-	23,688,388	-	23,688,388
Treasury bills held to maturity	-	-	-	-	89,882,004	-	89,882,004
Loans and advances (net)	-	-	8,885,653	-	29,128	2,704,681	11,619,462
Available for sale investments	-	-	-	61,200	178,611	-	239,811
<b>Liabilities</b>							
Due to banks	-	-	-	-	2,774	-	2,774
Customers deposits	1,291,432	496,506	7,264,490	8,367,433	1,258,787	101,684,160	120,362,808
<b>Contingent liabilities and commitments (net)</b>							
	100,391	1,000	15,715,442	921,427	1,090,976	3,152,508	20,981,744
<b>2012</b>							
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	Total YR 000s
<b>Assets</b>							
Cash on hand and reserve balance with CBY	-	-	-	-	9,508,477	-	9,508,477
Due from banks	-	-	-	-	27,896,311	-	27,896,311
Treasury bills held to maturity	-	-	-	-	76,835,274	-	76,835,274
Loans and advances (net)	-	-	6,517,907	1,915	13,218	2,320,216	8,853,256
Available for sale investments	-	-	-	-	306,577	-	306,577
<b>Liabilities</b>							
Due to banks	-	-	-	-	431,196	-	431,196
Customers deposits	5,879,958	233,606	13,835,922	2,945,532	1,847,717	81,558,825	106,301,560
<b>Contingent liabilities and commitments (net)</b>							
	3,426,129	869,968	13,367,728	3,789,252	2,819	2,980,810	24,436,706

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

	2013					
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
<b>Assets</b>						
Cash on hand and reserve balances with CBY	10,573,184	-	-	-	-	10,573,184
Due from banks	3,353,458	-	11,473,900	8,760,195	100,835	23,688,388
Treasury bills - held to maturity	89,882,04	-	-	-	-	89,882,004
Loans and advances (net)	11,619,462	-	-	-	-	11,619,462
Available for sale investments	81,200	-	-	158,611	-	239,811
<b>Liabilities</b>						
Due to Banks	1,342	-	-	1,432	-	2,774
Customers deposits	120,362,808	-	-	-	-	120,362,808
<b>Contingent liabilities and commitments (net)</b>						
	3,526,968	33,504	10,087,740	7,008,730	324,802	20,981,744
<b>2012</b>						
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
<b>Assets</b>						
Cash on hand and reserve balances with CBY	9,508,477	-	-	-	-	9,508,477
Due from banks	5,598,162	-	13,128,907	8,837,284	331,958	27,896,311
Treasury bills - held to maturity	76,835,274	-	-	-	-	76,835,274
Loans and advances (net)	8,853,256	-	-	-	-	8,853,256
Available for sale investments	147,966	-	-	158,611	-	306,577
<b>Liabilities</b>						
Due to Banks	1,853	-	-	429,343	-	431,196
Customers deposits	106,301,560	-	-	-	-	106,301,560
<b>Contingent liabilities and commitments (net)</b>						
	5,161,769	215,879	7,658,168	9,956,538	1,444,352	24,436,706



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**36. SIGNIFICANT FOREIGN CURRENCIES POSITIONS**

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

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Surplus (Deficit) YR 000s</u>	<u>Percentage of Capital and Reserves %</u>	<u>Surplus (Deficit) YR 000s</u>	<u>Percentage of Capital and Reserves %</u>
US Dollars	1,469,203	9.59	1,027,389	6.84
Sterling Pound	23,771	0.16	22,919	0.15
Euro	45,052	0.29	( 2,922)	( 0.04)
Saudi Rial	( 121,970)	( 0.80)	( 7,086)	( 0.01)
	<u>83,879</u>	<u>0.54</u>	<u>33,615</u>	<u>0.21</u>
Net surplus	<u>1,499,935</u>	<u>9.78</u>	<u>1,073,915</u>	<u>7.15</u>

The US Dollar exchange rate as at December 31, 2013 was YR 214.89 (as at December 31, 2012: US Dollar exchange rate was YR 213.80).

**37. TRANSACTIONS WITH RELATED PARTIES**

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

The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY Circular No. 4 of 1999, which limits credit transactions with related parties. The Bank related parties are the members of the Board of Directors and companies owned by them, as well as the Bank's key management personnel. This transactions consist of obtaining loans and advances and other various transactions conducted as part of the Bank's normal activities. The following are the nature and balances of these transactions at the financial statements date:

	<u>2013 YR 000s</u>	<u>2012 YR 000s</u>
Loans and advances (net)	7,152	2,553
Customers' deposits	28,166	14,940
Interest and commissions received	74	24
Interest and commissions paid	1,313	899
Salaries and benefits	52,497	29,112

### **38. TAX STATUS**

- The difference between accounting and tax profit for the year 2013 represents an additional amount of YR 90,337 thousand as a result of adjusting the accounting profit with the provisions provided during the year which are subject to tax and charged to the statement of profit or loss and other comprehensive income and provisions used during the year which was previously subject to tax on the basis of 20% tax rate.
- Corporate and salaries taxes have been cleared up to the year 2009, and the relevant taxes were paid in accordance with the Tax Authority assessment.
- The Bank has submitted the tax declaration for the years 2010 and 2011 and paid the amount due according to the declaration within the legal deadline. During the year 2014, the Bank was notified of differences in the corporate tax amounting to YR 60,916 thousand (after deducting the tax paid) and the Bank has agreed about that and provide the adequate provisions as at December 31, 2013.
- The Bank has submitted the tax declaration for the year 2012, and paid the amount due within the legal deadline according to the declaration. The Tax Authority has not performed the review and the Bank has not been notified of any assessment.

