



البنك الأهلي اليمني

**National Bank Of Yemen**

Trust & Experience الخبرة والثقة

Aden Republic Of Yemen  
Audited Financial Statement  
For The year Ended 2018



**Dahman & Co.**

Auditors . Accountants . Advisors

**Correspondent to RSM Network**

**NATIONAL BANK OF YEMEN**

Aden, Republic of Yemen

**Audited Financial Statements**

For The Year Ended 31 December 2018

**NATIONAL BANK OF YEMEN**  
ADEN, REPUBLIC OF YEMEN  
**AUDITED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2018

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**INDEPENDENT AUDITORS' REPORT  
TO H.E. MINISTER OF FINANCE  
ON NATIONAL BANK OF YEMEN**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of National Bank of Yemen ("the Bank"), which comprise the statement of comprehensive income for the year ended 31 December 2018, the statement of financial position, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including the significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial performance of the Bank, its financial position and cash flows for the for the year ended 31 December 2018, in accordance with the International Financial Reporting Standards and related local laws and regulations.

**Basis For Opinion**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis Of Matter**

Without qualifying our opinion, and as stated in Note 1-b to the financial statements, the Bank is working in an unfavorable environment that may affect its activities and would not enable it to provide some of its services to its customers or meet some of its commitments which raises doubt on Bank's capability to continue business on a going concern basis in the case of continuation of unstable security and political conditions and their different reflections. This requires the Government as the owner of the Bank to take serious measures to address any difficulties the Bank may face in relation to such matters.

**Management And The Board Of Directors Responsibilities For The Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, Prime Minister Decree no. 405 for 2013 on Re-organisation of the National Bank of Yemen and Bank's Articles of Association issued on 5 August 2013, related local laws and regulations and Central Bank of Yemen instructions 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

**Auditor's Responsibilities For The Audit Of The Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

*Continued...*

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**  
**TO H.E. MINISTER OF FINANCE**  
**ON NATIONAL BANK OF YEMEN**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the Board of Directors with a statement that we have complied with the ethical requirements of independence and communicate with them on all relationships and other matters that may reasonably be believed to affect our independence and where relevant protection is possible.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In addition, as required by the Prime Minister's Decree No. 405 of 2013 on the Re-organisation of the National Bank of Yemen and the Bank's Articles of Association issued on 5 August 2013, Law No. 38 of 1998 on Banks and the Central Bank of Yemen instructions, we report the following:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The Bank's financial statements have been prepared and comply, in all material respects, with the Prime Minister's Decree No. 405 of 2013 on the Re-organisation of the National Bank of Yemen and the Bank's Articles of Association issued on 5 August 2013 and Law No. 38 of 1998 on Banks and the Central Bank of Yemen instructions.
- The Bank maintains appropriate accounting records and the accompanying financial statements are in agreement therewith.
- The financial information in the Board of Directors Annual Report are in agreement with the accompanying financial statements.
- Note 34 to the financial statements of the Bank discloses the significant related parties transactions and terms on which they are made and the basis for managing conflicts of interest were clarified.
- We also confirm that based on the information provided to us, nothing came to our attention that causes us to believe that the Bank during the financial year ended 31 December 2018 has contravened any of the Articles of the Prime Minister's Decree No. 405 of 2013 regarding the Re-organisation of the National Bank of Yemen and Bank's Articles of Association issued on 5 August 2013, Law No. 38 of 1998 on Banks, other related laws and the Central Bank of Yemen instructions that may have a material impact on Bank's business or its financial position.

Dr. Bassam Dahman  
BOD member of IASCA  
Registered Licensed Auditor No. 819  
For **Dahman & Co.**

دحمان وشركوه  
**Dahman & Co.**  
تسجيل 973

Correspondent to RSM Network

Aden, Republic of Yemen  
19 September 2019

NATIONAL BANK OF YEMEN

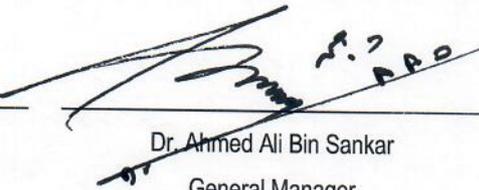
STATEMENT OF COMPREHENSIVE INCOME  
For The Year Ended 31 December 2018

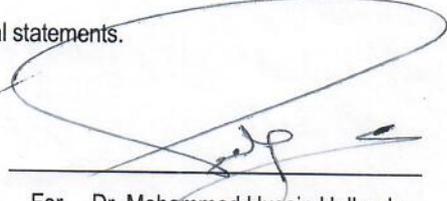
REVENUES	Note	2018 YR' 000	2017 YR' 000
Activity Revenues:			
Interest on direct credit facilities to customers, net	5	(13,608,497)	(12,410,749)
Interest on due from banks, net	6	97,146	70,016
Commissions and fee income on banking services, net	7	486,608	648,315
Returns from certificates of deposit at Central Bank of Yemen		21,312	-
Returns from treasury bills		28,228,660	23,819,097
Dividends from investments	8	23,232	18,000
Gain on selling and buying foreign currencies		1,318,835	1,532,623
Total Activity Revenues		<u>16,567,296</u>	<u>13,677,302</u>
Other revenues	9	972,723	2,580,849
TOTAL REVENUES		<u>17,540,019</u>	<u>16,258,151</u>
<b>EXPENSES</b>			
Salaries, wages and related expenses	10	(5,718,083)	(4,198,284)
General and administration expenses	11	(894,886)	(647,764)
Other expenses	12	(3,779,719)	(3,032,537)
TOTAL EXPENSES		<u>(10,392,688)</u>	<u>(7,878,585)</u>
Re-translation differences on balances in foreign currency	13	(1,486,067)	(4,864,288)
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		5,661,264	3,515,278
Zakat	14	(250,000)	(250,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		5,411,264	3,265,278
Income tax	15	(1,082,253)	(653,056)
PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX		<u>4,329,011</u>	<u>2,612,222</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income for the year		-	-
TOTAL OTHER COMPREHENSIVE INCOME		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	16	<u>4,329,011</u>	<u>2,612,222</u>

Independent Auditors' Report attached (pages 1-2).

The attached notes 1 to 42 form an integral part of these financial statements.

  
Arwa Ali Sulaiman AlKouri  
Vice General Manager for  
Banking Departments

  
Dr. Ahmed Ali Bin Sankar  
General Manager

  
For Dr. Mohammad Husain Halboob  
Chairman

NATIONAL BANK OF YEMEN  
STATEMENT OF FINANCIAL POSITION  
As at 31 December 2018

		31 December 2018 YR' 000	31 December 2017 YR' 000
<b>ASSETS</b>			
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	17	22,753,908	21,686,611
Certificates of deposit at Central Bank of Yemen	18	1,000,000	-
Treasury bills, net	19	187,536,410	166,580,821
Due from banks, net	20	60,264,109	66,476,782
Direct credit facilities to customers, net	21	6,490,638	7,242,628
Receivables and other assets, net	22	1,446,187	1,600,977
Investments, net	23	341,792	425,730
Property, plant and equipment, net of accumulated depreciation	24	2,955,313	2,498,407
Capital work in progress	25	<u>1,963,722</u>	<u>1,072,210</u>
TOTAL ASSETS		<u><b>284,752,079</b></u>	<u><b>267,584,166</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	26	2,941	-
Customers' deposits	27	252,540,703	242,718,071
Payables and other liabilities	28	8,127,469	5,813,200
Other provisions	29	<u>3,146,285</u>	<u>618,669</u>
Total Liabilities		<u><b>263,817,398</b></u>	<u><b>249,149,940</b></u>
<b>EQUITY</b>			
Capital paid	30	10,000,000	10,000,000
Reserves	31	7,904,374	6,605,670
Proposed dividends	16-b	<u>3,030,307</u>	<u>1,828,556</u>
Total Equity		<u><b>20,934,681</b></u>	<u><b>18,434,226</b></u>
TOTAL LIABILITIES AND EQUITY		<u><b>284,752,079</b></u>	<u><b>267,584,166</b></u>
<b>CONTINGENT LIABILITIES AND COMMITMENTS, NET</b>	32	<u><b>16,410,883</b></u>	<u><b>12,742,473</b></u>

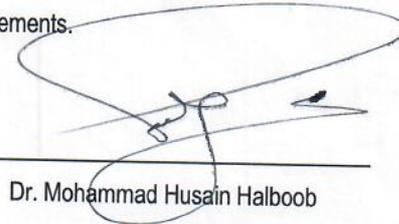
The attached notes 1 to 42 form an integral part of these financial statements.



Arwa Ali Sulaiman AlKouri  
Vice General Manager for  
Banking Departments



Dr. Ahmed Ali Bin Sankar  
General Manager



Dr. Mohammad Husain Halboob  
Chairman

NATIONAL BANK OF YEMEN

STATEMENT OF CHANGES IN EQUITY

As At 31 December 2018

	<i>Capital paid (Note 30) YR'000</i>	<i>Reserves (Note 31) YR'000</i>	<i>Dividends proposed (Note 16-b) YR'000</i>	<i>Total YR'000</i>
Balance at 1 January 2018	10,000,000	6,605,670	1,828,556	18,434,226
<b>Comprehensive income</b>				
Profit for the year before Zakat and income tax	-	-	5,661,264	5,661,264
Zakat	-	-	(250,000)	(250,000)
Income tax	-	-	(1,082,253)	(1,082,253)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	4,329,011	4,329,011
<b>Transactions with owner</b>				
Prior year dividends (Note 16-b)	-	-	(1,828,556)	(1,828,556)
Transfer to statutory reserve (Note 31-a)	-	649,352	(649,352)	-
Transfer to general reserve (Note 31-b)	-	649,352	(649,352)	-
Total transaction with owner	-	1,298,704	(3,127,260)	(1,828,556)
Balance at 31 December 2018	10,000,000	7,904,374	3,030,307	20,934,681
Balance at 1 January 2017	10,000,000	5,822,004	1,298,619	17,120,623
<b>Comprehensive income</b>				
Profit for the year before Zakat and income tax	-	-	3,515,278	3,515,278
Zakat	-	-	(250,000)	(250,000)
Income tax	-	-	(653,056)	(653,056)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,612,222	2,612,222
<b>Transactions with owner</b>				
Prior year dividends (Note 16-b)	-	-	(1,298,619)	(1,298,619)
Transfer to statutory reserve (Note 31-a)	-	391,833	(391,833)	-
Transfer to general reserve (Note 31-b)	-	391,833	(391,833)	-
Total transaction with owner	-	783,666	(2,082,285)	(1,298,619)
Balance at 31 December 2017	10,000,000	6,605,670	1,828,556	18,434,226

The attached notes 1 to 42 form an integral part of these financial statements.

NATIONAL BANK OF YEMEN

**STATEMENT OF CASH FLOWS**  
For the Year Ended 31 December 2018

	2018	2017
	YR 000	YR 000
<b>OPERATING ACTIVITIES</b>		
Profit for the year after Zakat and income tax	4,329,011	2,612,222
<i>Adjustments for the following:</i>		
Depreciation of property, plant and equipment	112,559	109,957
Re-translation differences on balances in foreign currencies	(133,592)	867,214
Provisions made	3,275,644	2,666,899
Provisions written back	(958,310)	(2,333,893)
Operating Profit Before Changes In Banking Assets And Liabilities Related To Operating Activities	<u>6,625,312</u>	<u>3,922,399</u>
<b>CHANGES IN BANKING ASSETS</b>		
Mandatory reserve balances with the Central Bank of Yemen	1,596,183	(6,466,507)
Due from banks maturing in over than three months	7,260,251	(5,413,531)
Direct credit facilities to customers before provision but after suspended interest	1,469,567	(1,401,431)
Receivables and other assets	78,411	(692,893)
Net decrease / (increase) in banking assets	<u>10,404,412</u>	<u>(13,974,362)</u>
<b>CHANGES IN BANKING LIABILITIES</b>		
Due to banks	2,941	-
Customers' deposits	9,822,632	71,168,224
Payables and other liabilities	2,314,269	771,254
Net increase in banking liabilities	<u>12,139,842</u>	<u>71,939,478</u>
Net Cash Flows From Operating Activities (1)	<u>29,169,566</u>	<u>61,887,515</u>
<b>INVESTING ACTIVITIES</b>		
Treasury bills maturing in over than three months	(43,414,874)	(21,803,027)
Investments	(15,906)	(148,758)
Movement in property, plant and equipment	(569,465)	(37,186)
Capital work in progress	(891,512)	(163,784)
Net Cash Flows (Used In) Investing Activities (2)	<u>(44,891,757)</u>	<u>(22,152,755)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends proposed	(1,828,556)	(1,298,619)
Net Cash Flows (Used In) Financing Activities (3)	<u>(1,828,556)</u>	<u>(1,298,619)</u>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (1+2+3)</b>	<b>(17,550,747)</b>	<b>38,436,141</b>
Cash and cash equivalents at 1 January	<u>129,210,961</u>	<u>90,774,820</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>32</b> <u>111,660,214</u>	<u>129,210,961</u>

The attached notes 1 to 42 form an integral part of these financial statements.

## 1 GENERAL INFORMATION

### 1-a Incorporation

The National Bank of Yemen (the Bank) was incorporated in Aden in 1969 with respect to Law no. 37 of 1969; amended by Law No. 36 of 1972 which both got cancelled with respect to provisions of Law No. 22 of 1997 on Commercial Companies, Law No. 8 of 1998 on Banks and Law No. 21 of 1996 on Islamic Banks amended by Law No. 16 of 2009.

The Bank status was amended with respect to Prime Minister Decree no. 405 of 2013 on Re-organisation of the National Bank of Yemen issued on 5 August 2013, upon which the Article of Association of National Bank of Yemen was issued as till that date it was operating with respect to Law No. 35 of 1991 on Public Authorities, Corporations and Companies.

The Bank is wholly owned by the Yemeni State under the supervision of the Minister of Finance and is registered under commercial registration number 1748 and in Chamber of Commerce under no. 2404.

### 1-b Activity

The Bank is one of the biggest Yemeni commercial banks and a primary contributor in the economic and social development in Yemen. It provides banking services to individuals and companies and treasury and investment management. The Bank's Head Office is located at Queen Arwa Street and its postal address is P. O. Box 5, Crater, Aden, Republic of Yemen.

