

البنك الأهلي اليمني

National Bank Of Yemen

Trust & Experience الخبرة و التمتع



Annual Report 2014

البنك الأهلي اليمني
National Bank Of Yemen



Annual Report
2014



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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:

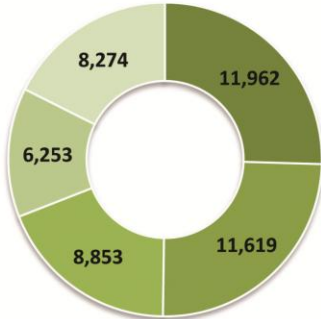
The bank is obliged to achieve quality in services and products according to international quality standards, to meet customers needs and achieve objectives and expectations of all those concerned with the interests of the bank, in the framework of comprehensive benefits of society and Yemen economy.

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.

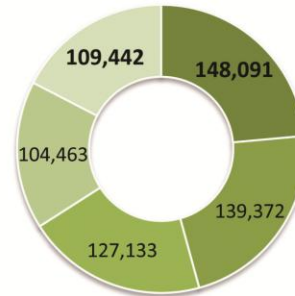
Main Basic Financial Indicators

Loans and Advances(YR millions)



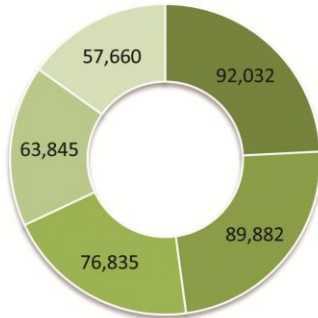
■ 2014 ■ 2013 ■ 2012 ■ 2011 ■ 2010

Total Assets(YR millions)



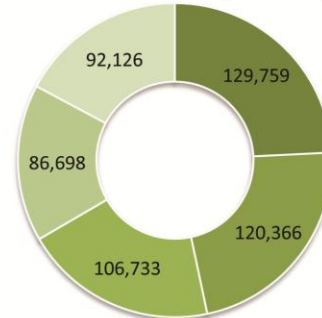
■ 2014 ■ 2013 ■ 2012 ■ 2011 ■ 2010

Local Investments (YR millions)



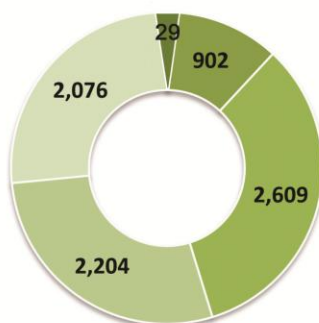
■ 2014 ■ 2013 ■ 2012 ■ 2011 ■ 2010

Customers & Bank Deposits (YR millions)



■ 2014 ■ 2013 ■ 2012 ■ 2011 ■ 2010

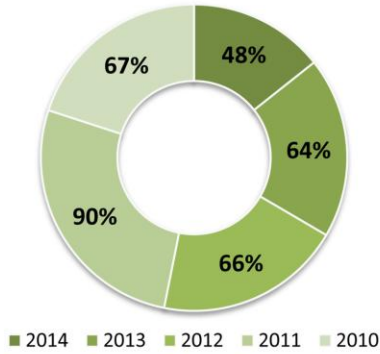
Net Profit(YR millions)



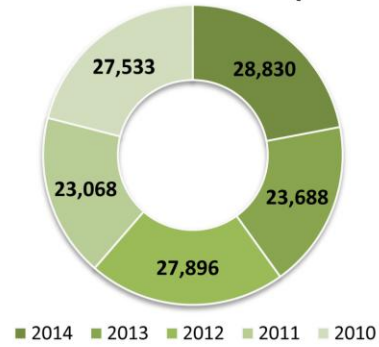
■ 2014 ■ 2013 ■ 2012 ■ 2011 ■ 2010

Main Basic Financial Indicators (continue)

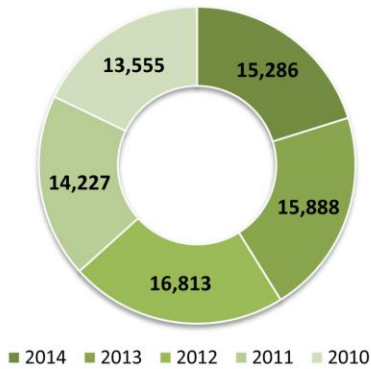
Capital Adequacy Rate(%)



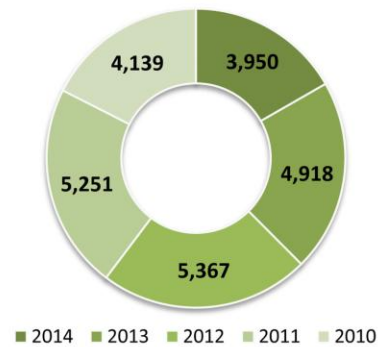
Balances with Banks(YR millions)



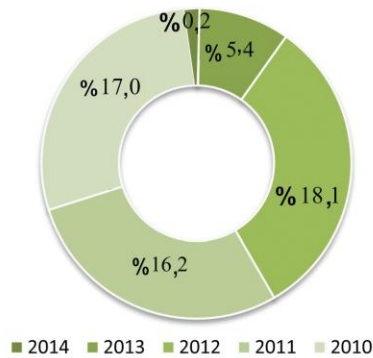
Equity(YR millions)



Net Interest Income(YR millions)



Return on Average Equity(%)



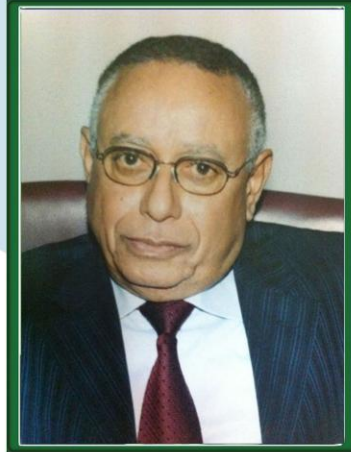


Financial Statement Summary

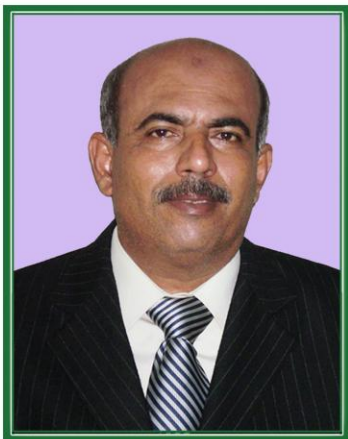
(YR millions amounts)

Statement	Years				
	2014م	2013م	2012م	2011م	2010م
Financial Position:					
Total Assets	148,091	139,372	127,133	104,463	109,442
Loans and Advances	11,962	11,619	8,853	6,253	8,274
Customers & Bank Deposits	129,759	120,366	106,733	86,698	92,126
Local Investments	92,032	89,882	76,835	63,845	57,660
Capital	10,000	10,000	10,000	10,000	10,000
Equity	15,286	15,888	16,813	14,227	13,555
Balances with Banks	28,830	23,688	27,896	23,068	27,533
Contra Items	20,154	20,839	24,437	17,308	22,895
Income Statement:					
Net Interest Income	3,950	4,918	5,367	5,251	4,139
Operation Income	1,530	1,618	2,183	2,060	1,490
Profit Before Tax	36	1,167	3,213	2,755	2,595
Net Profit	29	902	2,609	2,204	2,076
Financial Ratios:					
Return on Assets	0,0%	% 0,6	%2,1	%2,1	%1,9
Return on Average Equity	0,2%	% 5,4	%18,1	%16,2	%17,0
Capital Adequacy Rate	48%	%64	%66	%90	%67
Liquidity Rate	85%	%54	%58	%67	%71
U.S.Dollar Price	YR 214,89	YR 214,89	YR 214,89	YR 213,80	YR 213,80
Share Profit	YR 3	YR 90	YR 261	YR 220	YR 219
Number of Branches	27	27	27	27	28
Number of Employees	970	963	916	881	738

Chairman and Members of Board of Directors



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



MR.EESAM AHMED AL-SAQQAF
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 HAKEM ZAEED AL DAREE
REPRESENTATIVE/OF MINISTRY
OF FINANCEGENERAL MANAGER
OF FINANCIALOFFICE ADEN

Executive Management



FAIZA AHMED MUSALI
Manager Human Resources Dept



FADHAA MOHAMMED ABDO SROOR
Manager, Central Accounts



ARWA ALI SULEMAN
Manager, Statistic & Research



MOHSEN SAEED AL-SHABAHI
Manager Branches Dept.



