

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**AND INDEPENDENT AUDITOR'S REPORT**

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
AND INDEPENDENT AUDITOR'S REPORT**

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

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

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

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

We have audited the accompanying financial statements of National Bank of Yemen (the Bank), which comprise the statement of financial position as at December 31, 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditor's Responsibility*

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

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

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



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### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Bank of Yemen as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen.

### *Emphasis of Matter*

We draw attention to Note (43) to the financial statements which describes the impact of the continuing economic crisis and political turmoil in Yemen and their final resolution are unpredictable and may adversely affect the Yemeni economy and the operations of the Bank. Our opinion is not qualified in respect of this matter

### **Report on Other Legal and Regulatory Requirements**

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books.

M. Zohdi Mejanni  
*Associated Accountant*

Sana'a, November 27, 2016



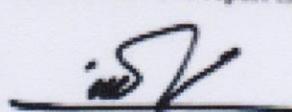
English Translation of the Original Arabic Text

**NATIONAL BANK OF YEMEN**

**STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2015**

		<b>2015</b>	<b>2014</b>
	<u>Note</u>	<u>YR 000s</u>	<u>YR 000s</u>
<b>ASSETS</b>			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	7	24,867,063	11,424,609
Due from banks	8	24,461,269	28,830,100
Treasury bills - held to maturity	9	116,304,192	92,032,069
Loans and advances (net)	10	7,600,249	11,962,251
Available-for-sale investments	13	239,875	270,024
Debit balances and other assets (net)	14	1,443,957	811,938
Property and equipment (net)	16	<u>2,600,360</u>	<u>2,760,446</u>
<b>TOTAL ASSETS</b>		<u>177,516,965</u>	<u>148,091,437</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	17	503	569
Customers' deposits	18	159,721,557	129,955,413
Credit balances and other liabilities	19	3,407,412	2,642,436
Other provisions	20	161,160	207,372
<b>Total Liabilities</b>		<u>163,290,632</u>	<u>132,805,790</u>
<b>EQUITY</b>			
Share capital		10,000,000	10,000,000
Legal reserve	21-a	3,030,112	3,030,112
General reserve	21-b	1,545,490	1,545,490
Revaluation of property and equipment surplus reserve	21-c	639,762	639,762
Fair value reserve	21-d	50,090	50,090
Proposed cash dividends	21-e	-	20,193
Accumulated (Loss)		(1,039,121)	-
<b>Total Equity</b>		<u>14,226,333</u>	<u>15,285,647</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>177,516,965</u>	<u>148,091,437</u>
Contingent liabilities and commitments (net)	22	<u>13,739,827</u>	<u>20,154,217</u>

The attached notes on pages 8 to 52 are an integral part of these financial statements.  
Independent auditor's report is set out on pages 1 and 2.

  
Mohamed Abdulla Muqbil Alameery  
Chairman

  
Ezzam Ahmed Alawi Alsaqaf  
General Manager



English Translation of the Original Arabic Text

**NATIONAL BANK OF YEMEN**

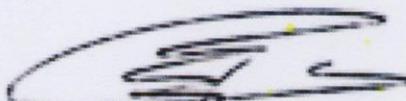
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Note	2015 YR 000s	2014 YR 000s
Interest income	23	16,213,116	15,621,967
Less: interest expenses	24	( 11,981,391)	( 11,671,717)
Net interest income		<u>4,231,725</u>	<u>3,950,250</u>
Fee and commission income	25	337,041	558,140
Less: Fee and commission expenses		( 3,875)	( 4,088)
Net fee and commission income		<u>333,166</u>	<u>554,052</u>
		4,564,891	4,504,302
Income from available for sale investments		36,473	33,473
Gain on foreign currency transactions	26	97,599	1,985
Other operating income	27	<u>897,348</u>	<u>936,672</u>
Operating income		5,596,311	5,476,432
Less: provisions	28	( 2,161,020)	( 793,747)
Less: staff costs	29	( 3,483,891)	( 3,539,279)
Less: depreciation of property and equipment	16	( 162,526)	( 154,023)
Less: other expenses	30	( 827,995)	( 953,324)
Net (Loss) profit of the year before income tax		( 1,039,121)	36,059
Less: income tax for the year	19-a	-	( 7,212)
Net (Loss) profit for the year after tax		( 1,039,121)	28,847
Other comprehensive income		-	-
Total (Loss) comprehensive income for the year		( 1,039,121)	28,847
(Loss) Earnings per share	31	( YR 103.91)	YR 2.9