The Bank carries out, self-financed, a Modernization and Development Project aiming the enforcement of Bank's efficiency and competitiveness and maximisation of profit and had signed a contract on with an international consultancy firm on 20 December 2006. The Bank accomplished first part of the project - provision of management, operation and banking consultancy services and is executing the second part of the project - installing and operating modern information technology hardware and software (Note 25-a).

### The Year Ended 31 December 2018

The Bank continued in business through its Head Office and 27 commercial branches spread all over the different Republic's governorates and one Islamic branch in Sana'a City under the management of Board of Directors of six members chaired by Dr. Mohammad Husain Halboob - Chairman who is appointed with respect to the Presidential Decree No. 12 of 2017 dated 28 January 2017 and an executive management team headed by Dr. Ahmed Ali Bin Sankar - General Manager who is appointed with respect to Prime Minister Decree No. 7 of 2017 dated 29 January 2017. Number of employees as at year end was 971 employees (31 December 2017: 966 employees).

During the year the Board of Directors held 7 ordinary and extraordinary meetings during the period 4 January 2018 to 31 May 2018. It approved, in its capacity as the Bank's General Assembly, the audited financial statement of the Bank for the year ended 31 December 2017 on 2 October 2018 and raised it to H.E. Minister of Finance - Aden on 7 October 2018.

The Bank achieved good results for the year under the continuation of unstable political and security conditions in the country since April 2015 and its different reflections, the deterioration of local currency value, the reduction of transactions volume locally and abroad and the difficulty of communication with some correspondent banks, as a result of measures taken by management to support continuation of Bank's operation. Management believes that in spite of difficulty to predict the impact of surrounding conditions on the financial statements and management's estimates concerning the fair value of Bank's assets and liabilities and the financial plans prepared for the subsequent period, the Bank will continue in business as a going concern in the foreseeable future. Therefore, the Bank's financial statements were prepared on a going concern basis.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2-a Financial Statements

The financial statements include the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements.

Profit or loss and other comprehensive income are recognised in statement of comprehensive income. The Bank presents the statement of profit or loss using the classification by function of expenses. The Bank believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are run from a business point of view.

The format of the statement of financial position considers liquidity and current / non-current calcification (note 2-n).

Transactions with the Government in its capacity as owner are presented in the statement of changes in equity.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 33 shows in which item of the statement of financial position cash and cash equivalents are included. The cash flows from operating activities are determined by using the indirect method. Profit for the year is therefore adjusted by non-cash items, such as measurement's gains and losses, changes in provisions, as well as changes from receivables and payables.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-a Financial Statements (Continued)**

In addition, all revenues and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interests received or paid are classified as operating cash flows. The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

The Bank discloses on risks it is exposed to in Note 35- Risk Management and discloses on capital adequacy in Note 36- Capital Management.

**2-b Presentation Currency**

The financial statements are presented in Yemeni Rial and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise is indicated.

**2-c New Or Amended Accounting Standards And Interpretations Adopted**

The Bank has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Bank:

**IFRS 9 - Financial Instruments**

The Bank has adopted IFRS 9 from 1 January 2018. This standard replaces IAS 39 - Financial Instruments: Recognition and Measurement and introduces a new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach for measuring expected credit losses using a lifetime expected loss allowance is available.

**IFRS 15 - Revenue From Contracts With Customers**

The Bank has adopted IFRS 15 from 1 January 2018. The standard replaces several International Accounting Standards and Interpretations including IAS 18 - Revenue. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

**2-d Basis Of Preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') in addition to provisions of all Central Bank of Yemen circulars of which what relates to the following:

- i) The adoption of minimum fixed percentages for calculating provision for impairment on non performing credit facilities in accordance with the Central Bank of Yemen circular no. 6 of 1996 and its subsequent amendments; and
- ii) The inclusion of the general provision on performing credit facilities in provision for impairment of credit facilities to customers rather than in equity.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2-d Basis Of Preparation (Continued)**

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2018.

**Historical Cost Convention**

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

**Critical Accounting Estimates**

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**2-e Fair Value Measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement. For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Investments' Fair Value**

<b>Year</b>	<b>Level one</b> YR '000	<b>Level two</b> YR '000	<b>Level three</b> YR '000	<b>Total</b> YR '000
2018	-	-	341,792	341,792
Total Investments' fair value	-	-	341,792	341,792

**2-f Translation Of Foreign Currencies**

- The Bank maintains its accounting records in Yemeni Rial which is the Bank's functional and presentation currency.
- Transactions denominated in foreign currencies or required to be paid in foreign currencies are initially recorded in Yemeni Rial according to exchange rate ruling at date of the transactions.
- All monetary assets and liabilities denominated in foreign currencies at year end are re-translated at exchange rate ruling at statement of financial position date. Non-monetary items measured at historical cost in foreign currencies are re-translated using exchange rate ruling at transaction date. Non-monetary items measured at fair value are re-translated using exchange rate ruling when determining fair value and its recognition in equity. Differences on re-translation of balances in foreign currencies are included in profit or loss.
- The Bank does not deal in forward foreign exchange contracts.

**2-g Revenue Recognition**

**Activity Revenues**

Activity revenues of the Bank are represented by revenues of banking activity as determined by article no. 2-h of Law No. 38 of 1998 on Banks. The Bank recognises activity revenue as follows:

- Interest received on direct credit facilities and paid for customers' deposits: on accrual basis using the effective interest rate method which is established on initial recognition of the financial asset / liability and is not revised subsequently. In compliance with Central Bank of Yemen instructions in its circular no. 6 of 1996, the revenue on interest on credit facilities which passed due time three months or more are not recognised until actually collected.
- Commission and fee income on banking services such as issuing letters of credit and letters of guarantee, etc.: when earned.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-g Revenue Recognition (Continued)****Activity Revenues (Continued)**

- Gain on selling foreign currencies: this represents difference between rates of Central Bank of Yemen and selling amount to customers at selling date.
- Dividends from investments: when the right of the Bank to receive payment is established.
- Returns on certificates of deposit at Central Bank of Yemen and treasury bills: based on maturity period as it is recognised at the end of the financial period concerning the year of such interest and received at maturity date.
- Interest on due from banks: when the right of the Bank to receive the amount on fixed deposits and some current accounts at banks is established.

**Other Revenues**

All other revenues are recognised when received or right to be received is established.

**2-h Employees' Benefits****Regular Leave**

An employee is entitled of a regular leave with full salary on each year of actual service that is not less than 30 days. If have passed the age of 50 the employee could obtain a regular leave for 45 days. Eid and official holidays are not included in the regular leave with respect to article no. 53 of Law No. 19 of 1991 on Civil Service. Enjoying this leave is compulsory in year of entitlement and should not accumulate to more than 90 days at maximum with respect to article no. 54 of the same law.

**Social Insurance**

Bank's employees' contribution for social insurance is calculated according to Law No. 25 of 1991 on Social Insurance. The Bank deducts this contribution directly from employees' salaries and pays it on their behalf to the General Authority for Insurance and Pensions according to Authority's procedures. Bank's annual contribution in social insurance is included in "salaries, wages and related expenses".

**End of Service Benefits**

The Bank provides end of service benefits to it employees since 2015. It is represented by employee's 3 months salaries according to payroll sheet when retired.

**2-i Lease Contracts**

Contracts made by the Bank such as Bank's buildings rent contracts are operating leases not finance leases as contracts' provisions do not transfer all risks and rewards resulting from assets ownership whether ownership of asset is actual or not. Operating leases payments are accounted as expenses into profit and loss on a straight-line basis over the term of the lease.

**2-j Zakat**

The Bank pays Zakat amount calculated to capital for the year divided on Zakat General Directorate branches in several governorates based on Zakat General Directorate - Capital / Aden claims. The Bank gets clearance on total amount paid. Donations and charities paid upon management decision are stated in general and administrative expenses.

**2-k Taxes****Income Tax On Trade And Industry Profits**

This tax liability is calculated according to Law No. 17 of 2010 on Income Tax, its bylaw no. 508 of 2010 and orders effective in the Republic of Yemen. The amount for income tax is paid according to Tax Authority procedures.

With respect to article no. 85 of the Law No. 38 of 1998 on Banks and article no. 14-a-2 of Law No. 17 of 2010 on Income Tax, the Bank is not obliged to pay tax on provisions for losses on direct credit facilities (and suspended interests) and losses on indirect credit facilities it makes in compliance to Central Bank of Yemen instructions.

Article no. 19-a of the Law No. 17 of 2010 on Income Tax states that "If the account of one year subject to tax was closed with a loss for any taxpayer who provided his tax declaration as approved by a licensed chartered accountant based on proper books and accounts in accordance with provisions of this law, this loss would be carried on expenses of the year following the year of loss and would be deducted from its profit. If profit is not enough to cover the whole loss, the rest of the loss is to be transferred to the next year and so on until the fifth year of starting the deduction". Article no. 19-b, indicates that the provision of previous article "does not apply on the losses incurred by the Company's in the tax year and prior years, if there is a change in ownership of capital by 100%".

**Payroll Tax**

This tax liability is calculated according to Law No. 17 of 2010 on Income Tax, its bylaw no. 508 of 2010 and orders effective in the Republic of Yemen. The Bank deducts this tax directly from employees' salaries and pays it on their behalf to the Tax Authority according to Authority's procedures.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-l Basic Earnings Per Share**

Basic earnings per share is calculated by dividing the comprehensive profit for the year by the weighted average number of ordinary shares during the year.

**2-m Profit Distribution**

In accordance with article no. 10-a of the Bank's Article of Association, the net profit after Zakat and tax is distributed as follows:

15%	Statutory reserve;	15%	General reserve;
60%	Government share in excess of profit;	10%	Employee's incentives as per their activity in accordance with performance reports based on a recommendation of Bank's management and approval of Board of Directors.

**2-n Current And Non-Current Classification**

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Bank's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realized within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current. A liability is classified as current when: it is either expected to be settled in the Bank's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**2-o Financial Assets**

In accordance with IFRS 9- Financial Instruments, all financial assets are recognised initially at fair value at the date of the transaction. Subsequently, it is measured a) at amortised cost, b) at fair value through other comprehensive income, or c) at fair value through profit or loss, based on both the business model in which it is held and the contractual cash flow characteristics, unless an accounting mismatch is avoided.

Impairment of credit is recognised using the expected credit loss model since initial recognition rather than the historical credit loss model, in three stages for particular financial assets or in a single stage (i.e. simplified approach) for other financial assets, depending on the level of risk and life of the financial asset.

**Financial Assets At Amortised Cost**

It is represented by financial assets held to collect contractual cash flows that arise on specific dates, are limited to an asset and interest and are sold on an occasional and rare basis.

Mandatory Reserve With Central Bank Of Yemen

This reserve represents minimum limit of balances the Bank has to maintain at Central Bank of Yemen against customers' deposits it has in Yemeni Rial and foreign currencies as per article no. 11-c of Law No. 38 of 1998 on Banks. This balance is not available for daily use of the Bank.

With respect to Central Bank of Yemen circular no. 4 for 2009 on Weekly Reporting On Calculating The Mandatory Reserve On Deposits, the mandatory reserve is calculated on the basis of the average deposit balances during the week at 7% on deposits in local currency and 20% on deposits in foreign currencies. This reserve ratio has been reduced to 10% on all deposits in foreign currencies at the Bank as per article no. 1 of the Governor of the Central Bank of Yemen Resolution no. 3 of 2013.

Certificates Of Deposit With The Central Bank Of Yemen

These certificates represent a Yemeni central public debt instrument and are stated at nominal value. The return on it for a period of 30 days is an annual interest rate of 21% - 3% of profits to the General Department of Public Debt with respect to the letter issued by the General Department of Public Debt and Credit - Central Bank of Yemen / Aden dated 25 November 2018 and the subject of "Issue No. (3) Subscription Request for Government Bonds, Certificates of Deposit and Wakala Deposits".

Treasury Bills

Treasury bills are issued by the Central Bank of Yemen on behalf of the Ministry of Finance for the purpose of obtaining cash flows to meet the public expenditures of the State. They are stated at their face value less unamortised discount from date of purchase to its due date on the bases of the straight-line method. With respect to Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended) treasury bills, which mature in a period not more than three months are considered part of cash and cash equivalents.

Due From Banks

These accounts are represented by fixed deposits and current accounts at banks and are stated at amortised cost. The provision for impairment is calculated using a simplified approach to measure expected credit losses - in one stage over the life of the instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-o Financial Assets (Continued)

Financial Assets At Amortised Cost (Continued)

Direct Credit Facilities

These accounts are represented by short term loans and overdraft credit facilities. They are stated on the statement of financial position net of relevant provision for impairment and uncollected interest with respect to Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended).

Impairment of these credit facilities are recognised according to several indicators as defined in Central Bank of Yemen circular no. 6 of 1996, its annex circular no. 5 of 1998 and its annex circular no. 8 of 2015 on Classification Of Credit Facilities And The Way To Calculate Required Provisions and Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended) including the following:

- The amount of difference between the size of customer's deposits and cash flows in his accounts at the bank and the return due from the debt for a certain period of time;
- The amount the customer is exceeding the authorised limit of facility granted to him for a certain period of time;
- The period of customer's delay in payment of the debt, agreed installment or interest; and
- Occurrence of defect in the customer's financial position resulting in negative net equity.

Provision for impairment of these facilities is calculated after deducting uncollected interest and cash or bank guarantees of high quality that can get liquefied in a short term in same currency of credit facility according to rates determined by the relevant Central Bank of Yemen circulars.

The Bank has applied the requirements of IFRS 9- Financial Instruments in line with the Central Bank of Yemen circulars regarding direct credit facilities issued in previous periods relating to: a) impairment recognition stages, b) credit classification categories, c) type of provision and d) suspended interest as shown below, since the Bank has not received any guidance or circulars issued by the Central Bank of Yemen regarding the standard. There were no significant differences between the net direct credit facilities after impairment provision before and after the application of IFRS 9- Financial Instruments.