OMAR ABDULRAHMAN ABDULGABAR
Manager, Administrative Affairs



MRWAN ALI ABDULLA
Manager, Credit Dept



Waled Watq Shadli
Manager, Legal Dept.



SALEH EASA SALEH
Manager, Audit Dept



SABR SAEED ABDO
Manager, Foreign Relations Dept..



SALEH AWAD KASM
Manager, Risk Dept



HANI AHMED OBEID
Manager Of IT Department



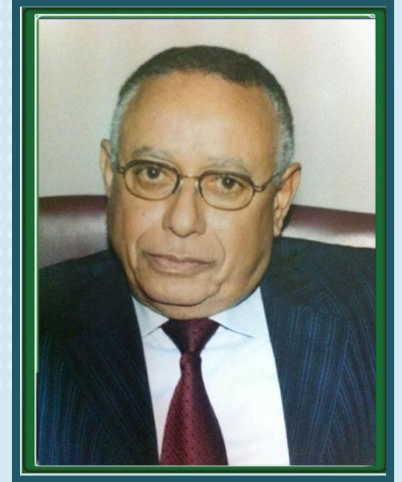
ZIAD. A.. BASUNAID
I.T Project Manager



BALIGH AHMED TAHER
Manager, Bad Debts

CHAIRMAN BOARD OF DIRECTORS MESSAGE

MR. MOHAMED ABDULLA MUQBEL AL-AMRI



We are pleased to present the Financial Statements for the year ended as of 31-12-2014.

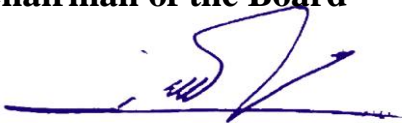
The year 2014 was eventful where National Bank of Yemen suffered more than other banks due to the affected activities of the economic and private banking particularly in Aden governorate, As a result of the intermittent stop of working per week in addition to the weekend, which affected the progress of work and communication with foreign banks However, the Bank continued its activities through its branches in other governorates, where the financial statements for the year ended December 31, 2014 indicates an increase in total assets of YR 9 billion compared to the year 2013, as well as an increase in customer deposits by YR 9,4 billion for the year 2013, as it realized an increase in loans and advances, despite of the economic activity retreat, which led to a decline in bank profits.

The positive outcome despite of all this, confirms the efficiency and flexibility of the operational policies and procedures that helped the bank to overcome the crisis and to face competition in the banking market.

Finally we are pleased to express my thanks to our valued customers who continued dealing with our bank, despite of the tensioned situation that has been going through our country, particularly in Aden governorate.

We pray to God the Almighty to protect this country and its people guide us to the straight path.

Mr. Mohammed Abdullah Al-Ameri
Chairman of the Board



THE BOARD OF DIRECTORS ANNUAL REPORT 2014

Board of Directors of National Bank of Yemen, is pleased to present the Annual Report pointing out the result of its activity and its financial statements for the year ended December 31, 2014.

The Bank continued to maintain quality and reliability of asset, and achieve the capital adequacy ratio of the best capital adequacy rates between banks so as to enhance the financial strength of the bank, as maintains its credit rating and record a continuous profit for several years, a high liquidity assets, a continuous stability of growth for many years in the volume of customer-deposits besides that it is wholly owned by government.

FINANCIAL POSITION

Efforts continued to keep on the equilibrium between profitability and safe investment ,avoiding investments and credit operations which bear high risks, securing necessary cash liquidity to face financial liabilities of different maturities and optimize use of available of funds efficiently that is represented in supporting the banks financial position and achieve high growth in revenue and strength.

At the end of 2014 total assets reached YR 148, 1 billion , representing an increase of YR 8,7 billion with a growth of rate 6,3% . Also, cash on hand and reverse balances with Central Bank of Yemen increased by 7,5% and the local investments (Treasury bills) increased by 2,4% to reach YR 92,0 billion in addition to net loans and advances which increased from YR 11,6 billion at the end of 2013 to YR 12,0 billion at the end of 2014 , as for irregular loans and advances as at the end of 2014 reached 29,9% of total loans and advances compared to 31,3% at the end of the previous year. Without taking into consideration of the general provision the provision reached 25% at the end of 2014 compared to 27% at the end of 2013, as for regular and irregular loans and advances declined at the end of 2014 to YR 3,027 million compared to YR 3,146 million with a decline rate of 3,8% compared to the year 2013. Customer deposits reached YR 129,8 billion at the end of 2014 with an increase of YR 9,4 billion compared to the previous year with an increase rate of 7,8%.

Contingent liabilities and commitments reached YR 20, 2 billion at the end of 2014, with a decline of YR 685 million compared to the year of 2013.

EQUITY

The owners equity (Yemeni Government) declined to YR 15,3 billion at the end of 2014, compared to YR 15,9 billion at the end of 2013 Due to the proposed dividend decline as the bank preserved a high rate of capital adequacy reaching 48% compared to Central Bank of Yemen requirements and the requirements of Basel committee 8% and 12%Consecutively.

FINANCIAL AND OPERATIONAL PERFORMANCE

Total comprehensive income for the year 2014 amounted to YR 29 million with decline of YR 873 million compared to the total comprehensive income earned in 2013 as a result of decline of operation income than the increase in the staff costs which both effected to a decline income.

The net interest income for the year 2014 reached YR 3,950 million with a decline of YR 968 million compared to the year 2013 an equivalent to 19,7 % and the income from commissions ,fees, and other operation income reached YR 1,526 million with a decline of YR 73 million compared to the year 2013, an equivalent to 4,6% , the main reason for this decline is the total of other operating income especially to the losses in provisions of items out of the financial statements and decline in gain on foreign currency transactions.

Staff's costs increased by YR 260 million at the end of 2014 at rate of 7,9% from YR 3,279 million in 2013, to YR3,539 million in 2014 as the administration and general expenses declined by YR 40 million at rate of 4,0% compared to the year of 2013 reaching to YR 953 million in 2014.

Earning per share to YR 2,9 in 2014 compared to YR 90 in the year 2013, with a decline of YR 87.

Board of Directors National Bank of Yemen
Aden- 9/July/2015



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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, 2014, 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, 2014, 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.

Emphasis of Matter

Without qualifying our opinion above, we draw attention to Note (43) to the financial statements which mentioned that due to the current circumstances in Yemen, some of the Bank's properties were damaged since March 2015. The Bank management could not assessed the extent of the damages accurately.

Also the management could not quantify the financial impact due to the continuing of the events mentioned above. These events in addition to the prevailing events that occurred in the Republic of Yemen in 2015 could affect the statement of financial position and the statement of profit or loss and other comprehensive income for the year 2014 and the next financial periods in a manner not currently determinable.

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, 2014.