The attached notes on pages 8 to 52 are an integral part of these financial statements.  
Independent auditor's report is set out on pages 1 and 2.



**Mohamed Abdulla Muqbil Alamery**  
Chairman



**Esam Ahmed Alawi Alsaqaf**  
General Manager



**English Translation of the Original Arabic Text**

**NATIONAL BANK OF YEMEN**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Share Capital YR 000s</b>	<b>Legal Reserve YR 000s</b>	<b>General Reserve YR 000s</b>	<b>Revaluation of Property Surplus Reserve YR 000s</b>	<b>Fair Value Reserve YR 000s</b>	<b>Proposed Cash Dividends YR 000s</b>	<b>Accumulated (loss) YR 000s</b>	<b>Total YR 000s</b>
<b><u>Year 2015</u></b>								
Balance as at January 1, 2015	<u>10,000,000</u>	<u>3,030,112</u>	<u>1,545,490</u>	<u>639,762</u>	<u>50,090</u>	<u>20,193</u>	<u>-</u>	<u>15,285,647</u>
<b>Total comprehensive income for the year</b>								
Net loss for the year	-	-	-	-	-	-	( 1,039,121)	( 1,039,121)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-
Total comprehensive (loss) for the year	-	-	-	-	-	-	( 1,039,121)	( 1,039,121)
<b>Transactions with owners, recorded directly in equity</b>								
Dividends paid	-	-	-	-	-	( 20,193)	-	( 20,193)
<b>Total transactions with owners</b>	-	-	-	-	-	( 20,193)	-	( 20,193)
Balance as at December 31, 2015	<u>10,000,000</u>	<u>3,030,112</u>	<u>1,545,490</u>	<u>639,762</u>	<u>50,090</u>	<u>-</u>	<u>( 1,039,121)</u>	<u>14,226,333</u>

**English Translation of the Original Arabic Text**

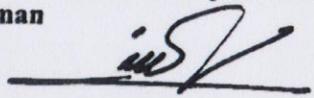
**NATIONAL BANK OF YEMEN**

**STATEMENT OF CHANGES IN EQUITY (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

The attached notes on pages 8 to 52 are an integral part of these financial statements.  
Independent auditor's report is set out on pages 1 and 2.

**Mohamed Abdulla Muqbil Alamery**  
Chairman



**Esam Ahmed Alawi Alsaqaf**  
General Manager



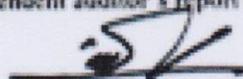
English Translation of the Original Arabic Text