- Stages of impairment recognition: in compliance with the requirements of IFRS 9 and in accordance with the relevant Central Bank of Yemen circulars, the recognition of impairment / loss of these credit facilities for the year ended 31 December 2018 is in three stages according to a number of indicators, including default payment period as follows:

----- IFRS 9 -----			----- Central Bank of Yemen -----	
Impairment stages	Exposure to credit risk	Recognition of ECL	Default period	Credit category
First	Not materially high since initial recognition or of low credit risk	For 12 months	Less than 30 days	Good
Second	Materially high since initial recognition or no subjective evidence of impairment	For debt life	30 days and less than 90 days 90 days and less than 180 days 180 days and less than 360 days	Under watch Substandard Doubtful
Third	There is a subjective evidence of impairment	For debt life	360 days or more	Bad

- Credit classification categories: Based on the impairment stages used by the Bank for the year ended 31 December 2018, the credit categories used for the year ended 31 December 2017 and earlier were reclassified as follows:

----- 2018 -----		----- 2017 and before -----	
Impairment stages	Credit category	Credit group	Credit category
First	Performing	Performing	Good Under watch
Second	Under performing	Non-performing	Substandard Doubtful
Third	Impaired		Bad

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-o Financial Assets

Financial Assets At Amortised Cost (Continued)

Direct Credit Facilities (Continued)

- Type of provision: Based on the credit classification categories used by the Bank for the year ended 31 December 2018, the type of provisions used for the year ended 31 December 2017 and before has been redefined with the rates specified in the relevant Central Bank of Yemen circulars, as shown below:

----- 2018 -----			----- 2017 and before -----		
Credit category	Provision rate	Provision type	Credit category	Provision rate	Provision type
Performing	2%	General	Good	2%	General
	2%		Under watch	2%	
Under-performing	15%	Specific	Substandard	15%	Specific
	45%		Doubtful	45%	
Impaired	100%	Specific	Bad	100%	

- Suspended interest: IFRS 9 requires the inclusion of interest on non-performing direct credit facilities in suspended interest. The Bank includes the interest on direct credit facilities that have passed due three months or more and not been paid marginally under suspended interest. They are not carried to customers' accounts receivable and are not credited to profit or loss unless collected and after the principal has been collected with respect to relevant Central Bank of Yemen circulars.

Receivables

These accounts are mainly represented by amounts of the Bank with employees or other entities that are to be recovered subsequently. They are presented at amortised cost. The provision for impairment is calculated using the simplified approach to measure expected credit losses - one stage over the life of the instrument.

Financial Assets At Fair Value Through Other Comprehensive Income

These are represented by financial assets held for the purpose of collecting contractual cash flows and / or sale.

Investments

These investments are represented by Bank's shares in the capital of financial and commercial entities, and are stated at fair value (purchase price and costs associated with their acquisition). Changes in fair value are recognised, upon notice from the investment entity, in other comprehensive income and then transferred to the related reserve. The Bank provides for impairment when it is not possible to receive dividends and the investment is incurring accumulated losses in accordance with the latest available financial statements of investment.

Financial Assets At Fair Value Through Profit Or Loss

These are represented by financial assets held for trading. At 31 December 2018, the Bank had no financial assets in this category.

2-p Non-Financial Assets

Property, Plant and Equipment

Initial And Subsequent Recognition

All items of property, plant and equipment are initially recognised at historical cost, which comprise the purchase price at the date of purchase and any costs directly attributable to bringing the item of asset to the location and condition necessary for it to function in the manner in which the management intended.

Subsequently, after initial recognition, items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost of assets less their estimated residual value over their economic useful lives using the straight line method at the rates set forth in the Council of Ministers Resolution No. 144 of 1999 on this regard as shown below:

• Buildings	2%	• Furniture and equipment - safes	10-2%
• Vehicles	20%	• Swift and computer hardware and software	20%
• Improvements to leasehold property	Years of lease or estimated useful life whichever is lower.		
• Land	Not depreciated		

The useful lives, residual values and depreciation methods are reviewed and adjusted if necessary at the end of each reporting period, considering effect of any changes in estimate on a prospective basis.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-p Non-Financial Assets (Continued)****Property, Plant and Equipment (Continued)**Impairment

The carrying amounts of such assets are reviewed at each reporting date for impairment indicators. Where an asset is impaired, it is written down as an expense through profit or loss to its estimated recoverable amount, which is the higher of value of use (the present value of estimated future cash flows of the asset / unit) and the fair value less costs of disposal of the individual asset or the cash-generating unit. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Value in use is the present value of the estimated future cash flows of the asset / unit. Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

Re-evaluation

With respect to IAS 16 - Property, Plant and Equipment (revised) the frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years. Stating results of the revaluation of the Bank's property, plant and equipment in its financial statements is subject to the approval of the Central Bank of Yemen.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continuing use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Capital Work In Progress**

These assets are represented by construction and procurement projects of the Bank whose implementation has started but not been completed, yet, as at statement of financial position date. It is stated at cost which includes all related expenses such as professional fees and amounts paid to developer and implementer. It is transferred to property, plant and equipment and becomes subject to depreciation or to the appropriate account when ready for use.

**2-q Financial Liabilities**

In accordance with IFRS 9 - Financial Instruments, all financial liabilities are initially recognised at fair value at the date of the transaction. Subsequently, it is measured a) at amortised cost or b) at fair value through profit or loss based on both the business model in which it is held and the contractual cash flow characteristics, unless an accounting mismatch is avoided.

**Financial Liabilities At Amortised Cost**

These liabilities are represented by all financial commitments that are not classified as financial liabilities through profit or loss (for trading).

Due To Banks

These accounts are represented by fixed deposits and current accounts deposited at the Bank.

Customer Deposits

Customer deposits mainly include current accounts, savings accounts and fixed deposits.

Payables

These accounts are mainly represented by liabilities to employees or other entities.

**Financial Liabilities At Fair Value Through Profit Or Loss**

These are represented by financial liabilities held for trading. As at 31 December 2018, the Bank had no financial liabilities in this category.

**2-r Other Provisions**

Other than the provisions made by the Bank for impairment of financial and non-financial assets, the Bank recognizes other provisions when it has an obligation (legal or constructive) arising from a past event, and the Bank may be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-s Reserves****Statutory Reserve And General Reserve**

According to article no. 10-b of Bank's Article of Association, the Bank is to maintain a statutory or general reserve or both together until reserve balance is double the authorised capital for the Bank. The Bank is to stop deducting and calculating reserve when it reaches such limit. Such percentage may be increased upon the recommendation of management, approval of Board of Directors and acceptance of Minister. According to article no. 10-c of the Bank's Article of Association the Bank may use the general reserve to increase capital or develop Bank's activities and raise its efficiency. This is based on Bank's management recommendation and Board of Directors and Minister approval.

**Surplus On Revaluation Of Property, Plant And Equipment Reserve**

In this reserve, the difference between the fair value and the book value of property, plant and equipment based on results of revaluation of Bank's property, plant and equipment carried out by an independent specialised entity is included.

**Cumulative Change In Fair Value Reserve**

In this reserve, gains or losses resulting from difference between the fair value and the book value of the "available for sale" investments in prior years are included, until they are sold, value collected, disposed of or determined to be impaired. At which time such cumulative gains or losses previously recognised in equity are included in the statement of income in accordance with IAS 39 - Financial Instruments- Recognition and Measurement,

**2-t Contingent Liabilities And Commitments**

These are financial instruments with contractual amounts that represent credit risk and the primary intended purpose of it is to provide funds to a customer when necessary. These accounts are not included in the statement of financial position as they are not actual assets or liabilities of the Bank at the reporting date. They are converted from contingent liability to a direct obligation in the future and the Bank is obliged to pay the amounts due on behalf of the customer, only, when the customer defaulted on the terms of the contract. These accounts are stated at unamortised value (net value after deducting the corresponding cash security) with respect to the Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended).

**Indirect Credit Facilities**

These accounts are represented by letters of guarantee and letters of credit (import and export). The impairment of such facilities is recognised and provision is made for impairment in accordance with procedures followed with direct credit facilities. Starting from 2018 the Bank has made provision for external letters of guarantee in compliance with the requirements of IFRS 9- Financial Instruments on the 'expected credit loss' model.

**Other Contingent Liabilities And Commitments**

These accounts are represented by accepted securities on suppliers' facilities, re-discounted bills, non-cancellable credit grants or whose cancellation would result Bank incurring significant fines or expenses, commitments for differed foreign exchange contracts, interest rate contracts etc. While securities that do not entail any contingent liability to the Bank, as the Bank is not a party of, and its responsibility is restricted to the custody of them, such as cheques, bills deposited for collection, bills deposited for insurance and securities deposited for guarantee or as free deposit, are considered contra accounts. These are maintained in regular record books to register value and are reviewed and adjusted in accordance with sound systems and proper control without being included in the contingent liabilities and commitments.

**2-u Cash And Cash Equivalents**

Cash and cash equivalents are represented by cash on hand and accounts due from banks, certificates of deposit at Central Bank of Yemen and treasury bills maturing in less than three months to date of statement of financial position.

**2-v Related Party Transactions**

In its ordinary course of business, the Bank conducts transactions with other entities that falls in the definition of related parties as comprised in the International Accounting Standard 24 - Related Party Disclosures. A related party is a person or entity that is able to control or exercise significant and material influence over the Bank's financial and operating decision making process. The Bank discloses in its financial statements on transactions made with related parties such as Board of Directors, senior management, their families and companies in which they own 25% or more of its share capital. The Bank deals with related parties at the same basis it deals with others in accordance with provisions of Law No. 38 of 1998 on Banks and interpretation of Central Bank of Yemen in its circular no. 4 of 1999 on Lending Related Parties And Their Related Interest. The pricing policies and terms of these transactions are approved by the Bank's management.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2-w Offsetting The Financial Assets And Liabilities**

Financial assets and financial liabilities are offset and the resultant net balance is reported in the statement of financial position, if and only if, there is a legally enforceable right to offset the recognised amounts and there is intention for either settlement on a net basis or asset to be realised and an liability settled simultaneously

**2-x Fiduciary Assets**

Assets held in trust are not treated as assets of the Bank. Therefore, they are not included in the financial statements of the Bank.

**2-y New Accounting Standards and Interpretations not yet mandatory or early adopted**

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Bank for the annual reporting period ended 31 December 2018. The Bank's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Bank, are set out below.

**IFRS 16- Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17- Leases and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Bank will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the Bank.

**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of the financial assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience of the Bank and various other factors the Bank believes are reasonable under the circumstances, the results of which form the basis of making the judgments made about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Management Estimates

Estimates considered by the management of the Bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of direct credit facilities.

The Bank takes into consideration the following factors when determining the provisions for direct and non - direct credit facilities:

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

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**4 IMPLEMENTATION OF NEW IFRSS**

**4-a IFRS 9 - Financial Instruments**

The Bank has adopted IFRS 9 and reclassified its financial instruments as at 1 January 2018 as follows

	----- Classification according to -----		-- Carrying value according to --	
	IAS 39	IFRS 9	IAS 39	IFRS 9
<b>Financial Assets</b>				
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	Loans and receivables	At amortised cost	21,686,611	21,686,611
Treasury bills, net	Held to maturity investments	At amortised cost	166,580,821	166,580,821
Due from banks, net	Loans and receivables	At amortised cost	66,476,782	66,476,782
Direct credit facilities to customers, net	Loans and receivables	At amortised cost	7,242,628	7,242,628
Receivables and other assets, net	Loans and receivables	At amortised cost	1,600,977	1,600,977
Investments, net	Available for sale investments	At fair value through other comprehensive income	425,730	425,730
	Total financial assets		<u>264,013,549</u>	<u>264,013,549</u>
<b>Financial Liabilities</b>				
Due to banks	Other liabilities	At amortised cost	-	-
Customers' deposits	Other liabilities	At amortised cost	242,718,071	242,718,071
Payables and other liabilities	Other liabilities	At amortised cost	5,813,200	5,813,200
	Total financial liabilities		<u>248,531,271</u>	<u>248,531,271</u>

The carrying amount of the financial assets and liabilities as at 1 January 2018 has not been materially affected by their reclassification according to IFRS 9. The accounting policies relating to financial instruments in accordance with the requirements of IFRS 9 - Financial Instruments are set out in Note 2 to the financial statements.

**4-b IFRS 15 - Revenue From Contracts With Customers**

The Bank has adopted IFRS 15, and there are no material changes in the contracting procedures or accounting for revenue from contracts with customers.

**5 INTEREST ON DIRECT CREDIT FACILITIES TO CUSTOMERS, NET**

	2018 YR'000	2017 YR'000
Interest on direct credit facilities to customers (Note 5-a)	684,374	996,856
Cost of customers' deposits (Note 5-b)	(14,292,871)	(13,407,605)
Total interest on direct credit facilities to customers, net	<u>(13,608,497)</u>	<u>(12,410,749)</u>

**5-a Interest On Direct Credit Facilities To Customers**

	2018 YR'000	2017 YR'000
Short term loans	409,433	746,657
Overdraft facilities	274,941	250,199
Total interest on direct credit facilities to customers	<u>684,374</u>	<u>996,856</u>

**5-b Cost Of Customers' Deposits**

	2018 YR'000	2017 YR'000
Fixed deposits	(10,748,373)	(10,109,434)
Saving accounts	(3,544,498)	(3,298,171)
Total cost of customers' deposits	<u>(14,292,871)</u>	<u>(13,407,605)</u>

**6 INTEREST ON DUE FROM BANKS, NET**

	2018 YR'000	2017 YR'000
Interest on due from banks (Note 6-a)	97,146	70,016
Interest on due to banks	-	-
Total interest on due from banks, net	<u>97,146</u>	<u>70,016</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**6 INTEREST ON DUE FROM BANKS, NET (CONTINUED)**

**6-a Interest On Due From Banks**

	2018 YR'000	2017 YR'000
Foreign banks:		
Fixed deposits	97,223	69,621
Current accounts	(77)	395
	<u>97,146</u>	<u>70,016</u>

**7 COMMISSIONS AND FEE INCOME ON BANKING SERVICES, NET**

	2018 YR'000	2017 YR'000
Commissions and fee income on banking services (Note 7-a)	509,654	662,323
Commissions and fee expenses on banking services (Note 7-b)	(23,046)	(14,008)
Total commissions and fee income on banking services, net	<u>486,608</u>	<u>648,315</u>

**7-a Commissions And Fee Income On Banking Services**

	2018 YR'000	2017 YR'000
Commissions:		
Letters of guarantee	169,467	153,701
Letters of credit – import	111,556	22,521
Cheques and money transfer	94,685	171,086
Collection policies and export drafts	493	734
Fees:		
Opening, renewing and closing deposits	72,648	69,984
Current accounts	13,597	48,900
Mail, fax and swift	5,470	4,003
Others	41,738	191,394
Total commissions and fee income on banking services	<u>509,654</u>	<u>662,323</u>

**7-b Commissions And Fee Expenses On Banking Services**

	2018 YR'000	2017 YR'000
Commissions:		
Foreign banks	(20,972)	(12,645)
Money exchangers	(991)	(1,180)
Local banks	(96)	(-)
Loan installments collection	(-)	(4)
Receivable interest on overdrawn balance at Central Bank of Yemen	(665)	(-)
Charges on printing Central Bank of Yemen sheets	(322)	(179)
Total commissions and fee expenses on banking services	<u>(23,046)</u>	<u>(14,008)</u>

**8 DIVIDENDS FROM INVESTMENTS**

	2018 YR'000	2017 YR'000
Yemen Mobile Company - Yemen (Note 8-a)	18,000	18,000
ALUBAF Arab International Bank - Bahrain (Note 8-b)	5,232	-
Arab Financial Services Company - Bahrain (Note 8-c)	(-)	-
Total dividends from investments	<u>23,232</u>	<u>18,000</u>

**8-a Yemen Mobile Company - Yemen**

On 27 June 2018, the Bank received the dividend amount according to the latest financial statements available of the investment as at 31 December 2017.