M. Zohdi Mejannu
Associated Accountant

Sana'a, July 9, 2015




**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014**

	Note	2014 YR 000s	2013 YR 000s
ASSETS			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	7	11,424,609	10,573,184
Due from banks	8	28,830,100	23,688,388
Treasury bills – held to maturity	9	92,032,069	89,882,004
Loans and advances (net)	10	11,962,251	11,619,462
Available-for-sale investments	13	270,024	239,811
Debit balances and other assets (net)	14	811,938	643,445
Property and equipment (net)	16	2,760,446	2,725,484
TOTAL ASSETS		<u>148,091,437</u>	<u>139,371,778</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	17	569	2,774
Customers' deposits	18	129,758,807	120,362,808
Credit balances and other liabilities	19	2,839,042	2,868,757
Other provisions	20	207,372	249,216
Total Liabilities		<u>132,805,790</u>	<u>123,483,555</u>
EQUITY			
Share capital	21-a	10,000,000	10,000,000
Legal reserve	21-b	3,030,112	3,025,785
General reserve	21-c	1,545,490	1,541,163
Revaluation of property surplus reserve	21-d	639,762	639,762
Fair value reserve	21-e	50,090	50,090
Proposed cash dividends		20,193	631,423
Retained earnings		-	-
Total Equity		<u>15,285,647</u>	<u>15,888,223</u>
TOTAL LIABILITIES AND EQUITY		<u>148,091,437</u>	<u>139,371,778</u>
Contingent liabilities and commitments (net)	22	<u>20,154,217</u>	<u>20,838,872</u>

The attached notes on pages 17 to 61 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, 2014

	Note	2014 YR 000s	2013 YR 000s
Interest income	23	15,621,967	15,977,352
Less: interest expenses	24	(11,671,717)	(11,059,289)
Net interest income		<u>3,950,250</u>	<u>4,918,063</u>
Fee and commission income	25	558,140	496,168
Less: Fee and commission expenses		(4,088)	(19,307)
Net fee and commission income		<u>554,052</u>	<u>476,861</u>
		4,504,302	5,394,924
Income from available for sale investments		33,473	33,514
Gain on foreign currency transactions	26	1,985	33,755
Other operating income	27	<u>936,672</u>	<u>1,055,055</u>
Operating income		5,476,432	6,517,248
Less: impairment loss on available-for-sale investments	13-a	-	(66,766)
Less: provisions	28	(793,747)	(867,262)
Less: staff cost	29	(3,539,279)	(3,279,043)
Less: depreciation of property and equipment	16	(154,023)	(143,999)
Less: other expenses	30	(953,324)	(993,361)
Net profit of the year before income tax		36,059	1,166,817
Less: income tax for the year	19-a	(7,212)	(264,784)
Net profit for the year after tax		28,847	902,033
Other comprehensive income		-	-
Total comprehensive income for the year		<u>28,847</u>	<u>902,033</u>
Earnings per share	31	<u>YR 2.9</u>	<u>YR 90.2</u>

The attached notes on pages 17 to 61 are an integral part of these financial statements.
Independent auditor's report is set out on pages 10 and 11.

Mohamed Abdulla Muqbil Alamery
Chairman

Esam Ahmed Alawi Alsaqaf
General Manager





**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Revaluation of									
	Share Capital Y.R 000s	Legal Reserve Y.R 000s	General Reserve Y.R 000s	Property Surplus Reserve Y.R 000s	Fair Value Reserve Y.R 000s	Proposed Cash Dividends Y.R 000s	Retained Earnings Y.R 000s	Total Y.R 000s		
Balance as at January 1, 2014	10,000,000	3,025,785	1,541,163	639,762	50,090	631,423	-	15,888,223		
Total comprehensive income for the year										
Net profit for the year	-	-	-	-	-	-	28,847	28,847		
Other comprehensive income										
Total comprehensive income for the year	-	-	-	-	-	-	28,847	28,847		
Transactions with owners, recorded directly in equity										
Dividends paid	-	-	-	-	-	(631,423)	-	(631,423)		
Transfer to legal reserve (proposed)	-	4,327	-	-	-	-	4,327	-		
Transfer to general reserve (proposed)	-	-	4,327	-	-	-	4,327	-		
Government share in profit (proposed)	-	-	-	-	-	17,308	17,308	-		
Employees' share in profit (proposed)	-	-	-	-	-	2,885	2,885	-		
Total transactions with owners	-	4,327	4,327	-	-	(611,230)	28,847	(631,423)		
Balance as at December 31, 2014	10,000,000	3,030,112	1,545,490	639,762	50,090	20,193	-	15,285,647		



STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014

	Revaluation of							Total Y/R 000s
	Share Capital Y/R 000s	Legal Reserve Y/R 000s	General Reserve Y/R 000s	Property Surplus Reserve Y/R 000s	Fair Value Reserve Y/R 000s	Proposed Cash Dividends Y/R 000s	Retained Earnings Y/R 000s	
Year 2013								
Balance as at January 1, 2013	10,000,000	2,890,480	1,405,838	639,762	50,090	1,826,512	-	16,812,702
Total comprehensive income for the year	-	-	-	-	-	-	902,033	902,033
Net profit for the year	-	-	-	-	-	-	902,033	902,033
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	902,033	902,033
Transactions with owners, recorded directly in equity								
Dividends paid	-	-	-	-	-	(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)	-
Total transactions with owners	-	135,305	135,305	-	-	(1,195,089)	(902,033)	(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

The attached notes on pages 17 to 61 are an integral part of these financial statements.
Independent auditor's report is set out on pages 10 and 11.

Mohamed Abdulla Muqbil Alameiry
Chairman

Esam Ahmed Alawi Alsagaf
General Manager





STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 YR 000s	2013 YR 000s
Cash flows from operating activities			
Net profit for the year before income tax		36,059	1,166,817
Adjustments in:			
Depreciation of property and equipment		154,023	143,999
Provisions provided during the year	28	793,747	867,262
Retranslation differences of provisions in foreign currencies		(8,304)	3,175
Provisions reversed	27	(900,666)	(1,000,617)
Impairment loss on available-for-sale-investments		-	66,766
Provisions used during the year		(47,655)	(2,757)
Loss on foreign currency translation (unrealized)		8,092	7,840
		<u>35,296</u>	<u>1,252,485</u>
Change in:			
Due from banks maturing after three months		(5,269,654)	2,136,142
Reserve balances with the Central Bank of Yemen		(911,336)	(1,103,885)
Treasury bills maturity after three months		(13,619,153)	(9,448,428)
Loans and advances		(213,290)	(2,704,790)
Debit balances and other assets		(167,357)	393,258
Due to banks		(2,205)	(428,422)
Customers' deposits		9,150,191	13,983,450
Credit balances and other liabilities		227,857	(30,105)
Income tax paid		(264,784)	(627,650)
Net cash (used in) from operating activities		<u>(11,034,435)</u>	<u>3,422,055</u>
Cash flows from investing activities			
Cash payments for acquisition of property and equipment		(188,985)	(173,795)
Increase in available-for-sale investments		(30,213)	-
Net cash (used in) investing activities		<u>(219,198)</u>	<u>(173,795)</u>
Cash flows from financing activities			
Dividends paid		(631,423)	(1,826,512)
Net cash (used in) financing activities		<u>(631,423)</u>	<u>(1,826,512)</u>
Net change in cash and cash equivalents		(11,885,056)	1,421,748
Cash and cash equivalents, beginning of the year		69,599,197	68,106,606
Effect of exchange rate fluctuation on cash held		207,470	70,843
Cash and cash equivalents at the end of the year		<u>57,921,611</u>	<u>69,599,197</u>
Cash and cash equivalents at the end of the year consist of:			
Cash on hand and reserve balances with CBY	7	11,424,609	10,573,184
Due from banks	8	28,830,100	23,688,388
Treasury bills – held to maturity (net)	9	92,032,069	89,882,004
		<u>132,286,778</u>	<u>124,143,576</u>
Less: Reserve balances with CBY		(9,856,304)	(8,944,968)
Less: Due from banks due after three months		(7,492,965)	(2,202,666)
Less: Treasury bills due after three months (net)		(57,015,898)	(43,396,745)
		<u>57,921,611</u>	<u>69,599,197</u>

The attached notes on pages 17 to 61 are an integral part of these financial statements.
Independent auditor's report is set out on pages 10 and 11.