**NATIONAL BANK OF YEMEN**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

		2015 YR 000s	2014 YR 000s
<b>Cash flows from operating activities</b>			
Net (Loss) profit for the year before income tax		( 1,039,121)	36,059
<b>Adjustments in:</b>			
Depreciation of property and equipment	16	162,526	154,023
Provisions provided during the year	28	2,161,020	793,747
Revaluation differences of provisions in foreign currencies		( 5,967)	( 8,304)
Provisions reversed	27	888,676)	( 900,666)
Provisions used during the year		( 90,112)	( 47,655)
Loss on foreign currency translation (unrealized)		10,628	8,092
		110,299	15,296
<b>Changes in:</b>			
Due from banks maturing after three months		882,927	( 1,028,494)
Reserve balances with the Central Bank of Yemen		( 1,847,357)	( 911,336)
Treasury bills maturity after three months		16,915,873	( 13,619,153)
Loans and advances		3,029,090	213,290)
Debt balances and other assets		( 845,439)	( 167,357)
Due to banks		( 66)	( 2,205)
Customers' deposits		29,992,694	9,150,191
Credit balances and other liabilities		772,188	227,857
Income tax paid		( 7,212)	( 264,384)
Net cash from (used in) operating activities		19,582,997	( 6,793,275)
<b>Cash flows from investing activities</b>			
Cash payments for acquisition of property and equipment		( 65,756)	( 188,985)
Decrease (increase) in available-for-sale investments		30,149	( 30,213)
Net cash (used in) investing activities		( 35,607)	( 219,198)
<b>Cash flows from financing activities</b>			
Dividends paid		( 20,192)	( 631,423)
Net cash (used in) financing activities		( 20,192)	( 631,423)
Net change in cash and cash equivalents		19,527,197	( 7,643,896)
Cash and cash equivalents at the beginning of the year		62,162,771	69,599,197
Effect of exchange rate fluctuation on cash held		( 10,030)	207,470
Cash and cash equivalents at the end of the year		111,629,938	62,162,771
<b>Cash and cash equivalents at the end of the year consist of:</b>			
Cash on hand and reserve balances with CBY	7	24,867,063	11,424,809
Due from banks	8	24,461,269	28,830,100
Treasury bills - held to maturity (net)	9	116,304,192	82,032,062
		165,632,524	132,286,971
Less: Reserve balances with CBY		( 11,703,661)	( 9,856,304)
Less: Due from banks due after three months		( 2,148,900)	( 3,231,805)
Less: Treasury bills due after three months (net)		( 40,190,025)	( 57,015,898)
		111,629,938	62,162,771

The attached notes on pages 8 to 52 are an integral part of these financial statements.  
Independent auditor's report is set out on pages 1 and 2.

  
Mohamed Abdulla Muqbil Alameery  
Chairman

  
Ezzam Ahmed Alawi Alhaqaf  
General Manager



**NATIONAL BANK OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**1. BACKGROUND INFORMATION**

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

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

*2.1 Statement of compliance*

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

The effect of these deviations is immaterial on the financial statements of the Bank as at December 31, 2015.

- The financial statements were approved by the Board of Directors on November 27, 2016.

*2.2 Basis of measurements*

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

*2.3 Functional and presentation currency*

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

2.4 *Significant accounting judgments and estimates*

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

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

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note nos. 3-4, 3-8, 3-9, 3-10, 5, 11, 15, 16, 19, and 20.

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

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

- Classification of financial asset and financial liability

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

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

- Valuation of financial instruments

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

b. Key source of estimating uncertainty

- Impairment of assets

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

- Impairment of available-for-sale investments

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

## English Translation of the Original Arabic Text

### NATIONAL BANK OF YEMEN

#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

- Useful lives of property and equipment

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

- Contingent liability arising from litigations

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the new standards and interpretations that become applicable and were adopted during the year. The Bank does not have a material impact an adoption of these amendments.

#### New standards and interpretations adopted

During the year new standards, amendments to standards and interpretations have become effective. These amendments are listed below:

a. Annual Improvements to IFRSs 2010 - 2012 Cycle

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

These amendments are not applicable to the Bank.

b. Annual Improvements to IFRSs 2011 - 2013 Cycle

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

These amendments are not applicable to the Bank.

c. Amendments to IAS 19 Employee Benefits: clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

Adoption of this amendment does not have material impact on the Bank.