### **39. ZAKAT**

- The Bank submits its Zakat declaration annually and remits the amount due based on the declaration.
- The Bank has paid the Zakat up to the end of 2012 according to the Zakat declaration. No additional assessment notification has been issued by the Zakat Department.

### **40. 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.

### **41. CONTINGENT LIABILITIES**

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**42. OPERATING LEASE**

The total amount of future minimum lease payment under non-cancellable operating lease is as follows:

	<b>2013</b> <b>YR 000s</b>	<b>2012</b> <b>YR 000s</b>
No later than one year	8,413	8,413
Later than one year and not later than five years	28,272	24,506
Later than five years	<u>26,409</u>	<u>13,204</u>
	<u><u>63,094</u></u>	<u><u>46,123</u></u>

**43. COMPARATIVE FIGURES**

Certain comparative figures were reclassified to conform to current year's financial statements classification for more appropriate presentation. The reclassifications do not impact the previously reported net profit or equity.

## List of Branches

### Head office

P. O. Box No. 5  
Crater Aden  
Republic of Yemen  
Tel : +967 2 253753  
Fax: +967 2 252325  
E-mail: nby.ho@y.net.ye  
WEB Site: www.nbyemen.com  
SWIFT: NBOYYESA

### Queen Arwa Branch

P. O. Box No. 110  
Queen Arwa Road,  
Crater,  
Aden,  
Republic of Yemen  
Tel.: +967 2 252226  
Fax: +967 2 255724  
SWIFT ; NBOYYEAS002

### Mukalla Branch

P. O. Box: 8044  
Main Road,  
Al-Mukalla,  
Hadramout,  
Republic of Yemen  
Tel.: +967 5 302935  
Fax: +967 5 302913  
SWIFT: NBOYYESA009

### Maalla Branch

P. O. Box No 5117  
Al-Maalla,  
Aden  
Republic of Yemen  
Tel.: +967 2 243409  
Fax : +967 2 243291

### AL-Aidroos Branch

P. O. Box No. 5  
Queen Arwa Road,  
Aden Crater,  
Republic of Yemen  
Tel.: +967 2 259171  
Fax: +967 2 251579  
SWIFT: NBOYYESA002

### Hodeidah Branch

P. O. Box No. 4851  
Hodeidah,  
Republic of Yemen  
Tel.: +967 3 233123  
Fax: +967 3 233125  
SWIFT: NBOYYESA034

### Public Lending Branch

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

### Tiaz Branch

Jamal St.  
Tiaz  
Republic of Yemen  
Tel.: +967 4 266010  
FAX: +967 4 266012

### A. Aziz A. Wali Branch

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

### Little Aden Branch

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

### Sana'a Branch

Sana'a Zubairy Street.  
P.O. Box No. 198309  
Republic of Yemen  
Tel.: +967 1 517774  
Fax: +967 517773  
SWIFT: NBOYYESA033

### Steamer Point Branch

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

### Seiyun Branch

Main Road,  
Seiyun,  
Hadramout  
Republic of Yemen  
Tel.: +967 5 402434  
Fax: +967 5 405517  
SWIFT: NBOYYESA007



## List of Branches (continue)

### Khormaksar Branch

Air Port Road,  
Khormaksar,  
Aden  
Republic of Yemen  
Tel.: +967 2 231076  
Fax : +967 2 231950

### Lahej Branch

Gumata Street,  
Al-Hotah,  
Lahej  
Republic of Yemen  
Tel.: +967 2 502807  
Fax : +967 2 502340

### Al-Sheher Branch

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

### Zingubar Branch

Main Road,  
Zingubar,  
Abyan  
Republic of Yemen  
Tel.: +967 2 605070  
Fax: +967 2 604281

### Al-Baidha Branch

Al-Omah Street,  
Al-Hay Al-Thakafi,  
Al-Baidha  
Republic of Yemen  
Tel.: +967 6 533599  
Fax : +967 6 539316

### Al-Qatan Branch

Al-Qatan,  
Hadramout  
Republic of Yemen  
Tel.: +967 5 457583  
Fax: + 967 5 459584

### Labaus Branch

Alsalam Market  
Labaus,Yafea Lahej  
Republic of Yemen  
Tel.: +967 2 554111  
Fax : + 967 2 554112

### Zarah Branch

Main Road,  
Zarah,  
Abyan  
Republic of Yemen  
Tel.: +967 2 672195  
Fax : +967 2 672791

### Al-Ghaedhah Branch

Al-Ghaedhah,  
Al-Mahrh  
Republic of Yemen  
Tel.: +967 5 612156  
Fax : +967 5 612137

### Al-Dala Branch

Main Road,  
Al-Dala  
Republic of Yemen  
Tel.: +967 2 432845  
Fax : +967 2 432431

### Rusod Branch

Main Road,  
Rusod,  
Abyan  
Republic of Yemen  
Tel.: +967 2 640022  
Fax : +967 2 640406

### Suqotra Branch

Main Road,  
Suqotra Island,  
Hadramout  
Republic of Yemen  
Tel.: +967 5 660192  
Fax: +967 5 660698

### Al-Habeelain Branch

Main Road,  
Al-Habeelain Lahej  
Republic of Yemen  
Tel.: +967 2 572215  
Fax: + 967 2 572225

### Ataq Branch

Financial Building,  
Ataq,  
Shabwah  
Republic of Yemen  
Tel.: +967 5 202530  
Fax : +967 5 203233

### Hai October Branch

Hadramout, Al-Mukalla,  
Al-Dees.  
Republic of Yemen  
Tel.: +967 5 353226  
Fax : +967 5 305454

# Annual Report 2013

البنك الأهلي اليمني  
**National Bank Of Yemen**



Trust & Experience الخبرة و التمتع

[www.nbyemen.com](http://www.nbyemen.com)



# Annual Report



البنك الأهلي اليمني  
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