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

On 2 May 2018, the Bank received a dividend amount of USD 13,768 equivalent to YR'000 5,232 according to the latest financial statements available of the investment as at 31 December 2017.

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

The Bank did not receive a total dividend of USD 11,761 for the years 2015-2017 as shown below due to the difficulty of transferring the dividends by the Company as stated in the Bank's memorandum no. 38/2018 dated 9 May 2018 addressed to the Company on this regard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**8 DIVIDENDS FROM INVESTMENTS (CONTINUED)**

**8-c Arab Financial Services Company - Bahrain (Continued)**

*Investment's financial statements as at*

	<b>USD</b>
2017	<b>4,373</b>
2016	<b>4,225</b>
2015	<b>3,163</b>
Total	<b><u>11,761</u></b>

**9 OTHER REVENUES**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Written back provision for:		
Impairment of direct credit facilities: (Note 21-b)	<b>947,842</b>	2,013,776
Indirect credit facilities (Note 29-c)	<b>10,468</b>	6,958
Impairment of receivables and other assets	-	210,772
Islamic Branches' Department Project	-	313,159
Closing cash with tellers increase	<b>7,977</b>	-
Prior years revenue	<b>4,439</b>	23,999
Revenue on penalties on employees	<b>1,553</b>	-
Charges on changing local currency notes	-	12,185
Others	<b>444</b>	-
Total other revenues	<b><u>972,723</u></b>	<b><u>2,580,849</u></b>

**10 SALARIES, WAGES AND RELATED EXPENSES**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Basic salaries and wages	<b>1,875,756</b>	1,566,171
Allowances and benefits	<b>1,780,836</b>	930,686
Bonuses and incentives	<b>1,635,359</b>	1,343,842
Employees regular leave (Note 28-c-ii)	<b>156,574</b>	94,768
Bank's contribution in social insurance	<b>127,425</b>	155,075
End of service benefits (Note 28-c-i)	<b>92,226</b>	76,821
Professional Training Fund	<b>26,865</b>	21,022
Qualification and training:		
Academic and professional qualification (Note 10-a)	<b>13,212</b>	7,873
Institute of Banking Studies (Note 10-b)	<b>9,830</b>	2,026
Total salaries, wages and related expenses	<b><u>5,718,083</u></b>	<b><u>4,198,284</u></b>

During the year ended 31 December 2018, the Bank paid YR'000 482,777 (2017: YR'000 399,487) for payroll tax on behalf of employees including YR'000 257,666 (2017: YR'000 215,998) as per monthly tax declarations until the end of the year. The tax examination has not been completed by the Tax Authority as at the statement of financial position date.

**10-a Academic And Professional Qualification**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Training courses - accounting, marketing and English Language	<b>7,149</b>	<b>5,375</b>
Higher studies	<b>3,624</b>	<b>1,105</b>
Travel and transport allowance- training	<b>2,439</b>	<b>1,393</b>
Total academic and professional qualification	<b><u>13,212</u></b>	<b><u>7,873</u></b>

**10-b Institute of Banking Studies**

The amount represents Bank's contributes in the estimated annual budget of the Institute of Banking Studies with respect to the Order of the Law No. 27 of 1978 on Establishing And Organising The Institute Of Banking Studies. The Bank pays this contribution according to Institute's claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**11 GENERAL AND ADMINISTRATION EXPENSES**

	2018	2017
	YR '000	YR '000
Guarding and security	235,345	158,446
Local and abroad transport	106,744	79,540
Maintenance and repairs	84,158	66,301
Rent	68,559	55,158
Fuel and oil - vehicles and generators	65,091	68,975
Electricity and water	51,391	35,067
Advertisement and publishing	46,857	20,880
Stationery and printing	41,994	37,392
Charity and donations	37,018	25,771
Postage and communication	36,929	20,455
Professional and consultancy fees	34,801	21,021
Insurance	24,431	11,894
Hospitality and reception	15,785	14,239
Prescriptions	15,296	17,498
Public charges	4,796	2,972
Information technology	3,327	3,650
Penalties - Central Bank of Yemen	3,219	249
Other	19,145	8,256
Total general and administration expenses	<u>894,886</u>	<u>647,764</u>

**12 OTHER EXPENSES**

	2018	2017
	YR '000	YR '000
Provisions made during the year (Note 12-a)	3,275,644	2,666,899
Fees on annual subscription in Bank Deposit Insurance Corporation (Note 12-b)	304,319	246,472
Depreciation of property plant and equipment (Note 24)	112,559	109,957
Prior years expenses (Note 12-c)	74,389	2,307
Judicial expenses (Note 12-d)	12,808	6,902
Total other provisions	<u>3,779,719</u>	<u>3,032,537</u>

**12-a Provisions Made During The Year**

	2018	2017
	YR '000	YR '000
For:		
Letters of guaranty - foreign under disagreement (Note 29-a)	1,915,901	-
Contingent liabilities (Note 29-b)	500,000	-
Impairment of direct credit facilities (Note 21-b)	351,679	2,663,864
Indirect credit facilities - general (Note 29-c)	212,784	3,035
Impairment of due from banks (Note 20-a)	189,560	-
Impairment of investments (Note 23-c)	105,720	-
Total provisions made during the year	<u>3,275,644</u>	<u>2,666,899</u>

**12-b Fees On Annual Subscription in Bank Deposit Insurance Corporation**

The Bank pays an annual subscription fee to the Bank Deposit Insurance Corporation with respect to Law No. 21 of 2008 on the Bank Deposit Insurance Corporation. These fees are represented by a percentage of the total deposits the Bank has, excluding government deposits, inter-bank deposits and cash insurances up to the value of the facilities granted under the guarantee of such insurances, in accordance with article no. 13 of the same law.

**12-c Prior Years Expenses**

	2018	2017
	YR '000	YR '000
Income tax difference for 2016 paid during the year (Note 15)	45,920	-
Employees entitlements differences	12,557	-
Employees honoring	8,250	-
Institute of Banking Studies remaining charges-2016	5,840	-
Subscription in "14 October Newspaper"	157	-
Others	1,665	2,307
Total prior years expenses	<u>74,389</u>	<u>2,307</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2018

**12 OTHER EXPENSES (CONTINUED)**

**12-d Judicial Expenses**

	2018 YR'000	2017 YR'000
Law suites follow up:		
Martyr Abdulla AlNaqeeb- Ex AbdulAziz AbdulWali Branch Manager	2,450	15
Non performing debt - Ail Husain AlThour Medical	1,200	-
Non performing debt- AlMihdar for Medicines and Medical Equipment Company	1,430	-
Letters of guaranty under disagreement	557	-
Oil Company	275	-
AlRowaimi Apartments	185	-
Lawyers' salaries and follow up bonuses	1,320	-
Others	5,391	6,887
Total judicial expenses	<u>12,808</u>	<u>6,902</u>

**13 RE-TRANSLATION DIFFERENCE ON BALANCES IN FOREIGN CURRENCIES**

	2018 YR'000	2017 YR'000
Gain on re-translation of debt balances in foreign currencies	537,967	1,232,615
(Loss) on re-translation of credit balances in foreign currencies	<u>(2,024,034)</u>	<u>(6,096,903)</u>
Net re-translation differences on balances in foreign currencies	<u>(1,486,067)</u>	<u>(4,864,288)</u>

**14 ZAKAT**

	2018 YR'000	2017 YR'000
Balance at 1 January	-	-
Made for the year	250,000	250,000
(Paid) during the year:		
Aden	(187,500)	(242,000)
Hodiedah	(-)	(5,000)
Taiz	(-)	(2,000)
Hadramout- Coast	(-)	(600)
Hadramout- Valley	(-)	(400)
Balance at 31 December	<u>62,500</u>	<u>-</u>

The Bank completed the payment of Zakat obligation for the year 2018 and received a clearance from the Zakat General Directorate - Capital / Aden in a subsequent period (Note 41-a) (2017: Clearance on 7 December 2017).

**15 INCOME TAX**

	2018 YR'000	2017 YR'000
Balance at 1 January	608,056	463,792
Settlement of tax difference for 2016 paid during the year (Note 12-c)	45,000	
Made for the year -20% (Note 28-b)	1,082,253	653,056
(Paid) during the year - for prior year	<u>(653,056)</u>	<u>(508,792)</u>
Balance at 31 December	<u>1,082,253</u>	<u>608,056</u>

The Bank paid installments of income tax obligation for the year ended 31 December 2018 in the subsequent period (Note 41-b).

**16 COMPREHENSIVE INCOME FOR THE YEAR**

For the year ended 31 December 2018 the Bank made a total comprehensive income (excess profits) of YR'000 4,329,011 (2017: comprehensive income of YR'000 2,612,222).

**16-a Basic Earnings Per Share**

		2018	2017
Comprehensive income for the year	YR'000	<u>4,329,011</u>	<u>2,612,222</u>
Weighted average number of shares	1000 shares	<u>10,000</u>	<u>10,000</u>
Basic earnings per share	YR	<u>433</u>	<u>261</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2018

**16 COMPREHENSIVE INCOME FOR THE YEAR (CONTINUED)**

**16-b Proposed Dividends**

For the year ended 31 December 2018 the comprehensive income (excess profits) for the year after paying Zakat and tax was distributed as follows:

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Balance at 1 January	1,828,556	1,298,619
Comprehensive income for the year	4,329,011	2,612,222
State's share in prior year's profit- retained (Note 28-a)	(1,567,333)	(1,113,101)
Employees' share in prior year's profit	(261,223)	(185,518)
Balance distributable for the year	<u>4,329,011</u>	<u>2,612,222</u>
Transfer to statutory reserve during the year	(649,352)	(391,833)
Transfer to general reserve during the year	(649,352)	(391,833)
Balance at 31 December	<u><u>3,030,307</u></u>	<u><u>1,828,556</u></u>
Proposed dividends for current year:		
States's share	2,597,407	1,567,333
Employees' share	432,900	261,223
Total proposed dividends	<u><u>3,030,307</u></u>	<u><u>1,828,556</u></u>

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

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Cash on hand:		
In foreign currencies	3,149,814	1,122,690
In local currency	2,219,258	1,582,902
Total cash on hand	<u><u>5,369,072</u></u>	<u><u>2,705,592</u></u>
Mandatory reserve balances with the Central Bank of Yemen:		
In local currency	9,806,074	11,947,454
In foreign currencies	7,578,762	7,033,565
Total mandatory reserve balances with the Central Bank of Yemen	<u><u>17,384,836</u></u>	<u><u>18,981,019</u></u>
Total cash on hand and mandatory reserve balances with the Central Bank of Yemen	<u><u>22,753,908</u></u>	<u><u>21,686,611</u></u>

**18 CERTIFICATES OF DEPOSIT AT CENTRAL BANK OF YEMEN**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Nominal value, duration of:		
40 Days	500,000	-
30 Days	500,000	-
Total certificates of deposit at Central Bank of Yemen	<u><u>1,000,000</u></u>	<u><u>-</u></u>

**19 TREASURY BILLS, NET**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Face value, duration of: :		
91 days	102,599,000	92,017,000
182 days	28,606,000	25,233,000
364 days	63,322,000	55,600,000
Total face value	<u><u>194,527,000</u></u>	<u><u>172,850,000</u></u>
Issuance discount, duration of:		
91 days	(2,168,358)	(1,999,536)
182 days	(989,902)	(878,482)
364 days	(3,832,330)	(3,391,161)
Total issuance discount	<u><u>(6,990,590)</u></u>	<u><u>(6,269,179)</u></u>
Total treasury bills, net	<u><u>187,536,410</u></u>	<u><u>166,580,821</u></u>

As at 31 December 2018, treasury bills carry return rates ranging from 15.81 - 16.99% (31 December 2017: 15.8 - 16.6%) and the last one matures on 29 December 2019 (2017: 30 December 2018).