#### 3.1 Foreign currency transactions

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

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015

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

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

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

3.2 Financial assets and financial liabilities

a. Recognition and Initial Measurement

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

b. Classification

- **Financial assets**

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

1. *Loans and receivables*

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

2. *Held-to-maturity financial assets*

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

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015

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

3. *Available-for-sale investments*

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

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

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

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

- **Financial liabilities**

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

c. **Derecognition**

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

**NATIONAL BANK OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

d. Offsetting financial assets and liabilities

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

e. Measurement principles

Financial assets are measured at amortised cost or fair value

- Amortised cost measurement

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

- Fair value measurement

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

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

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

f. Identification and measurement of impairment

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

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

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

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

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

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### NATIONAL BANK OF YEMEN

#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

##### 3.3 Revenue recognition

- Interest income and expenses for all interest bearing financial instruments are recognized in the statement of profit or loss and other comprehensive income using the effective interest rate method except for interest on non-performing credit facilities, in order to comply with the requirements of CBY circular No. 6 of 1996, the Bank does not accrue interest on non-performing loans and advances. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.  
The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.  
The effective interest rate is a method of calculating the amortised costs of financial assets and financial liabilities and of allocating the interest income and expenses over the relevant period.
- Income from held to maturity investment securities is recognized based on the effective interest rate method.
- Dividends income is recognized when the right to receive income is established.
- In accordance with CBY instructions, the reversed provisions, no longer required provisions, are recorded in the statement of profit or loss and other comprehensive income under "other operating income".
- Fee and commission income are recognized when the related services are performed.

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

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

<u>Performing loans and advances including watchlist accounts</u>	2% (2014: 1%)
<u>Performing contingent liabilities</u>	1 %
<u>Non-performing loans and advances and contingent liabilities:</u>	
Substandard debts	15 %
Doubtful debts	45 %
Bad debts	100 %

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

**3.5 Contingent liabilities and commitments**

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

**3.6 Statement of cash flows**

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

**3.7 Cash and cash equivalents**

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

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

**3.8 Property, equipment and depreciation**

**a. Recognition and measurement**

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

b. Subsequent costs

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

c. Depreciation

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

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

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

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

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

**3.9 Impairment of Non-Financial Assets**

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in the statement of profit or loss and other comprehensive income to the extent that carrying values do not exceed the recoverable amounts.

**3.10 Other provisions**

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

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#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

3.12 Lease contracts

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

3.13 Taxation

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

3.14 Zakat due on equity

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

3.15 End of service benefits

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

3.16 Dividends on ordinary shares

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**3.17 *Earnings per share***

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

**3.18 *Comparatives***

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

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

**IFRS 15** *Revenue from contracts with customer*: issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing all revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC Customer loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Bank is assessing potential impact of this standard on its financial statements.

**IAS 16 / 38** IAS 16 and IAS 38 clarifies that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

**IFRS 9** IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 is affective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Bank is assessing potential impact of this standard on its financial statements.

**IAS 27** IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associated in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

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### NATIONAL BANK OF YEMEN

#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

##### *Annual improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

- IFRS 5            Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.
- IFRS 7            The amendment clarifies that in a servicing contract an entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts must be done retrospectively. However, the required disclosures are required when the entity first applies the amendments.  
In addition, the amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.
- IAS 19            The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.
- IAS 34            The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.
- IAS 1            The amendments to IAS 1 Presentation of Financial Statements clarify existing IAS 1 requirements. The amendments clarify:
- The materiality requirements in IAS 1.
  - Those specific line items in the statement of profit or loss and other comprehensive income (OCI) and the statement of financial position that may be disaggregated.
  - That entities have flexibility to arrange the order in which they present the notes to financial statements.
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
- Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

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These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

**5. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT**

**5.1 *Financial instruments***

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

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

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

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

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

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

The fair values for available-for-sale investments comprise YR 239,875 thousand as at December 31, 2015 (YR 270,024 thousand as at December 31, 2014) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

- c. Financial instruments for which fair value approximates carrying value  
For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.
- d. Fair value of financial instruments  
The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