Mohamed Abdulla Muqbil Alamery
Chairman


Esam Ahmed Alawi Alsaqaf
General Manager





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014.

- The financial statements were approved by the Board of Directors on July 9, 2015.

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 note nos. 3-4, 3-8, 3-9, 3-10, 5, 11, 15, 16, 19, and 20.

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

a. Critical accounting judgements in applying the Bank's accounting policies include:

- Classification of financial asset and financial liability

The Bank's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "held-to-maturity" or "available-for-sale", the Bank has determined it meets the description as set out in accounting policy No (3.2).

- Valuation of financial instruments

The Bank's determination of fair value hierarchy of financial instruments is discussed in note 5.

b. Key source of estimating uncertainty

- *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 which is shown in the significant accounting policies below.

- *Impairment of available-for-sale investments*

The Bank exercises judgment to consider impairment on the investments available-for-sale. 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 market price. In addition, the Bank considers the impairment is appropriate when there is evidence of deterioration in the financial situation of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

- Useful lives of property and equipment

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

- Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

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 books of account in Yemeni Rial (functional currency). Transactions in other currencies are translated to the functional currency using the exchange rates prevailing at the transaction dates. At year end, monetary assets and liabilities denominated in other currencies are re-translated to the functional currency using the exchange rate at that date. Gains or losses resulting from translation are recognized 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.

- The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies or its customers' needs to meet their obligations in foreign currencies resulted from their transactions through the bank.

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 and the Bank does not intend to sell it immediately or in the near future. 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 financial 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 investments are recognized initially at cost (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. Investments are recorded as unquoted equity securities and 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 the statement of profit or loss and other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired. 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.

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

- **Financial liabilities**

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

c. **Derecognition**

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

d. **Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when, and 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 at 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 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 desired 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 less any impairment allowances.

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 an event has occurred after the initial recognition of the assets, and that the event has a negative impact on the future cash flows of the assets 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 in the statement of profit or loss and other comprehensive income. 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 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 commission income are recognized when the related services are performed.



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 with CBY, and treasury bills- held to maturity which are due within three months from the issuance date.

Cash and cash equivalents are non – derivative financial assets stated at amortized cost in the statement of financial position.

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, 2014

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 charged to 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:

	Estimated Useful Lives
Buildings and constructions	50 years
Improvement to leasehold property	years of lease or estimated useful life whichever is less
Furniture and fixtures	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 revaluation had been recorded under equity as revaluation of property surplus reserve (Note no. 21.d).



NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

3.9 Impairment of Non-Financial Assets

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in the statement of profit or loss and other comprehensive income to the extent that carrying values do not exceed the recoverable amounts.

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 10th day of next month. The Bank's contribution is charged to the statement of profit or loss and other comprehensive income.
- The provisions of Social Insurance Law are applied to all employees of the Bank concerning the end of service benefits.

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.

3.17 Earnings per share

The basic of earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the shares number or 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.



NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014.

- Amendment to IAS 32, '*Financial Instruments Presentation*'.

These amendments relate to the application guidance and clarification for some of the requirements for offsetting financial assets and financial liabilities on the financial statements.

- Amendment to IAS 36, '*Impairment of assets*' on recoverable amount disclosures.

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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, 2014 and are not yet in effect, have not been early adopted.

- IFRS 9, '*Financial instruments*' which is effective for annual periods beginning on or after January 1, 2018 (early adoption permitted).

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:

- a) amortized cost,
- b) fair value through other comprehensive income (OCI); and
- c) fair value through profit and loss

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

- IFRS 15, '*Revenue from contracts with customers*' which is effective for annual periods beginning on or after January 1, 2017 (early adoption permitted).

This is a converged standard on revenue recognition. It replaces IAS 11, Construction Contracts, IAS 18 of revenues and related interpretations.

- Amendment to IAS 27, Equity method in the separate financial statements, which is effective from January 1, 2016.

The Bank is currently assessing the impact of these standards on the financial statements of the Bank as at the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 270,024 thousand as at December 31, 2014 (YR 239,811 thousand as at December 31, 2013) 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

Based on the 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.

	Held to Maturity YR 000s	Loans and Advances YR 000s	Available- For-Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
At 31 December 2014						
Financial assets						
Cash on hand and reserve balances with CBY	-	11,424,609	-	-	11,424,609	11,424,609
Due from banks	-	28,830,100	-	-	28,830,100	28,830,100
Treasury bills – held to maturity						
Carried at amortized cost	92,032,069	-	-	-	92,032,069	92,032,069
Loans and advances (net)	-	11,962,251	-	-	11,962,251	11,962,251
Available-for-sale-investments	-	-	270,024	-	270,024	270,024
	<u>92,032,069</u>	<u>52,216,960</u>	<u>270,024</u>	<u>-</u>	<u>144,519,053</u>	<u>144,519,053</u>
Financial Liabilities						
Due to banks	-	-	-	569	569	569
Customers' deposits	-	-	-	129,758,807	129,758,807	129,758,807
	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,759,376</u>	<u>129,759,376</u>	<u>129,759,376</u>
	Held to Maturity YR 000s	Loans and Advances YR 000s	Available- For-Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
At 31 December 2013						
Financial assets						
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>45,881,034</u>	<u>239,811</u>	<u>-</u>	<u>136,002,849</u>	<u>136,002,849</u>
Financial Liabilities						
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>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

5.2 *Risk management of financial instruments*

- Risk management framework

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 to keep the risk to an acceptable level. 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 Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:

- Asset and Liability Committee

The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Bank's financial position in terms of structure, distribution, risk and return and its impact on profitability.

- Audit Committee

The Audit Committee is appointed by the Board of Directors and comprise non-executive directors of the Bank. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

- 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.



NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

Management of credit risk

The Bank uses an internal risk rating system to classify the credit quality of borrowers and counterparties. The risk rating system has 5 grades. Grade 1 and 2 consist of performing loans and advances, and grade 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 the available information, if full recovery seems doubtful it will lead to loss on portion of these loans.
5	Bad loans and advances	Overdue greater than 360 days, with the probability of no recovery.

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>2014</u> <u>YR 000s</u>	<u>2013</u> <u>YR 000s</u>
1 - 2	Performing and watchlist	<u>4,586,555</u>	<u>4,246,659</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 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

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

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

	<u>2014</u> <u>YR 000s</u>	<u>2013</u> <u>YR 000s</u>
Cash on hand and reserve balances with CBY (excluding cash on hand)	9,856,304	8,944,968
Due from bank	28,830,100	23,688,388
Treasury bill - held to maturity	92,032,069	89,882,004
Loans and advances (net)	11,962,251	11,619,462
Available - for - sale investments	270,024	239,811
Debit balances and other assets (excluding advance payments) (net)	<u>461,402</u>	<u>93,782</u>
	143,412,150	134,468,415
Contingent liabilities and commitments	<u>22,504,117</u>	<u>23,510,581</u>
Total credit risk exposure	<u>165,916,267</u>	<u>157,978,996</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:

	<u>2014</u>		<u>2013</u>	
	<u>Gross Maximum Exposure YR 000s</u>	<u>Net Maximum Exposure YR 000s</u>	<u>Gross Maximum Exposure YR 000s</u>	<u>Net Maximum Exposure YR 000s</u>
Government	106,203,005	-	102,180,017	-
Finance	27,820,653	24,785,492	22,023,370	20,575,154
Industry	929,484	929,484	657,868	657,868
General trade	6,920,642	6,920,642	7,460,125	7,460,125
Contractors	276,822	276,822	275,414	275,414
Consumer	960,862	960,862	1,777,839	1,777,839
Others	<u>300,682</u>	<u>300,682</u>	<u>93,782</u>	<u>93,782</u>
	143,412,150	34,173,984	134,468,415	30,840,182
Contingent liabilities and commitments	<u>22,504,117</u>	<u>20,154,216</u>	<u>23,510,581</u>	<u>20,838,872</u>
	<u>165,916,267</u>	<u>54,328,200</u>	<u>157,978,996</u>	<u>51,679,054</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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014 was 85% (as at December 31, 2013 was 54%).