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**20 DUE FROM BANKS, NET**

Local banks:		<b>2018</b>	2017
Current accounts at Central Bank of Yemen:		<b>YR'000</b>	YR'000
In foreign currencies		<b>39,991,752</b>	28,696,611
In local currency		<b>3,889,150</b>	17,898,215
	Total due from Central Bank of Yemen	<b>43,880,902</b>	46,594,826
Due from other local banks:			
Commercial current accounts		<b>429</b>	298
Islamic investment deposits		<b>8</b>	174
	Total due from other local banks	<b>437</b>	472
	Total due from local banks	<b>43,881,339</b>	46,595,298
Foreign banks:			
Current accounts		<b>5,603,147</b>	12,423,753
Fixed deposits		<b>10,977,103</b>	7,457,731
	Total due from foreign banks	<b>16,580,250</b>	19,881,484
Provision for impairment (Note 20-a)		<b>(197,480)</b>	-
	Total due from banks, net	<b>60,264,109</b>	66,476,782

**20-a Provision for Impairment**

			Re-translation difference on balances in foreign currencies	Made during the year	<b>2018</b>
	2017	Re-classification	YR'000	YR'000	YR'000
Current account:	YR'000	YR'000	YR'000	YR'000	YR'000
Asya Katlim Bank - Turkey	-	-	-	189,560	<b>189,560</b>
Bank of Credit and Development- Netherlands	-	8,599	(679)	-	<b>7,920</b>
	Total	8,599	(679)	189,560	<b>197,480</b>

**21 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET**

		<b>2018</b>	2017
		<b>YR'000</b>	YR'000
Gross direct credit facilities to customers (Note 21-a)		<b>13,857,789</b>	14,840,143
Provision for Impairment (Note 21-b)		<b>(4,813,831)</b>	(5,531,408)
Suspended interest (Note 21-c)		<b>(2,553,320)</b>	(2,066,107)
	Total direct credit facilities to customers, net	<b>6,490,638</b>	7,242,628

**21-a Gross Direct Credit Facilities To Customers**

21-a-i Beneficiaries

	----- 2018 -----			2017
	<b>Overdraft facilities</b>	<b>Short term loans</b>	<b>Total</b>	<b>Total</b>
	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Private sector	4,699,981	3,957,460	8,657,441	9,705,912
Public sector	3,906,333	-	3,906,333	4,156,945
Employees	-	1,293,671	1,293,671	971,899
Related parties	-	344	344	5,387
	Total	8,606,314	13,857,789	14,840,143

20-a-ii Purposes

	----- 2018 -----			2017
	<b>Overdraft facilities</b>	<b>Short term loans</b>	<b>Total</b>	<b>Total</b>
	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Commercial	8,426,859	1,195,316	9,622,175	10,232,594
Personal	-	3,167,581	3,167,581	3,022,002
Industrial	10,115	846,608	856,723	1,000,947
Services	37,937	15,901	53,838	584,600
Others	131,403	26,069	157,472	-
	Total	8,606,314	13,857,789	14,840,143

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

21 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET (CONTINUED)

21-b Provision For Impairment

	2018					2017
	Gross value YR'000	Cash guarantees YR'000	Suspended interest YR'000	Net debt YR'000	Provision YR'000	Provision YR'000
Credit classification:						
<b>Performing</b>	1,671,281	(111,673)	(1,196)	1,558,412	31,168	28,078
<b>Under-performing:</b>						
Under watch	262,772	(-)	(2,850)	259,922	5,217	9,318
Substandard	875,211	(-)	(12,679)	862,532	129,380	179,298
Doubtful	1,679,767	(1,528,819)	(32,949)	117,999	55,911	263,117
<b>Impaired</b>	<u>9,368,758</u>	<u>(3,165,372)</u>	<u>(2,503,646)</u>	<u>3,699,740</u>	<u>4,592,155</u>	<u>5,051,597</u>
Total	<u>13,857,789</u>	<u>(4,805,864)</u>	<u>(2,553,320)</u>	<u>6,498,605</u>	<u>4,813,831</u>	<u>5,531,408</u>

For the year ended 31 December 2018 movement of provision for impairment was as follows:

	2018				2017
	General	Under performing	Impaired	Total	Total
	Performing YR'000	YR'000	YR'000	YR'000	YR'000
Balance at 1 January	28,078	291,976	5,211,354	5,531,408	4,045,072
Re-translation difference on balances in foreign currencies	(-)	(26,598)	(94,816)	(121,414)	836,248
(Written back) during the year (Note 9)	(16,498)	(257,859)	(673,485)	(947,842)	(2,013,776)
Made during the year (Note 12-a)	<u>19,588</u>	<u>182,989</u>	<u>149,102</u>	<u>351,679</u>	<u>2,663,864</u>
Balance at 31 December	<u>31,168</u>	<u>190,508</u>	<u>4,592,155</u>	<u>4,813,831</u>	<u>5,531,408</u>

21-c Suspended Interests

	2018 YR'000	2017 YR'000
Balance at 1 January	2,066,107	1,409,727
Re-translation difference on balances in foreign currencies	(51,286)	216,237
(Written off) during the year	(116,258)	(510)
(Written back) during the year	(198,154)	(315,297)
Made during the year	<u>852,911</u>	<u>755,950</u>
Balance at 31 December	<u>2,553,320</u>	<u>2,066,107</u>

22 RECEIVABLES AND OTHER ASSETS, NET

	2018 YR'000	2017 YR'000
Islamic Branches' Department - National Bank of Yemen (Note 22-a)	1,198,212	745,729
Operational risk (Note 22-b)	843,127	841,048
Prepayments	194,942	62,940
Entries suspended in H.O. account at Central Bank of Yemen 1990, 1996	29,507	29,507
Assets acquired by the Bank against bad debts (Note 22-c)	16,934	16,934
Entries under settlement at H.O. (Note 22-d)	14,260	9,675
Stationery and publication inventory	9,669	8,404
Interest receivable	5,360	1,807
Inter-branch accounts (Note 22-e)	3,420	465,080
Others	<u>161,751</u>	<u>374,469</u>
Total receivables and other assets	2,477,182	2,555,593
Provision for impairment (Note 22-f)	<u>(1,030,995)</u>	<u>(954,616)</u>
Total receivables and other assets, net	<u>1,446,187</u>	<u>1,600,977</u>

22-a Islamic Branches' Department - National Bank of Yemen

On 16 April 2018 the Bank officially inaugurated an Islamic branch in Sana'a City, Republic of Yemen as the first branch belonging to Islamic Branches' Department. The establishment of this department comes as a response to Board of Directors' Resolution No. 33 of 2009 issued on 17 March 2009 on the recommendation of the Committee for the Preparation and Study of Establishing a Branch for Islamic Transactions and H.E. Minister of Finance approval on this resolution dated 1 April 2009. The Bank has obtained a final license to open an Islamic Branch from the Central Bank of Yemen dated 10 March 2015 based on an initial approval granted to the Bank under no.7139 dated 18 December 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**22 RECEIVABLES AND OTHER ASSETS, NET (CONTINUED)**

**22-b Operational Risk**

These amounts are represented by embezzlement and work errors, as well as taken over branches' buildings and looted branches' cash in armed conflict areas. Management follows up with collecting collectible amounts along with taking necessary legal procedures and has provided for expected impairment / loss on these risks.

**22-c Assets Acquired By The Bank Against Bad Debts**

In this account, the Bank maintains a property that it had as a collateral and got it acquired against bad debts. In compliance with article 73 of Law No. 38 of 1998 on Banks, management follows up with addressing this account, which has passed more than five years and has not been disposed of due to the situation the country is going through (Note 1-b).

**22-d Entries Under Settlement At H.O.**

These accounts are represented by advance payments to security guards and follow-up with outstanding matters at HO due to situation the country is going through (Note 1-b). Management is following up with clearing such amounts during the subsequent period in compliance with the Central Bank of Yemen circular No. 2 for the year 2002 on The Rules Of Preparation And Presentation Of Financial Statements And The Basis Of Evaluation Of Banks (Amended).

**22-e Inter-branch Accounts**

These accounts are represented by delayed reversal of entries between branches and H.O. and vice versa due to situation the country is going through (Note 1-b). Management is following up with clearing such amounts during the subsequent period in compliance with the Central Bank of Yemen circular No. 2 for the year 2002 on The Rules Of Preparation And Presentation Of Financial Statements And The Basis Of Evaluation Of Banks (Amended).

**22-f Provision For Impairment**

	2017 YR '000	Re-classification YR '000	Re-translation difference on balances in foreign currencies YR '000	Made during the year YR '000	2018 YR '000
Operational risk	904,632	64,973	(4,995)		964,610
Entries suspended in H.O. account at Central Bank of Yemen, 1990, 1996	29,507		-	-	29,507
Value of AlTowahi Branch taken over -2014	-	25,000	-	-	25,000
Assets acquired by the Bank against bad debts- Aden	11,878	-	-	-	11,878
Current account - Bank of Credit and Development- Netherlands	8,599	(8,599)	-	-	-
<b>Total</b>	<b>954,616</b>	<b>81,374</b>	<b>(4,995)</b>	<b>-</b>	<b>1,030,995</b>

**23 INVESTMENTS, NET**

	2018 YR '000	2017 YR '000
Foreign (Note 23-a)	452,360	467,835
Local (Note 23-b)	235,686	204,305
<b>Total investments</b>	<b>688,046</b>	<b>672,140</b>
Provision for impairment (Note 23-c)	(346,254)	(246,410)
<b>Total investments, net</b>	<b>341,792</b>	<b>425,730</b>

**23-a Foreign Investments**

	2017 YR '000	Re-translation difference on balances in foreign currencies YR '000	2018 YR '000
UBAC Curacao N V- Curacao (Note 23-a-i)	177,644	(5,876)	171,768
ALUBAF Arab International Bank - Bahrain (Note 23-a-ii)	270,541	(8,949)	261,592
Arab Financial Services Company - Bahrain (Note 23-a-iii)	19,650	(650)	19,000
<b>Total foreign investments</b>	<b>467,835</b>	<b>(15,475)</b>	<b>452,360</b>

**23-a-i UBAC Curacao N V- Curacao**

The Bank subscribed in this investment on 23 September 1991. It's value as at 31 December 2018 amounted USD 452,020 equivalent to YR'000 171,768 (31 December 2017: USD 452,020) representing 0.88% of the investment capital distributed to 45,202 shares of value USD 10 per share with respect to confirmation letter on National Bank of Yemen share in UBAC Curacao N V, dated 10 January 2018.

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For the Year Ended 31 December 2018

**23 INVESTMENTS, NET (CONTINUED)**

**23-a Foreign Investments (Continued)**

23-a-ii ALUBAF Arab International Bank - Bahrain

The Bank subscribed in this investment on 31 December 1991. It's value as at 31 December 2018 amounted USD 688,400 equivalent to YR'000 261,592 (31 December 2017: USD 688,400), representing 0.28% of the investment capital distributed to 13,768 shares of value USD 50 per share with respect to balance confirmation letter as at 31 December 2018 dated 2 January 2019.

23-a-iii Arab Financial Services Company - Bahrain

The Bank subscribed in this investment on 1 August 1984. It's value as at 31 December 2018 amounted USD 50,000 equivalent to YR'000 19,000 (31 December 2017: USD 50,000), representing 0.167% of the investment capital distributed to 10,000 shares of value USD 5 per share with respect to balance confirmation letter as at 31 December 2018 dated 5 March 2019.

**23-b Local Investments**

	2017	Re-translation difference on balances in foreign currencies	2018
	YR'000	YR'000	YR'000
Yemen Financial Services Company -Yemen			
Before raising share capital	122,105	(4,039)	118,066
Increase after raising share capital	-	-	35,420
Total (Note 23-b-i)	122,105	(4,039)	153,486
Yemen Mobile Company-Yemen (Note 23-b-ii)	61,200	-	61,200
Al-Amal Bank for Microfinance -Yemen (Note 23-b-iii)	20,000	-	20,000
Aden Foundation for Microfinance - Yemen (23-b-iv)	1,000	-	1,000
Total local investments	204,305	(4,039)	235,686

23-b-i Yemen Financial Services Company - Yemen

The Bank subscribed in this investment on 18 April 2009. Its value as at 31 December 2018 amounted USD 403,910 equivalent to YR'000 153,486 distributed to 3,107 shares of value USD 100 per share after an increase of 30% of the Bank's share in the investment according to the letter of the subject "Balance Confirmation" dated 1 February 2019 (31 December 2017: USD 310,700 equivalent to YR'000 122,105 representing 7.06% of the investment capital distributed to 3,107 shares of value USD 100 per share).

23-b-ii Yemen Mobile Company - Yemen

The Bank subscribed in this investment on 29 July 2006. Its value as at 31 December 2018 amounted YR'000 61,200 (31 December 2017: YR'000 61,200), representing 1% of the investment capital distributed to 120 thousand shares of nominal value YR 500 per share, in addition to issuance expenses amounting to YR'000 1,200 with respect to the letter of the subject "Share of the National Bank of Yemen in Yemen Mobile Company until 31/12/2018" dated 31 December 2018.

23-b-iii Al-Amal Microfinance Bank, Yemen

The Bank subscribed in this investment on 11 April 2005. Its value as at 31 December 2018 amounted YR'000 20,000 (31 December 2017: YR'000 20,000), representing 1% of the investment capital distributed to 200 shares of nominal value of YR 100,000 per share with respect to the letter of the subject "Share of the National Bank of Yemen in the Capital of Al-Amal Bank as at 31 December 2018" dated 1 January 2019. The amount paid for the investment represents 50% of the Bank's share of YR'000 40,000.

23-b-iv Aden Microfinance Foundation

The Bank subscribed in this investment on 26 October 2005. Its value as at 31 December 2018 amounted YR'000 1,000 (31 December 2017: YR'000 1,000), which represents 16.1% of the investment capital. The name of the investment in the Bank's records has been changed from "Tadhamun Microfinance Foundation" to "Aden Microfinance Foundation" based on the approval of the Office of Insurance and Social Affairs in accordance with the letter of the Foundation on this regard in a previous period.

**23-c Provision For Impairment**

	2017	Re-translation differences on balances in foreign currencies	Made during the year	2018
	YR'000	YR'000	YR'000	YR'000
UBAC Curacao N V – Curacao	177,644	(5,876)	-	171,768
Yemen Financial Services Company - Yemen:				
Before raising share capital	67,766	-	50,300	118,066
Increase after raising share capital	-	-	35,420	35,420
Al-Amal Bank for Microfinance - Yemen	-	-	20,000	20,000
Aden Foundation for Microfinance - Yemen	1,000	-	-	1,000
Total	246,410	(5,876)	105,720	346,254

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**23 INVESTMENTS, NET (CONTINUED)**

**23-c Provision For Impairment (Continued)**

Calculation of provision for impairment of these investments is due to not receiving any dividends from for several years and their incurring of accumulated losses as per their available financial statements.