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

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

	<u>Held to Maturity YR 000s</u>	<u>Loans and Advances YR 000s</u>	<u>Available- For-Sale YR 000s</u>	<u>Amortised Cost / Others YR 000s</u>	<u>Total Carrying Amount YR 000s</u>	<u>Fair Value YR 000s</u>
<b><u>At December 31, 2015</u></b>						
<b>Financial assets</b>						
Cash on hand and reserve balances with CBY	-	24,867,063	-	-	24,867,063	24,867,063
Due from banks	-	24,461,269	-	-	24,461,269	24,461,269
Treasury bills – held to maturity	116,304,192	-	-	-	116,304,192	116,304,192
Loans and advances (net)	-	7,600,249	-	-	7,600,249	7,600,249
Available-for-sale- investments	-	-	239,875	-	239,875	239,875
	<u>116,304,192</u>	<u>56,928,581</u>	<u>239,875</u>	<u>-</u>	<u>173,472,648</u>	<u>173,472,648</u>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	503	503	503
Customers' deposits	-	-	-	159,721,557	159,721,557	159,721,557
	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,722,060</u>	<u>159,722,060</u>	<u>159,722,060</u>
	<u>Held to Maturity YR 000s</u>	<u>Loans and Advances YR 000s</u>	<u>Available- For-Sale YR 000s</u>	<u>Amortised Cost / Others YR 000s</u>	<u>Total Carrying Amount YR 000s</u>	<u>Fair Value YR 000s</u>
<b><u>At December 31, 2014</u></b>						
<b>Financial assets</b>						
Cash on hand and reserve balances with CBY	-	11,424,609	-	-	11,424,609	11,424,609
Due from banks	-	28,830,100	-	-	28,830,100	28,830,100
Treasury bills – held to maturity	92,032,069	-	-	-	92,032,069	92,032,069
Loans and advances (net)	-	11,962,251	-	-	11,962,251	11,962,251
Available-for-sale- investments	-	-	270,024	-	270,024	270,024
	<u>92,032,069</u>	<u>52,216,960</u>	<u>270,024</u>	<u>-</u>	<u>144,519,053</u>	<u>144,519,053</u>
<b>Financial Liabilities</b>						
Due to banks	-	-	-	569	569	569
Customers' deposits	-	-	-	129,955,413	129,955,413	129,955,413
	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,955,982</u>	<u>129,955,982</u>	<u>129,955,982</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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5.2 Risk management of financial instruments

- Risk management framework

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

- Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:

- Asset and Liability Committee

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

- Audit Committee

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

- Risk measurement

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

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

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

a. Credit risk

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

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**Management of credit risk**

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

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

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

<b><u>Grade</u></b>	<b><u>Classification</u></b>	<b><u>2015 YR 000s</u></b>	<b><u>2014 YR 000s</u></b>
1 - 2	Performing and watchlist	<u>2,823,199</u>	<u>4,586,555</u>

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

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

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

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
Cash on hand and reserve balances with CBY (excluding cash on hand)	11,703,661	9,856,304
Due from bank	24,461,269	28,830,100
Treasury bill - held to maturity	116,304,192	92,032,069
Loans and advances (net)	7,600,249	11,962,251
Available - for - sale investments	239,875	270,024
Debit balances and other assets (excluding advance payments) (net)	<u>1,043,478</u>	<u>461,402</u>
	161,352,724	143,412,150
Contingent liabilities and commitments	<u>15,254,987</u>	<u>22,504,117</u>
Total credit risk exposure	<u>176,607,711</u>	<u>165,916,267</u>