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

	2014				Total YR 000s
	Due within three months YR 000s	Due from three to six months YR 000s	Due from six months to one year YR 000s	Due over one year YR 000s	
<u>Liabilities</u>					
Due to banks	569	-	-	-	569
Customers' deposits	91,480,443	12,507,315	25,601,167	169,882	129,758,807
Credit balances and other liabilities	<u>2,338,961</u>	<u>161,578</u>	<u>338,503</u>	<u>-</u>	<u>2,839,042</u>
Total liabilities	<u>93,819,973</u>	<u>12,668,893</u>	<u>25,939,670</u>	<u>169,882</u>	<u>132,598,418</u>

	2013				Total YR 000s
	Due within three months YR 000s	Due from three to six months YR 000s	Due from six months to one year YR 000s	Due over one year YR 000s	
<u>Liabilities</u>					
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>

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.



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

c. Market risk

Market risk is the risk of changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads that 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 its exposure to the 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.

The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies or its customers' needs to meet their obligations in foreign currencies resulted from their transactions through the bank.

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 the Bank's Risk Management Department 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, 2014

	2014						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non-interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	11,424,609	11,424,609	-	-
Due from banks	24,169,778	2,745,575	506,230	-	1,408,517	28,830,100	-	1.03
Treasury bills - held to maturity	35,016,171	20,233,690	36,782,208	-	-	92,032,069	15.97	-
Loans and advances (net)	2,152,489	393,184	7,771,360	1,645,218	-	11,962,251	21.00	8.00
Available - for - sale investments	-	-	-	-	270,024	270,024	-	-
Other assets (net)	3,661	715	132	-	3,567,876	3,572,384	-	-
Total Assets	<u>61,342,099</u>	<u>23,373,164</u>	<u>45,059,930</u>	<u>1,645,218</u>	<u>16,671,026</u>	<u>148,091,437</u>		
Liabilities and Equity								
Due to banks	-	-	-	-	569	569	-	-
Customers' deposits	68,067,224	10,359,372	21,702,704	-	29,629,507	129,758,807	15.00	0.25
Credit balances and other liabilities	1,061,661	161,578	338,503	-	1,277,300	2,839,042	-	-
Other provisions	-	-	-	-	207,372	207,372	-	-
Equity	-	-	-	-	15,285,647	15,285,647	-	-
Total Liabilities and Equity	<u>69,128,885</u>	<u>10,520,950</u>	<u>22,041,207</u>	<u>-</u>	<u>46,400,395</u>	<u>148,091,437</u>		
Interest rate sensitivity gap	(7,786,786)	12,852,214	23,018,723	1,645,218	(29,729,369)	-		
Cumulative interest rate sensitivity gap	(7,786,786)	5,065,428	28,084,151	29,729,369	-	-		

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014

	2013						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	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	-	-
Total Assets	<u>61,859,384</u>	<u>23,120,386</u>	<u>29,599,386</u>	<u>7,965,254</u>	<u>16,827,368</u>	<u>139,371,778</u>		
Liabilities and Equity								
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	-	-
Total Liabilities and Equity	<u>60,745,343</u>	<u>10,041,254</u>	<u>21,005,725</u>	<u>-</u>	<u>47,579,456</u>	<u>139,371,778</u>		
Interest rate sensitivity gap	<u>1,114,041</u>	<u>13,079,132</u>	<u>8,593,661</u>	<u>7,965,254</u>	<u>(30,752,088)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>1,114,041</u>	<u>14,193,173</u>	<u>22,786,834</u>	<u>30,752,088</u>	<u>-</u>	<u>-</u>		

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.



NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2014

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 impact of the equity is the net change in interest income after excluding the income tax effect.

December 31, 2014

<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	24,889,888	497,798	398,238
US Dollars	2,380,479	47,610	38,088
Sterling Pound	546,169	10,923	8,738
Euro	182,539	3,651	2,921
Other Currencies	85,076	1,701	1,361

<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	24,889,888	(497,798)	(398,238)
US Dollars	2,380,479	(47,610)	(38,088)
Sterling Pound	546,169	(10,923)	(8,738)
Euro	182,539	(3,651)	(2,921)
Other Currencies	85,076	(1,701)	(1,361)

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)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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:

	2014					Total YR 000s
	US Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies YR 000s	
Assets	50,939,889	2,287,973	3,057,868	3,811,398	101,775	60,198,903
Liabilities and equity	(48,559,338)	(1,741,816)	(2,875,290)	(3,691,094)	(16,546)	(56,884,084)
Net currency position	<u>2,380,551</u>	<u>546,157</u>	<u>182,578</u>	<u>120,304</u>	<u>85,229</u>	<u>3,314,819</u>
	2013					Total YR 000s
	US Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Other currencies 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>

Effect of change in fair value of currency

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

<u>Change in currency rate (1%)</u>	Effect on Statement of Profit or Loss and other Comprehensive Income increase / (decrease)	
	2014	2013
	YR 000s	YR 000s
US\$	23,805	14,692
Sterling Pound	5,462	238
EURO	1,825	450
Saudi Rial	1,203	(1,220)
Other Currencies	852	839

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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), 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>2014</u> <u>YR Million</u>	<u>2013</u> <u>YR Million</u>
Core capital	14,507	15,109
Supplementary capital	147	136
Total capital	<u>14,654</u>	<u>15,245</u>
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	19,076	11,563
Contingent liabilities and commitments	<u>11,408</u>	<u>12,399</u>
Total risk weighted assets and contingent liabilities and commitments	<u>30,484</u>	<u>23,962</u>
Capital adequacy ratio	<u>48%</u>	<u>63.6%</u>

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

	2014	2013
	YR 000s	YR 000s
Cash on hand – local currency	686,993	865,501
Cash on hand – foreign currency	881,312	762,715
	<u>1,568,305</u>	<u>1,628,216</u>
Mandatory reserve with CBY – local currency	6,511,517	6,053,169
Mandatory reserve with CBY – foreign currency	3,344,787	2,891,799
	<u>9,856,304</u>	<u>8,944,968</u>
	<u>11,424,609</u>	<u>10,573,184</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

	2014	2013
	YR 000s	YR 000s
Central Bank of Yemen		
Current accounts – local currency	1,044,910	1,736,040
Current accounts – foreign currency	3,269,722	1,617,005
	<u>4,314,632</u>	<u>3,353,045</u>
Local Banks		
Current accounts – local currency	413	413
Foreign banks		
Current accounts – foreign currency	7,194,820	5,690,944
Time deposits – foreign currency	17,320,235	14,643,986
	<u>24,515,055</u>	<u>20,334,930</u>
	<u>28,830,100</u>	<u>23,688,388</u>

- Time deposits with foreign banks carry variable interest rates while current accounts with Central Bank of Yemen, local and foreign banks do not carry any interest.

9. TREASURY BILLS - HELD TO MATURITY

	2014	2013
	YR 000s	YR 000s
Treasury bills maturing within 90 days	35,806,770	47,372,675
Treasury bills maturing within 180 days	20,954,000	16,096,000
Treasury bills maturing within 360 days	38,952,000	29,696,040
	<u>95,712,770</u>	<u>93,164,715</u>
Less: Unearned discount balance	(3,680,701)	(3,282,711)
	<u>92,032,069</u>	<u>89,882,004</u>

The treasury bills carry an interest rate between 15.8 and 16.1 during the year 2014 (between 17.4% and 22.9% during the year 2013). 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.