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

Cost / Valuation	Land YR'000	Buildings YR'000	Leasehold improvements YR'000	Furniture and equipment YR'000	Motor vehicles YR'000	Swift, computer hardware and software YR'000	Total YR'000
At 1 January 2018	1,215,282	1,100,235	207,552	765,081	175,935	472,150	3,936,235
Additions during the year	-	329,780	17,938	111,130	54,958	55,659	569,465
At 31 December 2018	1,215,282	1,430,015	225,490	876,211	230,893	527,809	4,505,700
At 1 January 2017	1,215,282	1,193,427	199,436	726,614	152,528	560,771	4,048,058
Additions during the year	-	-	51,414	72,088	23,406	138,331	285,239
Disposals during the year	-	(97,406)	(34,753)	(26,752)	-	(238,151)	(397,062)
Re-classification difference	-	4,214	(8,545)	(6,869)	1	11,199	-
At 31 December 2017	1,215,282	1,100,235	207,552	765,081	175,935	472,150	3,936,235
<b>Accumulated Depreciation</b>							
At 1 January 2018	-	256,269	125,502	472,464	150,228	433,365	1,437,828
Charged for the year	-	24,057	14,204	47,388	9,128	17,782	112,559
At 31 December 2018	-	280,326	139,706	519,852	159,356	451,147	1,550,387
At 1 January 2017	-	253,035	116,353	445,498	144,232	517,761	1,476,879
Charged for the year	-	25,802	13,901	47,454	5,995	16,805	109,957
Disposals during the year	-	(24,335)	(2,345)	(11,166)	-	(111,162)	(149,008)
Re-classification difference	-	1,767	(2,407)	(9,322)	1	9,961	-
At 31 December 2017	-	256,269	125,502	472,464	150,228	433,365	1,437,828
<b>Net Book Value</b>							
At 31 December 2018	1,215,282	1,149,689	85,784	356,359	71,537	76,662	2,955,313
At 31 December 2017	1,215,282	843,966	82,050	292,617	25,707	38,785	2,498,407

Freehold land, land leased from the State and buildings on such land plots were revalued at their market value for existing use as at 1 December 1999, effective from 31 December 1999, by an independent real estate firm. In accordance with IAS 16, the cost and related accumulated depreciation as at that date were eliminated and the revaluation amount has been considered the new gross book carrying amount. Surplus was added to surplus on revaluation of property, plant and equipment reserve (Note 2-s). Land and buildings of the Bank were also revalued by an independent consulting firm as at 31 December 2007 and 2012. Management is following up with obtaining an approval from Central Bank of Yemen on that regard.

**25 CAPITAL WORK IN PROGRESS**

	2018 YR'000	2017 YR'000
Automation and Technology Project (Note 25-a)	1,579,914	759,566
Bank's buildings rehabilitation projects (Note 25-b)	383,808	312,644
Total capital work in progress	1,963,722	1,072,210

**25-a Automation and Technology Project**

	2018 YR'000	2017 YR'000
Systems and programs	928,629	488,759
Travel tickets and allowances for trainees	467,707	108,482
Equipment and tools	181,387	161,675
Incentives and fees	1,190	650
Stationery and printing	1,001	-
Total Automation and Technology Project	1,579,914	759,566

On 22 May 2017, the Bank's management signed a work contract for the purchase and supply of systems, programs, application and training of a banking system with ICSFS, Amman, Jordan, which was awarded the tender with respect to Bids Higher Committee's Resolution No. 61 of 2014 for the implementation of the second part - installing and operating modern information technology hardware and software of the Bank's Development And Modernization Project (Note 1-b).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**25 CAPITAL WORK IN PROGRESS (CONTINUED)**

**25-b Bank's Buildings Rehabilitation Projects**

	2018 YR'000	2017 YR'000
Building construction and repair:		
Arwa Branch	148,249	-
Al-Shihr Branch	110,948	46,577
Head Office	29,828	29,828
Al-Mukalla Branch	22,798	14,187
Tareem Branch	225	-
Sayoon new branch	-	182,754
Lahj Branch	-	25,250
Procurement:		
Money counting and checking machines	43,236	-
Others	28,524	14,048
Total Bank's buildings rehabilitation projects	<u>383,808</u>	<u>312,644</u>

These projects are represented by construction, repair and procurement work for new branches' buildings and those damaged in military conflict areas.

**26 DUE TO BANKS**

	2018 YR'000	2017 YR'000
Local banks:		
Commercial current accounts	2,941	-
Total due to banks	<u>2,941</u>	<u>-</u>

**27 CUSTOMERS' DEPOSITS**

	2018 YR'000	2017 YR'000
Current accounts:		
Customers	104,238,843	104,208,848
Government (Note 27-a)	717,292	6,972
Fixed deposits	92,050,742	86,093,325
Saving accounts	51,367,424	48,220,062
Cash insurance on indirect credit facilities (Note 32)	2,428,119	1,786,227
Unclaimed balances (Note 27-b)	865,469	902,769
Deposits on behalf of Central Bank of Yemen - Socotra Branch (Note 27-c)	460,323	368,156
Cheques, payment orders and money transfer balances	415,432	1,131,712
Re-classification - dormant commercial bank current accounts	(2,941)	-
Total customers' deposits	<u>252,540,703</u>	<u>242,718,071</u>

**27-a Current Accounts - Government / Aden**

These accounts are used to pay government / Aden employees' salaries and issuance of letters of credit.

**27-b Unclaimed Balances**

In this account, the Bank maintains deposits that more than 15 years period of time have passed on without any movement of withdraw or deposit and have not been claimed by their owners. Decrease of amount during the year 2018 is due to re-translation of balances in foreign currencies as practiced annually. Management monitors and evaluates status of this account in compliance to article no. 79-2 of the Law No. 38 of 1998 on Banks in under the situation the country is going through.

**27-c Deposits On Behalf Of Central Bank Of Yemen - Socotra Branch**

The amount represents deposits of Government facilities and corporations in Socotra Branch with respect to authorisation from Central Bank of Yemen to the Bank to carry out its work in Socotra due to absence of a branch of Central Bank in there with respect to approval from Ministry of Finance dated 20 April 2014 on Central Bank of Yemen memo no. 2346 dated 14 April 2014 in which executive procedures to open budgetary accounts and current accounts (resources and expenses) at National Bank of Yemen branch in Socotra are illustrated, provided that the National Bank of Yemen should comply to rules of executing State's general budget and to be under supervision of Central Bank of Yemen.

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**28 PAYABLES AND OTHER LIABILITIES**

	2018	2017
	YR'000	YR'000
Government's share in profit for the year retained (Note 28-a)	2,680,434	1,113,101
Accrued interest payable on customers' deposits	2,083,413	1,900,666
Government entities (Note 28-b)	1,491,433	968,265
Employees entitlements (Note 28-c)	1,450,737	1,066,003
Entries under settlement (Note 28-d)	196,152	46,817
Accrued expenses-outstanding commitments	146,222	217,481
Inter-branch accounts (Note 28-e)	29,337	23,513
Projects maintenance guarantee	25,355	6,860
Surplus re-payments on loans to government facilities	8,099	12,456
Others	16,287	458,038
Total payables and other liabilities	<u>8,127,469</u>	<u>5,813,200</u>

**28-a Government's Share In Profit For The Year Retained**

	2018	2017
	YR'000	YR'000
2017	1,567,333	-
2016	1,113,101	1,113,101
Total State's share in profit for the year retained	<u>2,680,434</u>	<u>1,113,101</u>

**28-b Government Entities**

	2018	2017
	YR'000	YR'000
Tax Authority / Aden - income tax for the year (Note 15)	1,082,253	653,056
General Authority for Insurance and Pensions / Aden	174,429	129,463
Skills Development Fund	138,143	151,638
Zakat General Directorate - Capital / Aden:		
Payable for the year (Note 14)	62,500	
Carried forward from prior years	34,108	34,108
Total government entities	<u>1,491,433</u>	<u>968,265</u>

**28-c Employees Entitlements**

	2018	2017
	YR'000	YR'000
End of service benefits (Note 28-c-i)	467,495	298,448
Bounces and incentives	342,858	160,631
Employees' regular leave (Note 28-c-ii)	310,697	236,909
Outstanding commitments:		
Medication	180,100	42,746
Salaries	85,190	66,046
Employees share in profit for the year	64,397	261,223
Total employees entitlements	<u>1,450,737</u>	<u>1,066,003</u>

**28-c-i End of Service Benefits**

	2018	2017
	YR'000	YR'000
Balance at 1 January	298,448	221,627
Made during the year (Note 10)	92,226	76,821
Balance at 31 December	<u>467,495</u>	<u>298,448</u>

**28-c-ii Employees' Regular Leave**

	2018	2017
	YR'000	YR'000
Balance at 1 January	236,909	198,199
Made during the year (Note 10)	156,574	94,768
(Used) during the year	(82,786)	(56,058)
Balance at 31 December	<u>310,697</u>	<u>236,909</u>

The amount is paid in cash to heads of sections and departments and employees needed by their managers during the whole year of a total of 369 employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**28 PAYABLES AND OTHER LIABILITIES (CONTINUED)**

**28-d Entries Under Settlement**

Management is following up with clearing such amounts during the subsequent period in compliance with the Central Bank of Yemen circular No. 2 for the year 2002 on the Rules Of Preparation And Presentation Of Financial Statements And The Basis Of Evaluation Of Banks (Amended).

**28-e Inter-branch Accounts**

These accounts are represented by delayed reversal of entries between branches and HO and vice versa due to situation the country is going through (Note 1-b). Management is following up with clearing such amounts during the subsequent period in compliance with the Central Bank of Yemen circular No. 2 for the year 2002 on the Rules Of Preparation And Presentation Of Financial Statements And The Basis Of Evaluation Of Banks (Amended).

**29 OTHER PROVISIONS**

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Provision for:		
Letters of guaranty - foreign under disagreement (Note 29-a)	<b>1,915,901</b>	-
Contingent claims (Note 29-b)	<b>950,000</b>	450,000
Commitments- remaining amount of provision for income tax for the years 2010-2012	<b>44,991</b>	44,991
Indirect credit facilities - general (Note 29-c)	<b>235,393</b>	33,705
Reclassification of provision for:		
Value of AlTowahi Branch taken over -2014	-	25,000
Embezzlement	-	64,973
Total other provisions	<b><u>3,146,285</u></b>	<b><u>618,669</u></b>

**29-a Provision For Letters Of Guaranty - Foreign Under Disagreement**

	<b>2017</b>	<i>Re-translation differences on balances in foreign currencies</i>	<i>Made during the year</i>	<b>2018</b>
	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Public Electricity Corporation - State Bank of India	-	-	1,915,901	<b>1,915,901</b>
Total	<u>-</u>	<u>-</u>	<u>1,915,901</u>	<b><u>1,915,901</u></b>

**29-b Provision For Contingent Claims**

	<b>2017</b>	<i>Written back during the year</i>	<i>Made during the year</i>	<b>2018</b>
	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
Social insurance differences-2016	450,000	-	-	<b>450,000</b>
Pensions-30% general increase in salaries	-	-	500,000	<b>500,000</b>
Total	<u>450,000</u>	<u>-</u>	<u>500,000</u>	<b><u>950,000</u></b>

Pursuant to the Bank's letter dated 8 May 2018, addressed to the Chairman of the General Authority for Insurance and Pensions, Aden Governorate, the Bank formed a working group to join the committee assigned by the Authority to carry out the review and calculation of insurance contributions due on the insured employees of the Bank and define the increase in salaries, wages and banking allowance difference.

**29-c Provision For Indirect Credit Facilities - General**

	<b>2017</b>	<i>Re-translation differences on balances in foreign currencies</i>	<i>Written back during the year</i>	<i>Made during the year</i>	<b>2018</b>
	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>	<b>YR'000</b>
General provision for:					
Letters of guaranty- foreign	-	-	-	117,951	<b>117,951</b>
Letters of credit	-	-	-	90,262	<b>90,262</b>
Letters of guaranty- local	33,705	(628)	(10,468)	4,571	<b>27,180</b>
Total	<u>33,705</u>	<u>(628)</u>	<u>(10,468)</u>	<u>212,784</u>	<b><u>235,393</u></b>

**30 CAPITAL**

The declared capital of the Bank is YR'billion fifty and its paid capital is YR'billion twenty with respect to article no. 5-1 of Prime Minister Decree no 405 of 2013 on Organising the Bank and article no. 8 of Bank's Article of Association.

As at 31 December 2018, Bank's paid capital is YR'billion ten (31 December 2017: YR'billion ten) distributed to ten million shares of nominal value YR 1,000 per share. Management is following up with executing the increase of Bank's capital with respect to H.E. Minister of Finance letter addressed to Chairman dated 15 October 2017 on approving Board of Directors resolution no. 69 of 2017 issued in its fourth extraordinary meeting held on 25 September 2017 on National Bank of Yemen paid capital, provided that, the increase to be paid in three years period of time.

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For the Year Ended 31 December 2018

31 RESERVES

	2018 YR'000	2017 YR'000
Statutory reserve (Note 31-a)	4,349,572	3,700,220
General reserve (Note 31-b)	2,864,950	2,215,598
Surplus on revaluation of property, plant and equipment reserve (Note 31-c)	639,762	639,762
Cumulative change in fair value reserve (Note 31-d)	50,090	50,090
Total reserves	<u>7,904,374</u>	<u>6,605,670</u>

31-a Statutory Reserve

	2018 YR'000	2017 YR'000
Balance at 1 January	3,700,220	3,308,387
Transfer to reserve during the year	649,352	391,833
Balance at 31 December	<u>4,349,572</u>	<u>3,700,220</u>

31-b General Reserve

	2018 YR'000	2017 YR'000
Balance at 1 January	2,215,598	1,823,765
Transfer to reserve during the year	649,352	391,833
Balance at 31 December	<u>2,864,950</u>	<u>2,215,598</u>

31-c Surplus On Revaluation Of Property, Plant And Equipment Reserve

	2018 YR'000
<i>Surplus on revaluation:</i>	
Land and buildings of the Bank	637,093
Al-Mukairas building	2,669
Total	<u>639,762</u>

31-d Cumulative Change In Fair Value Reserve

In this account, changes in the fair value of Arab Financial Services Company - Bahrain and ALUBAF Arab International Bank - Bahrain during the years 2002 to 2012 are included.