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

	<b><u>2015</u></b>		<b><u>2014</u></b>	
	<b><u>Gross</u></b> <b><u>Maximum</u></b> <b><u>Exposure</u></b> <b><u>YR 000s</u></b>	<b><u>Net</u></b> <b><u>Maximum</u></b> <b><u>Exposure</u></b> <b><u>YR 000s</u></b>	<b><u>Gross</u></b> <b><u>Maximum</u></b> <b><u>Exposure</u></b> <b><u>YR 000s</u></b>	<b><u>Net</u></b> <b><u>Maximum</u></b> <b><u>Exposure</u></b> <b><u>YR 000s</u></b>
Government	148,870,791	-	106,203,005	-
Finance	4,483,641	3,993,131	27,820,653	24,785,492
Industry	334,399	334,399	929,484	929,484
General trade	4,450,760	4,450,760	6,920,642	6,920,642
Contractors	-	-	276,822	276,822
Consumer	40,483	40,483	960,862	960,862
Others	<u>3,172,650</u>	<u>3,172,650</u>	<u>300,682</u>	<u>300,682</u>
	161,352,724	11,991,423	143,412,150	34,173,984
Contingent liabilities and commitments	<u>15,254,987</u>	<u>13,660,840</u>	<u>22,504,117</u>	<u>20,154,216</u>
	<u>176,607,711</u>	<u>25,652,263</u>	<u>165,916,267</u>	<u>54,328,200</u>

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

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b. Liquidity risk

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

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

Management liquidity risk

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

The Central Bank of Yemen Circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity ratio as at December 31, 2015 was 89.6% (as at December 31, 2014 was 85%).

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

	<b>2015</b>				
	<b>Due within three months YR 000s</b>	<b>Due from three to six months YR 000s</b>	<b>Due from six months to one year YR 000s</b>	<b>Due over one year YR 000s</b>	<b>Total YR 000s</b>
<u>Liabilities</u>					
Due to banks	503	-	-	-	503
Customers' deposits	87,884,605	10,454,680	21,899,342	39,482,930	159,721,557
Credit balances and other liabilities	<u>2,881,090</u>	<u>170,072</u>	<u>356,250</u>	<u>-</u>	<u>3,407,412</u>
Total liabilities	<u>90,766,198</u>	<u>10,624,752</u>	<u>22,255,592</u>	<u>39,482,930</u>	<u>163,129,472</u>
	<b>2014</b>				
	<b>Due within three months YR 000s</b>	<b>Due from three to six months YR 000s</b>	<b>Due from six months to one year YR 000s</b>	<b>Due over one year YR 000s</b>	<b>Total YR 000s</b>
<u>Liabilities</u>					
Due to banks	569	-	-	-	569
Customers' deposits	91,677,049	12,507,315	25,601,167	169,882	129,955,413
Credit balances and other liabilities	<u>2,142,355</u>	<u>161,578</u>	<u>338,503</u>	<u>-</u>	<u>2,642,436</u>
Total liabilities	<u>93,819,973</u>	<u>12,668,893</u>	<u>25,939,670</u>	<u>169,882</u>	<u>132,598,418</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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c. Market risk

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

Management of market risk

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

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

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

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

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

Exposure to interest rate risk - non-trading portfolios

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

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

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

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

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

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	2015						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
<b><u>Assets</u></b>								
Cash on hand and reserve balances with CBY	-	-	-	-	24,867,063	24,867,063	-	-
Due from banks	21,479,544	-	-	-	2,981,725	24,461,269	-	1.03
Treasury bills - held to maturity	76,204,167	27,179,530	12,920,495	-	-	116,304,192	16.85	-
Loans and advances (net)	1,926,186	367,211	5,266,306	40,546	-	7,600,249	21	8
Available - for - sale investments	-	-	-	-	239,875	239,875	-	-
Other assets (net)	1,182	-	-	-	4,043,135	4,044,317	-	-
Total Assets	<u>99,611,079</u>	<u>27,546,741</u>	<u>18,186,801</u>	<u>40,546</u>	<u>32,131,798</u>	<u>177,516,965</u>		
<b><u>Liabilities and Equity</u></b>								
Due to banks	-	-	-	-	503	503	-	-
Customers' deposits	87,884,606	10,454,680	21,899,341	-	39,482,930	159,721,557	15.00	0.25
Credit balances and other liabilities	1,156,247	170,072	356,250	-	1,724,843	3,407,412	-	-
Other provisions	-	-	-	-	161,160	161,160	-	-
Equity	-	-	-	-	14,226,333	14,226,333	-	-
Total Liabilities and Equity	<u>89,040,853</u>	<u>10,624,752</u>	<u>22,255,591</u>	<u>-</u>	<u>55,595,769</u>	<u>177,516,965</u>		
Interest rate sensitivity gap	<u>10,570,226</u>	<u>16,921,989</u>	<u>( 4,068,790)</u>	<u>40,546</u>	<u>( 23,463,971)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>10,570,226</u>	<u>27,492,215</u>	<u>23,423,425</u>	<u>23,463,971</u>	<u>-</u>	<u>-</u>		