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

10. LOANS AND ADVANCES (NET)

a. Loans and advances by type

	<u>Note</u>	<u>2014</u> <u>YR 000s</u>	<u>2013</u> <u>YR 000s</u>
Overdraft		9,802,816	9,297,656
Loans to customers		5,839,098	5,935,433
L/Cs financing		-	41,057
		<u>15,641,914</u>	<u>15,274,146</u>
Less:			
Provision for loans and advances	11	(3,026,530)	(3,146,428)
Uncollected interest	12	(653,133)	(508,256)
		<u>11,962,251</u>	<u>11,619,462</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 3,571,332 thousand as at December 31, 2014 after deducting uncollected interest by amount of YR 653,133 thousand and balances secured by cash deposits by amount of YR 5,932,183 thousand. As at December 31, 2013, the non-performing loans and advances amounted to YR 3,632,424 thousand 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. The break-up of the above amount is as follows:

	<u>2014</u> <u>YR 000s</u>	<u>2013</u> <u>YR 000s</u>
Substandard loans and advances	480,185	487,475
Doubtful loans and advances	331,765	198,201
Bad loans and advances	<u>2,759,382</u>	<u>2,946,748</u>
	<u>3,571,332</u>	<u>3,632,424</u>

b. Loans and advances by industry

	<u>2014</u>			<u>Total</u> <u>YR 000s</u>
	<u>Overdraft</u> <u>YR 000s</u>	<u>Loans to</u> <u>Customers</u> <u>YR 000s</u>	<u>L/C</u> <u>Financing</u> <u>YR 000s</u>	
Trade	9,683,659	1,417,108	-	11,100,767
Industry	80,674	848,809	-	929,483
Service	38,483	7,993	-	46,476
Finance	-	230,346	-	230,346
Individuals and others	-	<u>3,334,842</u>	-	<u>3,334,842</u>
Total	<u>9,802,816</u>	<u>5,839,098</u>	<u>-</u>	<u>15,641,914</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2013			Total YR 000s
	Overdraft YR 000s	Loans to Customers YR 000s	L/C Financing YR 000s	
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
Total	<u>9,297,656</u>	<u>5,935,433</u>	<u>41,057</u>	<u>15,274,146</u>

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

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

a. Provision for loans and advances by type

	Note	2014		
		Specific YR 000s	General YR 000s	Total YR 000s
Balance as at January 1, 2014		3,109,059	37,369	3,146,428
Retranslation differences of provision in foreign currencies		(7,662)	-	(7,662)
Add: provided during the year	28	744,326	18,272	762,598
Less: used during the year		(2,151)	-	(2,151)
Less: provision reversed	27	(862,867)	(9,816)	(872,683)
Balance as at December 31, 2014		<u>2,980,705</u>	<u>45,825</u>	<u>3,026,530</u>

	Note	2013		
		Specific YR 000s	General 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	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)
Balance as at December 31, 2013		<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, 2014**

b. Provision for loans and advances by sector

	2014		
	Corporate Loans YR 000s	Consumer Loans YR 000s	Total YR 000s
Balance as at January 1, 2014	3,109,059	37,369	3,146,428
Retranslation differences of provision in foreign currencies	(7,662)	-	(7,662)
Add: provided during the year	744,326	18,272	762,598
Less: used during the year	(2,151)	-	(2,151)
Less: provisions reversed	(862,867)	(9,816)	(872,683)
Balance as at December 31, 2014	<u>2,980,705</u>	<u>45,825</u>	<u>3,026,530</u>
	2013		
	Corporate Loans YR 000s	Consumer Loans 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>

12. UNCOLLECTED INTEREST

	2014 YR 000s	2013 YR 000s
Balance at beginning of the year	508,256	1,038,669
Provided during the year	170,211	453,009
Written off during the year	-	(960,455)
Recovered during the year	(22,157)	(13,612)
Retranslation differences of uncollected interest in foreign currencies	(3,177)	(9,355)
Balance at end of the year	<u>653,133</u>	<u>508,256</u>

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

13. AVAILABLE-FOR-SALE INVESTMENTS

	Note	Ownership Percentage %	No. of shares	2014 YR 000s	2013 YR 000s
i. Financing investments - foreign					
UBAC Curacao - Paris		0.88	45,202	97,135	97,135
Alubaf Arab International - Bahrain		0.33	16,574	178,079	147,866
Arab Financial Services Co. - Bahrain		0.167	10,000	10,745	10,745
				<u>285,959</u>	<u>255,746</u>
ii. Financing investments - local					
Yemeni Co. for Financial Services - Yemen		10	3,107	66,766	66,766
Yemen Mobile Co. for Telecommunication - Yemen		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	1,000	1,000
				<u>148,966</u>	<u>148,966</u>
				434,925	404,712
Less: Impairment loss on available-for-sale investments	13.a			(164,901)	(164,901)
				<u>270,024</u>	<u>239,811</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 for 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.

13.a Impairment loss on available-for-sale investments

	2014 YR 000s	2013 YR 000s
Balance at beginning of the year	164,901	98,135
Add: Impairment during the year	-	66,766
Balance at end of the year	<u>164,901</u>	<u>164,901</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

14. DEBIT BALANCES AND OTHER ASSETS (NET)

	<u>Note</u>	<u>2014 YR 000s</u>	<u>2013 YR 000s</u>
Prepaid expenses		350,536	169,254
Accrued interest		4,509	2,707
Projects in process (advances)		388,645	380,409
Assets transferred to the Bank's ownership		16,934	56,867
Other debit balances		<u>960,873</u>	<u>944,903</u>
		1,721,497	1,554,140
Less: Provision for doubtful debts	15	(909,559)	(910,695)
		<u>811,938</u>	<u>643,445</u>

15. PROVISIONS FOR DOUBTFUL DEBTS

	<u>Note</u>	<u>2014 YR 000s</u>	<u>2013 YR 000s</u>
Balance at beginning of the year		910,695	910,124
Retranslation differences of provision in foreign currencies		(642)	236
Add: provided during the year	28	-	1,000
Less: used during the year		(494)	(665)
Balance at end of the year		<u>909,559</u>	<u>910,695</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014

16. PROPERTY AND EQUIPMENT (NET)

	2014					Total YR 000s
	Land, Buildings and Constructions YR 000s	Leasehold Improvements YR 000s	Furniture and Fixtures YR 000s	Motor Vehicles YR 000s	Computer Equipment YR 000s	
Cost / Revaluation						
Balance as at January 1, 2014	2,447,548	145,891	544,310	153,769	533,578	3,825,096
Additions during the year	1,598	15,465	139,672	5,587	26,663	188,985
Balance as at December 31, 2014	2,449,146	161,356	683,982	159,356	560,241	4,014,081
Accumulated depreciation						
Balance as at January 1, 2014	189,788	78,664	313,287	126,819	391,054	1,099,612
Depreciation for the year	27,107	11,662	42,698	7,531	65,025	154,023
Balance as at December 31, 2014	216,895	90,326	355,985	134,350	456,079	1,253,635
Net book value						
December 31, 2014	2,232,251	71,030	327,997	25,006	104,162	2,760,446



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2013					
	<u>Land, Buildings and Constructions YR 000s</u>	<u>Leasehold Improvements YR 000s</u>	<u>Furniture and Fixtures YR 000s</u>	<u>Motor Vehicles YR 000s</u>	<u>Computer Equipment YR 000s</u>	<u>Total YR 000s</u>
<u>Cost / Revaluation</u>						
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
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>
<u>Accumulated depreciation</u>						
Balance as at January 1, 2013	163,173	67,905	278,535	121,703	324,297	955,613
Depreciation for the year	26,615	10,759	34,752	5,116	66,757	143,999
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>
<u>Net book value</u>						
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, 2014**

17. DUE TO BANKS

	2014	2013
	YR 000s	YR 000s
Local banks - current account – local currency	569	1,342
Foreign banks - current account – foreign currency	-	1,432
	<u>569</u>	<u>2,774</u>