32 CONTINGENT LIABILITIES AND COMMITMENTS, NET

	----- 2018 -----			2017
	Gross value YR'000	Cash guarantee YR'000	Net value YR'000	Net value YR'000
Indirect credit facilities:				
Letters of guarantee - foreign	5,897,539	-	5,897,539	6,714,046
Letters of guarantee - foreign under disagreement	4,257,558	-	4,257,558	4,403,211
Letters of guarantee - local	3,227,295	(1,868,287)	1,359,008	1,501,662
Letters of credit	5,072,921	(559,832)	4,513,089	-
Total	<u>18,455,313</u>	<u>(2,428,119)</u>	<u>16,027,194</u>	12,618,919
Other commitments	383,689	-	383,689	123,554
Total contingent liabilities and commitments, net	<u>18,839,002</u>	<u>(2,428,119)</u>	<u>16,410,883</u>	<u>12,742,473</u>

33 CASH AND CASH EQUIVALENTS

	2018 YR'000	2017 YR'000
Due from Banks maturing in less than 3 months (Note 35-b)	60,264,109	59,019,051
Treasury bills maturing in less than 3 months (Note 35-b)	45,027,033	67,486,318
Cash on hand (Note 17)	5,369,072	2,705,592
Certificate of deposit at Central Bank of Yemen (Note 35-b)	1,000,000	-
Total cash and cash equivalents	<u>111,660,214</u>	<u>129,210,961</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**34 TRANSACTIONS WITH RELATED PARTIES**

For the year ended 31 December 2018 transactions with related parties were as shown below. Management believes that the transactions were made at arm's length basis.

<i>Statement of:</i>	<i>Account</i>	<b>2018</b> <b>YR'000</b>	2017 YR'000
Comprehensive Income	Interest revenue	-	1,113
	Interest cost	<b>1,084</b>	2,616
	Salaries and benefits	<b>78,539</b>	65,793
Financial Position	Direct credit facilities - loans	<b>344</b>	5,387
	Customers' deposits	<b>33,483</b>	33,960

**35 RISK MANAGEMENT**

The Bank's business involves taking on risks in a targeted manner and managing the risks professionally. The Bank defines risk as the possibility of incurring losses or profits foregone that may be caused by internal or external factors as the Bank is exposed to credit risk, liquidity risk, interest risk and foreign currencies risk.

The core functions of the Bank's risk management are identifying all risks that effect the Bank, measuring such risks, managing risk positions and determining capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. Risks are managed by Bank's management under policies approved by the Board of Directors which provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Bank's management determines and hedge financial risks in cooperation with other operating units in the Bank. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

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

**35-a Credit Risk**

Credit risk is the risk of incurring a financial loss, should any of the Bank's customers or market counterparties fail to fulfill their contractual obligations towards the Bank. Credit risk arises mainly from commercial and consumer direct credit facilities, credit cards and loan commitments arising from such lending activities. It also could arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of guarantee, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business. Therefore, the Bank, carefully manages its exposure to credit risk through assigning credit risk management team to manage and control on credit risk, which reports to the Board of Directors and head of each business unit regularly. The Bank works within the framework of risk management standards stated in Central Bank of Yemen circular no. 10 for 1997 on Standards of Credit Risk Management and performs the following procedures to minimise the credit risk exposure:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates;
- Obtaining sufficient collateral to minimise the credit risk exposure which may result from financial difficulties facing customers or banks;
- Following-up and period reviewing of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing credit facilities; and
- Distributing credit portfolio and balances with banks over diversified sectors to minimise concentration of credit risk.

**Exposure To Credit Risk**

The table below shows the maximum exposure of financial assets, net and off financial position items to credit risk as at 31 December 2018:

	<b>2018</b> <b>YR'000</b>	2017 YR'000
Financial assets	<b>274,269,030</b>	261,245,017
Contingent liabilities and commitments, net	<b>16,027,194</b>	12,618,919
Total exposure to credit risk	<b><u>290,296,224</u></b>	<u>273,863,936</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

35 RISK MANAGEMENT (CONTINUED)

35-a Credit Risk (Continued)

Exposure of Financial Assets, Net to Credit Risk

	2018 YR'000	2017 YR'000
Treasury bills, net	187,536,410	166,580,821
Due from banks, net	60,264,109	66,476,782
Mandatory reserve balances with the Central Bank of Yemen	17,384,836	18,981,019
Direct credit facilities to customers, net	6,490,638	7,242,628
Receivables and other assets (except for prepayments), net	1,251,245	1,538,037
Certificates of deposit at Central Bank of Yemen	1,000,000	-
Investments, net	341,792	425,730
Total exposure to credit risk - financial assets	<u>274,269,030</u>	<u>261,245,017</u>

The Bank manages concentration of credit risk by distributing the portfolio over diversified economic sectors and geographical locations as possible, according to its customers' requirements and situation the country is going through (note 1-b) as shown below.

Distribution Of Financial Instruments According To Economic Sectors

		----- 2018 -----				
		Trade YR'000	Industry YR'000	Services YR'000	Others YR'000	Total YR'000
<b>Financial Assets</b>						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen		22,753,908	-	-	-	22,753,908
Certificates of deposit at Central Bank of Yemen		1,000,000	-	-	-	1,000,000
Treasury bills, net		187,536,410	-	-	-	187,536,410
Due from banks, net		60,264,109	-	-	-	60,264,109
Direct credit facilities to customers, net		4,404,327	-	-	2,086,311	6,490,638
Investments, net		341,792	-	-	-	341,792
Total		<u>276,300,546</u>	<u>-</u>	<u>-</u>	<u>2,086,311</u>	<u>278,386,857</u>
<b>Financial Liabilities</b>						
Due to banks		2,941	-	-	-	2,941
Customers' deposits		36,428,097	8,909,233	53,314,781	153,888,592	252,540,703
Total		<u>36,431,038</u>	<u>8,909,233</u>	<u>53,314,781</u>	<u>153,888,592</u>	<u>252,543,644</u>
<b>Contingent Liabilities And Commitments, Net</b>		<u>5,334,373</u>	<u>1,188,099</u>	<u>7,126,652</u>	<u>2,761,759</u>	<u>16,410,883</u>
		----- 2017 -----				
		Trade YR'000	Industry YR'000	Services YR'000	Others YR'000	Total YR'000
<b>Financial Assets</b>						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen		21,686,611	-	-	-	21,686,611
Certificates of deposit at Central Bank of Yemen		-	-	-	-	-
Treasury bills, net		166,580,821	-	-	-	166,580,821
Due from banks, net		66,476,782	-	-	-	66,476,782
Direct credit facilities to customers, net		4,840,352	-	533,407	1,868,869	7,242,628
Investments, net		425,730	-	-	-	425,730
Total		<u>260,010,296</u>	<u>-</u>	<u>533,407</u>	<u>1,868,869</u>	<u>262,412,572</u>
<b>Financial Liabilities</b>						
Due to banks		-	-	-	-	-
Customers' deposits		34,897,048	7,468,103	54,195,156	146,157,764	242,718,071
Total		<u>34,897,048</u>	<u>7,468,103</u>	<u>54,195,156</u>	<u>146,157,764</u>	<u>242,718,071</u>
<b>Contingent Liabilities And Commitments, Net</b>		<u>11,270,754</u>	<u>27,905</u>	<u>922,141</u>	<u>521,673</u>	<u>12,742,473</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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35 RISK MANAGEMENT (CONTINUED)

35-a Credit Risk (Continued)

Distribution Of Financial Instruments According To Geographical Locations

	2018					Total YR'000
	Republic of Yemen YR'000	America and Caribbean YR'000	Europe YR'000	Asia YR'000	Africa YR'000	
<b>Financial Assets</b>						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	22,753,908	-	-	-	-	22,753,908
Certificates of deposit at Central Bank of Yemen	1,000,000	-	-	-	-	1,000,000
Treasury bills, net	187,536,410	-	-	-	-	187,536,410
Due from banks, net	43,881,339	-	9,077,533	7,149,226	156,011	60,264,109
Direct credit facilities to customers, net	6,490,638	-	-	-	-	6,490,638
Investments, net	61,200	-	-	280,592	-	341,792
Total	<u>261,723,495</u>	<u>-</u>	<u>9,077,533</u>	<u>7,429,818</u>	<u>156,011</u>	<u>278,386,857</u>
<b>Financial Liabilities</b>						
Due to banks	2,941	-	-	-	-	2,941
Customers' deposits	252,540,703	-	-	-	-	252,540,703
Total	<u>252,543,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,543,644</u>
<b>Contingent Liabilities And Commitments, Net</b>	<u>2,737,655</u>	<u>-</u>	<u>2,212,765</u>	<u>10,796,524</u>	<u>663,939</u>	<u>16,410,883</u>
	----- 2017 -----					
	Republic of Yemen YR'000	America and Caribbean YR'000	Europe YR'000	Asia YR'000	Africa YR'000	Total YR'000
<b>Financial Assets</b>						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,686,611	-	-	-	-	21,686,611
Certificates of deposit at Central Bank of Yemen	-	-	-	-	-	-
Treasury bills, net	166,580,821	-	-	-	-	166,580,821
Due from banks, net	46,595,298	-	8,367,085	11,365,299	149,100	66,476,782
Direct credit facilities to customers, net	7,242,628	-	-	-	-	7,242,628
Investments, net	135,539	-	-	290,191	-	425,730
Total	<u>242,240,897</u>	<u>-</u>	<u>8,367,085</u>	<u>11,655,490</u>	<u>149,100</u>	<u>262,412,572</u>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	-	-	-
Customers' deposits	242,349,915	-	-	368,156	-	242,718,071
Total	<u>242,349,915</u>	<u>-</u>	<u>-</u>	<u>368,156</u>	<u>-</u>	<u>242,718,071</u>
<b>Contingent Liabilities And Commitments, Net</b>	<u>1,706,374</u>	<u>61,276</u>	<u>2,175,826</u>	<u>8,509,160</u>	<u>289,837</u>	<u>12,742,473</u>

35-b Liquidity Risk

Liquidity risk is the risk of Bank's incapability to meet its financial obligations when they fall due under normal circumstances. To limit such risk, the Bank's management in addition to its core deposit base; manages assets with required liquidity in mind, monitors future cash flows and liquidity on a daily basis and arranges diversified funding sources as available in the current conditions in compliance to Central Bank of Yemen circular no. 5 of 2009 on Management of Liquidity Risk.

Liquidity Ratio

The Central Bank of Yemen, in its circular No. 3 of 1997 on Liquidity Ratio, obliges each bank in Yemen to maintain a liquidity ratio of not less than 25% which represents ration of highly liquefied assets to Bank's liabilities. As at 31 December 2018, the Bank's liquidity ratio stood at 92% (31 December 2017: 90%).

Maturity Gap

The maturity gap is a measure of Bank's capability to settle its liabilities from its assets for the same maturity period, which is the difference between the Bank's assets and liabilities for a given maturity period. As at 31 December 2018, the maturity gap was as follows:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

35 RISK MANAGEMENT (CONTINUED)

35-b Liquidity Risk (Continued)

Maturity Gap (Continued)

	2018				
	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6 months - 1 year</i>	<i>More than a year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000
<b>Financial Assets</b>					
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	22,753,908	-	-	-	22,753,908
Certificates of deposit at Central Bank of Yemen	1,000,000	-	-	-	1,000,000
Treasury bills, net	45,027,033	35,684,688	106,824,689	-	187,536,410
Due from banks, net	60,264,109	-	-	-	60,264,109
Direct credit facilities to customers, net	2,703,118	9,151	111,370	3,666,999	6,490,638
Investments, net	-	-	-	341,792	341,792
Other assets	221,372	-	-	6,143,850	6,365,222
Total	<u>131,969,540</u>	<u>35,693,839</u>	<u>106,936,059</u>	<u>10,152,641</u>	<u>284,752,079</u>
<b>Financial Liabilities and Equity</b>					
Due to banks	2,941	-	-	-	2,941
Customers' deposits	198,265,414	24,178,626	29,522,286	574,377	252,540,703
Other liabilities	-	-	7,634,619	3,639,135	11,273,754
Equity	-	-	-	20,934,681	20,934,681
Total	<u>198,268,355</u>	<u>24,178,626</u>	<u>37,156,905</u>	<u>25,148,193</u>	<u>284,752,079</u>
Maturity gap	<u>(66,298,815)</u>	<u>11,515,213</u>	<u>69,779,154</u>	<u>(14,995,552)</u>	<u>-</u>

	2017				
	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6 months - 1 year</i>	<i>More than a year</i>	<i>Total</i>
	YR'000	YR'000	YR'000	YR'000	YR'000
<b>Financial Assets</b>					
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,686,611	-	-	-	21,686,611
Certificates of deposit at Central Bank of Yemen	-	-	-	-	-
Treasury bills, net	67,486,318	46,885,664	52,208,839	-	166,580,821
Due from banks, net	59,019,051	7,457,731	-	-	66,476,782
Direct credit facilities to customers, net	5,545,895	48,336	218,396	1,430,001	7,242,628
Investments, net	-	-	-	425,730	425,730
Other assets	-	1,807	-	5,169,787	5,171,594
Total	<u>153,737,875</u>	<u>54,393,538</u>	<u>52,427,235</u>	<u>7,025,518</u>	<u>267,584,166</u>
<b>Financial Liabilities and Equity</b>					
Due to banks	-	-	-	-	-
Customers' deposits	191,358,049	16,705,814	34,337,963	316,245	242,718,071
Other liabilities	1,253,185	210,835	436,636	4,531,213	6,431,869
Equity	-	-	-	18,434,226	18,434,226
Total	<u>192,611,234</u>	<u>16,916,649</u>	<u>34,774,599</u>	<u>23,281,684</u>	<u>267,584,166</u>
Maturity gap	<u>(38,873,359)</u>	<u>37,476,889</u>	<u>17,652,636</u>	<u>(16,256,166)</u>	<u>-</u>

35-c Interest Rate Risk

Interest rate risk is the risk of effect of interest rates changes on future cash flows or value of financial instruments. The Bank performs a number of procedures to limit the effect of such risk to the minimum level by:

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

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

35 RISK MANAGEMENT (CONTINUED)

35-c Interest Rate Risk (Continued)