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

18. CUSTOMERS' DEPOSITS

a. Customers' deposits by type

	2014	2013
	YR 000s	YR 000s
Current accounts	19,385,403	19,916,965
Time deposits	70,789,734	62,148,278
Saving accounts	36,351,887	34,764,109
Margins of LC's, LG's and others	2,349,900	2,671,709
Other deposits	881,883	861,747
	<u>129,758,807</u>	<u>120,362,808</u>

Customers' deposits as at December 31, 2014 include YR 11,079,864 thousand of margins held for direct and indirect facilities (as at December 31, 2013: YR 7,733,345 thousand).

b. Customers' deposits by sector

	2014	2013
	YR 000s	YR 000s
Public and mixed sectors	8,494,827	10,541,175
Individuals	103,633,328	94,126,833
Corporations	12,266,172	10,700,122
Others	5,364,480	4,994,678
	<u>129,758,807</u>	<u>120,362,808</u>

19. CREDIT BALANCES AND OTHER LIABILITIES

	Note	2014	2013
		YR 000s	YR 000s
Income tax for the year	19.a	7,212	264,784
Interest payable		1,561,742	1,427,706
Unclaimed balances*		196,606	198,931
Accrued expenses		147,067	37,343
Other credit balances		926,415	939,993
		<u>2,839,042</u>	<u>2,868,757</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

*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>2014</u> <u>YR 000s</u>	<u>2013</u> <u>YR 000s</u>
Balance at beginning of the year	264,784	627,650
Add: provided during the year	7,212	264,784
Less: paid during the year	(264,784)	(627,650)
Balance at the end of the year	<u>7,212</u>	<u>264,784</u>

20. OTHER PROVISIONS

		<u>2014</u>		
<u>Description</u>	<u>Note</u>	<u>Provision for Contingent Liabilities YR 000s</u>	<u>Provision for Contingent Claims YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2014		98,575	150,641	249,216
Add: provided during the year	28	31,149	-	31,149
Less: used during the year		-	(45,010)	(45,010)
Less: provisions reversed	27	(27,983)	-	(27,983)
Balance as at December 31, 2014		<u>101,741</u>	<u>105,631</u>	<u>207,372</u>
		<u>2013</u>		
<u>Description</u>	<u>Note</u>	<u>Provision for Contingent Liabilities YR 000s</u>	<u>Provision for Contingent Claims YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2013		265,030	60,641	325,671
Add: provided during the year	28	20,108	90,000	110,108
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>

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, 2014**

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, 2014, the share capital is YR 10 billion (as at December 31, 2013: 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, 2014	<u>10,000,000</u>

b. Legal reserve

According to the provisions of the Banks Law no. 38 of 1998 and the Bank Articles of Association, 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, 2014, fair value reserve for available-for-sale investments include a positive fair value amount of YR 50,090 thousand (as at December 31, 2013: YR 50,090 thousand) which represent the revaluation profit on the available-for-sale investment.

22. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	<u>2014</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	8,589,050	(1,289,061)	7,299,989
Letters of guarantee	12,411,556	(1,029,259)	11,382,297
Others	1,503,511	(31,580)	1,471,931
	<u>22,504,117</u>	<u>(2,349,900)</u>	<u>20,154,217</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2013		
	Gross		Net
	Commitments	Margin Held	Commitments
	YR 000s	YR 000s	YR 000s
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>
23. INTEREST INCOME			
		2014	2013
		YR 000s	YR 000s
<u>Interest on loans to customers</u>			
Interest earned on loans and overdrafts		1,612,369	1,537,749
Other interest		-	805
		<u>1,612,369</u>	<u>1,538,554</u>
<u>Interest on due from banks</u>			
Interest from deposits		131,919	84,831
Interest on certificates of deposit with CBY		-	150,277
Interest from current accounts		139	311
		<u>132,058</u>	<u>235,419</u>
Interest on treasury bills held to maturity		<u>13,877,540</u>	<u>14,203,379</u>
		<u>15,621,967</u>	<u>15,977,352</u>
24. INTEREST EXPENSES			
		2014	2013
		YR 000s	YR 000s
<u>Interest on customers' deposits</u>			
Interest on time deposits		8,705,314	8,207,751
Interest on saving accounts		2,966,403	2,851,538
		<u>11,671,717</u>	<u>11,059,289</u>
25. FEE AND COMMISSION INCOME			
		2014	2013
		YR 000s	YR 000s
Commission on letters of credits		118,154	136,647
Commission on letters of guarantee		193,518	146,416
Commission on transfer of funds		20,836	22,832
Other banking service charges		225,632	190,273
		<u>558,140</u>	<u>496,168</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

26. GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2014	2013
	<u>YR 000s</u>	<u>YR 000s</u>
(Loss) from translation of foreign currencies	(55,946)	(2,174)
Gain from dealing in foreign currencies transactions	<u>57,931</u>	<u>35,929</u>
	<u>1,985</u>	<u>33,755</u>

27. OTHER OPERATING INCOME

	Note	2014	2013
		<u>YR 000s</u>	<u>YR 000s</u>
<u>Provisions reversed</u>			
Provision for loans and advances	11	872,683	814,054
Other provisions	20	<u>27,983</u>	<u>186,563</u>
		900,666	1,000,617
Other income		<u>36,006</u>	<u>54,438</u>
		<u>936,672</u>	<u>1,055,055</u>

28. PROVISIONS PROVIDED DURING THE YEAR

	Note	2014	2013
		<u>YR 000s</u>	<u>YR 000s</u>
Provisions for loans and advances (performing and non-performing)	11	762,598	756,154
Provision for doubtful debts	15	-	1,000
Other provisions	20	<u>31,149</u>	<u>110,108</u>
		<u>793,747</u>	<u>867,262</u>

29. STAFF COST

	2014	2013
	<u>YR 000s</u>	<u>YR 000s</u>
Basic salaries	1,296,905	1,194,204
Rewards and incentives	1,245,942	1,187,803
Allowances and benefits	794,123	692,062
Social security	104,433	95,247
Others	<u>97,876</u>	<u>109,727</u>
	<u>3,539,279</u>	<u>3,279,043</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

30. OTHER EXPENSES

	2014	2013
	YR 000s	YR 000s
Zakat expenses	220,000	220,000
Subscriptions	188,934	161,814
Water, electricity and fuel	79,571	72,548
Security guarding	74,704	69,718
Professional fees and consultancy	44,463	61,601
Advertisement and publication	36,244	58,670
Travelling and transportation	46,323	52,266
Training expenses	21,209	49,127
Maintenance expenses	46,777	48,931
Rent	46,479	38,998
Stationery and printing supplies	30,884	36,523
Donations	28,781	35,608
Telephone, telex and postage	24,540	26,535
Hospitality and reception	13,373	17,490
Government fees	3,471	3,603
Other expenses	47,571	39,929
	<u>953,324</u>	<u>993,361</u>

31. EARNINGS PER SHARE

	2014	2013
Net profit for the year (YR thousand)	<u>28,847</u>	<u>902,033</u>
Number of shares (by thousand)	<u>10,000</u>	<u>10,000</u>
Earnings per share (YR)	<u>2.9</u>	<u>90.20</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

32. MATURITIES OF ASSETS AND LIABILITIES

The schedule below illustrates the maturity of assets and liabilities as at December 31, 2014

Description	2014				Total YR 000's
	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	
Assets					
Cash on hand & reserve balances with CBY	11,424,609	-	-	-	11,424,609
Due from banks	25,578,295	2,745,575	506,230	-	28,830,100
Treasury bills – held to maturity	35,016,171	20,233,690	36,782,208	-	92,032,069
Loans and advances (net)	2,152,489	393,184	7,771,360	1,645,218	11,962,251
Available-for-sale investments	-	-	-	270,024	270,024
Other assets	3,661	715	132	3,567,876	3,572,384
	<u>74,175,225</u>	<u>23,373,164</u>	<u>45,059,930</u>	<u>5,483,118</u>	<u>148,091,437</u>
Liabilities and equity					
Due to banks	569	-	-	-	569
Customers' deposits	91,480,443	12,507,315	25,601,167	169,882	129,758,807
Other liabilities and equity	1,061,662	161,578	338,503	16,770,318	18,332,061
	<u>92,542,674</u>	<u>12,668,893</u>	<u>25,939,670</u>	<u>16,940,200</u>	<u>148,091,437</u>
Net	(18,367,449)	10,704,271	19,120,260	(11,457,082)	-

The schedule below illustrates the maturity of assets and liabilities as at December 31, 2013

Description	2013				Total YR 000's
	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	
Assets					
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>
Liabilities and equity					
Due to banks	2,774	-	-	-	2,774
Customers' deposits	83,946,429	11,874,656	24,397,192	144,531	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)	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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:

	2014				
	YR %	US\$ %	Saudi Riyal %	Sterling Pound %	EUR %
<u>Assets</u>					
Loans and advances to customers:					
- Facilities	21.00	8.00	-	-	-
Due from banks:					
- Time deposits	-	1.03	0.33	0.53	-
Treasury bills – held to maturity	15.97	-	-	-	-
<u>Liabilities</u>					
Customers' deposits:					
- Time deposits	15.00	0.25	0.25	0.25	0.25
- Savings accounts	15.00	0.25	0.25	0.25	0.25
2013					
	YR %	US\$ %	Saudi Riyal %	Sterling Pound %	EUR %
<u>Assets</u>					
Loans and advances to customers:					
- Facilities	21.00	7.60	-	-	-
Due from banks:					
- Certificates of deposits	19.75	-	-	-	-
- Time deposits	-	0.21	0.45	0.44	0.15
Treasury bills – held to maturity	15.96	-	-	-	-
<u>Liabilities</u>					
Customers' deposits:					
- Time deposits	15.25	0.25	0.25	0.25	0.25
- Savings accounts	15.25	0.25	0.25	0.25	0.25

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

	2014						Total YR 000s
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	
Assets							
Cash on hand and reserve balance with CBY	-	-	-	-	11,424,609	-	11,424,609
Due from banks	-	-	-	-	28,830,100	-	28,830,100
Treasury bills held to maturity	-	-	-	-	92,032,069	-	92,032,069
Loans and advances (net)	-	-	9,187,231	-	-	2,775,020	11,962,251
Available for sale investments	-	-	-	-	-	270,024	270,024
Liabilities							
Due to banks	-	-	-	-	569	-	569
Customers deposits	1,643,482	342,815	9,602,626	9,335,321	667,024	108,167,539	129,758,807
Contingent liabilities and commitments (net)							
	171,904	-	9,697,055	7,696,586	908,563	1,680,109	20,154,217

	2013						Total YR 000s
	Industrial YR 000s	Agriculture YR 000s	Trading YR 000s	Service YR 000s	Finance YR 000s	Individuals & others YR 000s	
Assets							
Cash on hand and reserve balance with CBY	-	-	-	-	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
Liabilities							
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
Contingent liabilities and commitments (net)							
	100,391	1,000	15,715,442	921,427	1,090,976	3,009,636	20,838,872



**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

	2014					Total YR 000s
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	
Assets						
Cash on hand and reserve balances with CBY	11,424,609	-	-	-	-	11,424,609
Due from banks	4,315,045	-	15,326,342	8,937,573	251,140	28,830,100
Treasury bills - held to maturity	92,032,069	-	-	-	-	92,032,069
Loans and advances (net)	11,962,251	-	-	-	-	11,962,251
Available for sale investments	81,200	-	-	188,824	-	270,024
Liabilities						
Due to Banks	569	-	-	-	-	569
Customers deposits	129,758,807	-	-	-	-	129,758,807
Contingent liabilities and commitments (net)						
	4,060,842	50,439	7,731,569	8,051,726	259,641	20,154,217
2013						
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
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	89,882,004	-	-	-	-	89,882,004
Loans and advances (net)	11,619,462	-	-	-	-	11,619,462
Available for sale investments	81,200	-	-	158,611	-	239,811
Liabilities						
Due to Banks	1,342	-	-	1,432	-	2,774
Customers deposits	120,362,808	-	-	-	-	120,362,808
Contingent liabilities and commitments (net)						
	3,526,968	33,504	10,087,740	6,865,858	324,802	20,838,872

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 shows the Bank's significant foreign currency positions at the financial statements date:

	<u>December 31, 2014</u>		<u>December 31, 2013</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	2,380,551	15.60	1,469,203	9.59
Sterling Pound	546,157	3.570	23,771	0.16
Euro	182,578	1.20	45,052	0.29
Saudi Rial	120,304	0.79	(121,970)	(0.80)
Other	<u>85,229</u>	<u>0.56</u>	<u>83,879</u>	<u>0.54</u>
Net surplus	<u>3,314,819</u>	<u>21.72</u>	<u>1,499,935</u>	<u>9.78</u>

The US Dollar exchange rate as at December 31, 2014 was YR 214.89 (as at December 31, 2013: US Dollar exchange rate was YR 214.89).

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, if any as well as the Bank's key management personnel. These transactions consist of obtaining loans and advances and other various transactions conducted as part of the Bank's normal activities. The followings are the nature and balances of these transactions at the financial statements date:

	<u>2014 YR 000s</u>	<u>2013 YR 000s</u>
Loans and advances (net)	11,537	7,152
Customers' deposits	42,434	28,166
Interest and commission received	83	74
Interest and commission paid	1,778	1,313
Salaries and benefits	54,980	52,497

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2014**

38. TAX STATUS

- There is no difference between accounting profit and Tax profit. Net income is subject to 20% tax rate in compliance with the prevailing income tax law.
- 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. The Bank was notified of differences in the corporate tax amounting to YR 60,916 thousand for the years 2010 and 2011 (after deducting the tax paid) according to the Tax Group decision. The Bank has agreed about that and provided the adequate provisions to cover this amount the Bank received the final clearance from the Tax Authority during 2014.
- The Bank has submitted the tax declaration for the years 2012, 2013 and paid the amount due within the legal deadline according to the tax declaration. The Tax Authority has not performed the review and the Bank has not been notified of any assessment for these years from Tax Authority.

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 2013 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, 2014**

42. OPERATING LEASE

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

	2014	2013
	YR 000s	YR 000s
No later than one year	18,325	8,413
Later than one year and not later than five years	16,602	28,272
Later than five years	18,325	26,409
	<u>53,252</u>	<u>63,094</u>

43. SUBSEQUENT EVENTS TO THE DATE OF THE FINANCIAL STATEMENTS

Starting from March 2015, some of the properties of the Bank's branches in Aden, Lahj, Abyan, Dhale'a, Shabwa, Taiz and Al-Mukalla were damaged by explosions that occurred in some of the districts due to the crises. Consequently, operations in some of the Bank's branches in these areas have been suspended. The Bank management could not assessed the damaged accurately. Also, it could not quantify the financial impact of the events mentioned above due to the crises continuing at the date the financial statements are approved by the Board of Directors.

In addition to what have been mentioned above in general, lately, the Republic of Yemen has suffered from political, security and economic crises, which starting from March 2015 resulted in a decline of the country's business and economic activities. The final resolution and the effects of the above events are difficult to predict due to the events' continuation at the date of issuing the financial statements for the year 2014. Management confirms it is taking appropriate measures to support the sustainability of the Bank's business in the current economical circumstances that could affect the Bank's financial statements for the year ended on December 31, 2014, management estimates of the fair values of the assets and liabilities, and the budget plan for the year 2015.

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

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

Tiaz Branch

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

Sana'a Branch

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

Mukalla Branch

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

Hodeidah Branch

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

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

Steamer Point Branch

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

Maalla Branch

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

Public Lending Branch

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

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

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

البنك الأهلي اليمني
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البنك الأهلي اليمني
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Trust & Experience الخبرة و العتة