Average Interest Rates On Financial Instruments

	2018					
	Yemeni Rial	US Dollar	Sterling Pound	Euro	Saudi Rial	UAE Dirham
Financial Assets	%	%	%	%	%	%
Mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	-	-
Treasury bills, net	16.40	-	-	-	-	-
Due from banks - fixed deposits	-	1.93	0.47	-	1.94	1.22
Direct credit facilities to customers, net	21.00	11.00	-	-	-	-
<b>Financial Liabilities</b>						
Due to banks	-	-	-	-	-	-
Customers' deposits	15.00	0.25	0.25	0.25	0.25	-

	2017					
	Yemeni Rial	US Dollar	Sterling Pound	Euro	Saudi Rial	UAE Dirham
Financial Assets	%	%	%	%	%	%
Mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	-	-
Treasury bills, net	16.20	-	-	-	-	-
Due from banks - fixed deposits	-	1.24	0.25	-	-	0.70
Direct credit facilities to customers, net	21.00	11.00	-	-	-	-
<b>Financial Liabilities</b>						
Due to banks	-	-	-	-	-	-
Customers' deposits	15.00	0.25	0.25	0.25	0.25	-

Interest Rate Sensitivity And Accumulated Interest Rate Sensitivity Gaps

	2018					
	Less than 3 months	3 - 6 months	6 months - 1 year	More than a year	Non interest sensitive	Total
Financial Assets	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	22,753,908	22,753,908
Certificates of deposit at Central Bank of Yemen	1,000,000	-	-	-	-	1,000,000
Treasury bills, net	45,027,033	35,684,688	47,684,688	-	59,140,001	187,536,410
Due from banks, net	60,263,672	-	-	-	437	60,264,109
Direct credit facilities to customers, net	2,703,118	9,151	111,370	3,666,999	-	6,490,638
Investments, net	-	-	-	-	341,792	341,792
Other assets	1,359,139	-	-	-	5,006,083	6,365,222
<b>Total</b>	<b>110,352,962</b>	<b>35,693,839</b>	<b>47,796,058</b>	<b>3,666,999</b>	<b>87,242,221</b>	<b>284,752,079</b>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	-	2,941	2,941
Customers' deposits	87,691,967	14,324,187	29,057,943	-	121,466,605	252,540,702
Other liabilities	1,393,857	227,682	461,874	-	9,190,342	11,273,755
Equity	-	-	-	-	20,934,681	20,934,681
<b>Total</b>	<b>89,085,824</b>	<b>14,551,869</b>	<b>29,519,817</b>	<b>-</b>	<b>151,594,569</b>	<b>284,752,079</b>
Interest rate sensitivity gap	21,267,138	21,141,970	18,276,241	3,666,999	(64,352,348)	-
Accumulated interest rate sensitivity gap	21,267,138	42,409,108	60,685,349	64,352,348	-	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

35 RISK MANAGEMENT (CONTINUED)

35-c Interest Rate Risk (Continued)

Interest Rate Sensitivity And Accumulated Interest Rate Sensitivity Gaps (Continued)

	2017					
	Less than 3 months YR'000	3 - 6 months YR'000	6 months - 1 year YR'000	More than a year YR'000	Non interest sensitive YR'000	Total YR'000
<b>Financial Assets</b>						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	21,686,611	21,686,611
Certificates of deposit at Central Bank of Yemen	-	-	-	-	-	-
Treasury bills, net	67,486,318	46,885,664	52,208,839	-	-	166,580,821
Due from banks, net	48,028,417	7,457,731	-	-	10,990,634	66,476,782
Direct credit facilities to customers, net	5,545,895	48,336	218,396	1,430,001	-	7,242,628
Investments, net	-	-	-	-	425,730	425,730
Other assets	-	1,807	-	-	5,169,787	5,171,594
<b>Total</b>	<b>121,060,630</b>	<b>54,393,538</b>	<b>52,427,235</b>	<b>1,430,001</b>	<b>38,272,762</b>	<b>267,584,166</b>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	-	-	-
Customers' deposits	79,139,576	14,492,489	26,317,228	-	122,768,778	242,718,071
Other liabilities	1,253,185	210,835	436,636	-	4,531,213	6,431,869
Equity	-	-	-	-	18,434,226	18,434,226
<b>Total</b>	<b>80,392,761</b>	<b>14,703,324</b>	<b>26,753,864</b>	<b>-</b>	<b>145,734,217</b>	<b>267,584,166</b>
Interest rate sensitivity gap	40,667,869	39,690,214	25,673,371	1,430,001	(107,461,455)	-
Accumulated interest rate sensitivity gap	40,667,869	80,358,083	106,031,454	107,461,455	-	-

35-d Currency Rate Risk

Currency rate risk is the risk of fluctuation of fair value or future cash flows of a financial instrument evaluated in a foreign currencies due to changes in foreign exchange rates. Due to the nature of the Bank's activities, it deals in different foreign currencies; thus it is exposed to exchange rate risk. In order to decrease this risk, with respect to Central Bank of Yemen circular no. 6 of 1998 on Exposure to Foreign currencies Risk, the Bank should not keep a currency position of more than 25% for different currencies and 15% for a single currency to capital and reserves as defined in the circular no. 2 of 1997 on Capital Adequacy Ratio, whether the position is long or short.

Foreign Currencies Exchange Rates

In compliance to the Office of Governor of Central Bank of Yemen, Head Office / Aden resolution to cancel dealing with exchange rate of the US Dollar on the basis of a fixed exchange rate at YR 250 for the US Dollar issued on 14 August 2017, the Bank deals with the prevailing market exchange rate for the US Dollar and other foreign currencies in trade in the Yemeni market in accordance with the Central Bank's Exchange Rate Bulletin from its Head Office in Aden which is based on the exchange rate management base officially approved on the floating basis and evaluates foreign currencies positions in financial positions of the Bank on the basis of exchange rate bulletin issued by Central Bank starting from 15 August 2017.

As the exchange rate bulletins attached to the Central Bank of Yemen, Aden Head Office / Aden instructions on monthly closing of accounts and valuation of foreign currencies positions is limited to the exchange rate of the US Dollar (2017: US Dollar and Saudi Riyal) the Bank adopts a mechanism that is based on a reference to determine foreign currencies exchange rates as exchange rates of foreign currencies the Bank deals with are extracted from a website according to the US Dollar exchange rate stated in the exchange rate bulletin issued by Central Bank of Yemen Head Office / Aden. The exchange rate bulletin issued by the Bank under this mechanism is approved by the Vice General Manager for Banking Departments.

Foreign Currencies Positions

Using exchange rates resulting from the foreign currencies exchange rates mechanism mentioned above for evaluating foreign currencies positions, the ratio of net foreign currencies positions of the Bank to core capital and reserves on 31 December 2018 were as follows:

	2018			Ratio to core capital and reserves	Ratio to core capital and reserves
	Assets Long position YR'000	Liabilities Short position YR'000	Net foreign currency positions YR'000	%	%
Sterling pound	6,005,162	(2,215,295)	3,789,867	22	22
UAE Dirham	2,720,895	(14,691)	2,706,204	16	27
Euro	2,283,536	(3,414,227)	(1,130,691)	(7)	(3)
US Dollar	64,375,040	(66,433,120)	(2,058,080)	(12)	(75)
Saudi Rial	1,383,859	(10,090,797)	(8,706,938)	(51)	(36)
Others	82,912	(12,209)	70,703	-	1
<b>Total</b>	<b>76,851,404</b>	<b>(82,180,339)</b>	<b>(5,328,935)</b>	<b>(32)</b>	<b>(64)</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

35 RISK MANAGEMENT (CONTINUED)

35-d Currency Rate Risk (Continued)

Foreign Currencies Positions (Continued)

For the year ended 31 December 2018, net foreign currencies positions exceedings for a number of foreign currencies as well as the total of currencies decreased in comparison to the prior year as a result of a number of measures taken by management to comply with the rates specified in the Central Bank of Yemen circular no. 6 of 1998 on Exposure to Foreign currencies Risk, under the situation the country is going through (note 1-b).

Impact Of Changes In Fair Value Of Currency (Foreign currencies Sensitivity Analysis)

To calculate the impact of changes in fair value of currency, with respect to Central Bank of Yemen, Head Office/ Aden instructions, the Bank took in account the exchange rates it uses in evaluating significant foreign currencies positions and the average exchange rate of these currencies in accordance with market rates as per specialised electronic sites, shown below:

----- Exchange rates for 2018 -----			
	Used by the Bank	Market	Difference
	YR	YR	Increase / (Decrease)
			YR
US Dollar	380.00	524.500	(144.5)
Sterling Pound	482.11	675.00	(192.89)
Euro	434.38	586.50	(152.12)
Saudi Rial	101.30	139.125	(37.825)
UAE Dirham	103.46	138.50	(35.04)

----- Exchange rates for 2017 -----			
	Used by the Bank	Market	Difference
	YR	YR	Increase / (Decrease)
			YR
US Dollar	393.00	455.00	(62)
Sterling Pound	530.78	614.52	(83.74)
Euro	471.64	546.05	(74.41)
Saudi Rial	103.00	119.25	(16.25)
UAE Dirham	107.01	121.44	(14.43)

Based on exchange rates above, the following table shows the impact of decrease of Yemeni Rial exchange rate against significant foreign currencies and the expected effect on statements of comprehensive income and changes in equity, with all other factors held constant.

	Impact on statements of comprehensive income and changes in equity increase / (decrease)	
	2018	2017
	YR'000	YR'000
US Dollar	(782,612)	(1,879,096)
Sterling pound	1,516,308	544,896
Euro	(395,968)	(76,717)
Saudi Rial	(3,251,135)	(900,608)
UAE Dirham	916,542	570,173
Total	<b>(1,996,865)</b>	<b>(1,741,352)</b>

36 CAPITAL MANAGEMENT

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

36-a Capital Adequacy

Capital adequacy is Bank's capability to settle its obligations and confront any losses that might arise in the future. It is represented by the ratio of capital to its risks. The Central Bank of Yemen, in accordance with its circular no. 2 of 1997 amending circular no. 3 of 1996 on Minimum Limit Of Capital Ratio To Risk - Weighted Assets (Capital Adequacy) requires each bank in Yemen to maintain a ratio of total capital to the risk - weighted assets at or above 8%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the Year Ended 31 December 2018

**36 CAPITAL MANAGEMENT (CONTINUED)**

**36-a Capital Adequacy (Continued)**

With respect to provisions of the circular above the total capital of the Bank is divided in two tiers:

- Core capital: which comprises the paid capital, statutory and general reserves. Investments in any other local bank or financial company are deducted from Bank's core capital.
- Capital cushions: which comprises the surplus on revaluation of property, plant and equipment reserve, available for sale investments fair value accumulated changes reserve, general provision for losses on direct and indirect credit facilities and provision for doubtful debts.

The risk - weighted assets are measured by means of a hierarchy of four risk weights classified according to the level of credit, market and operation risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off statement of financial position exposure, with some adjustments to reflect the more contingent nature of potential losses.

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

For the year ended 31 December 2018, capital adequacy ratio was as follows:

	<b>2018</b>	<b>2017</b>
	<b>YR'000</b>	<b>YR'000</b>
Capital		
Core capital	<b>17,041</b>	15,773
Capital cushions	<b>1,987</b>	1,716
Total capital	<b>19,028</b>	17,489
Risk- weighted assets		
On statement of financial position	<b>11,670</b>	12,743
Off statement of financial position	<b>12,802</b>	12,743
Total risk - weighted assets	<b>24,472</b>	25,486
Adequacy ratio of:		
Core capital	<b>70%</b>	62%
Total capital	<b>78%</b>	69%

**37 TRUST ACTIVITIES**

The Bank does not undertake any activities related to the conservation and management of assets for or on behalf of third parties except for the Housing Project which is managed by the Bank on behalf of the State in accordance with the minutes of the expanded meeting held on 6 April 2000 and approved by H.E. Minister of Finance on 29 April 2000.

The Housing Project was established in Abdul Aziz Abdul Wali area, Mansoura, Aden City, with respect to Council of Ministers Decree No. 52 of 1988 with a self -financing system from the value of apartments sold in cash and installments to build a number of housing units for Yemeni immigrants and allocating some for the Ministry of Construction and Housing and entitled employees of the National Bank of Yemen.

**38 CAPITAL COMMITMENTS**

As at 31 December 2018 the capital commitments amounted USD 6,250 equivalent to YR'000 2,375 (31 December 2017: USD 6,250 equivalent to YR'000 2,456) for final 50% payment of the value of the Design Contract of Head Office building and a main branch building in Aden.

**39 LEGAL STATUS AND CONTINGENT ASSETS AND LIABILITIES**

During the year ended 31 December 2018, the Bank had cases filed against non-performing customers for not paying their debts and cases filed against the Bank by customers. While for some cases the verdict was in favor of the Bank, the related legal procedures have not been completed, yet. Some other cases are still in concerned court. Management has made adequate provisions for non-performing loans.

**40 COMPARATIVE FIGURES**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.

**41 SUBSEQUENT EVENTS**

**41-a Final Payment Of Zakat Obligation For The Year 2018**

On 2 January 2019, the Bank completed payment of the remaining of Zakat obligation for the year (Note 14) as set out in the following table and received clearance from the Zakat General Directorate - Capital / Aden on 4 February 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2018

**41 SUBSEQUENT EVENTS (CONTINUED)**

**41-a Final Payment Of Zakat Obligation For The Year 2018 (Continued)**

	<b>2019</b>
	YR'000
Aden	59,500
Taiz	2,000
Hadramout – Coast	600
Hadramout – Vally	400
Hodidah	-
Total	<u>62,500</u>

**41-b Income Tax For The Year 2018**

The Bank paid installments of income tax liability for the year ended 31 December 2018 (note 15) as follows:

**Date**

	YR'000
<b>2019</b>	
27 March	500,000
14 April	300,000
Total	<u>800,000</u>

**42 Approving The Financial Statements**

These financial statements were approved by management and the Board of Directors on 18 September 2019, and it was decided to submit them to the H.E. Minister of Finance, the representative of the Government, who owns the Bank in a subsequent period.

## **Dahman & Co.**

Auditors . Accountants . Advisors

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