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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	<b>2014</b>					<b>Total YR 000s</b>	<b>Average interest rates</b>	
	<b>Less than 3 months YR 000s</b>	<b>From 3 months to 6 months YR 000s</b>	<b>From 6 months to 1 year YR 000s</b>	<b>Over 1 year YR 000s</b>	<b>Non- interest sensitive YR 000s</b>		<b>Local Currency %</b>	<b>Foreign Currency %</b>
<b><u>Assets</u></b>								
Cash on hand and reserve balances with CBY	-	-	-	-	11,424,609	11,424,609	-	-
Due from banks	24,169,778	2,745,575	506,230	-	1,408,517	28,830,100	-	1.03
Treasury bills - held to maturity	35,016,171	20,233,690	36,782,208	-	-	92,032,069	15.97	-
Loans and advances (net)	2,152,489	393,184	7,771,360	1,645,218	-	11,962,251	21.00	8.00
Available - for - sale investments	-	-	-	-	270,024	270,024	-	-
Other assets (net)	<u>3,661</u>	<u>715</u>	<u>132</u>	<u>-</u>	<u>3,567,876</u>	<u>3,572,384</u>	-	-
Total Assets	<u>61,342,099</u>	<u>23,373,164</u>	<u>45,059,930</u>	<u>1,645,218</u>	<u>16,671,026</u>	<u>148,091,437</u>		
<b><u>Liabilities and Equity</u></b>								
Due to banks	-	-	-	-	569	569	-	-
Customers' deposits	68,067,224	10,359,372	21,702,704	-	29,826,113	129,955,413	15.00	0.25
Credit balances and other liabilities	1,061,661	161,578	338,503	-	1,080,694	2,642,436	-	-
Other provisions	-	-	-	-	207,372	207,372	-	-
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,285,647</u>	<u>15,285,647</u>	-	-
Total Liabilities and Equity	<u>69,128,885</u>	<u>10,520,950</u>	<u>22,041,207</u>	<u>-</u>	<u>46,400,395</u>	<u>148,091,437</u>		
Interest rate sensitivity gap	( 7,786,786)	<u>12,852,214</u>	<u>23,018,723</u>	<u>1,645,218</u>	( 29,729,369)	<u>-</u>		
Cumulative interest rate sensitivity gap	( 7,786,786)	<u>5,065,428</u>	<u>28,084,151</u>	<u>29,729,369</u>	<u>-</u>	<u>-</u>		

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**Interest rate sensitivity**

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

**December 31, 2015**

<u>Currency</u>	<u>The effect of increase in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap</u> YR 000s	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income)</u> YR 000s	<u>Sensitivity of equity</u> YR 000s
Yemeni Rials	20,493,759	409,875	327,900
US Dollars	1,808,420	36,168	28,934
Sterling Pound	358,091	7,162	5,730
Euro	8,277	166	133
Other Currencies	754,878	15,098	12,078

<u>Currency</u>	<u>The effect of decrease in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap</u> YR 000s	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income)</u> YR 000s	<u>Sensitivity of equity</u> YR 000s
Yemeni Rials	20,493,759	( 409,875)	( 327,900)
US Dollars	1,808,420	( 36,168)	( 28,934)
Sterling Pound	358,091	( 7,162)	( 5,730)
Euro	8,277	( 166)	( 133)
Other Currencies	754,878	( 15,098)	( 12,078)

**December 31, 2014**

<u>Currency</u>	<u>The effect of increase in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap</u> YR 000s	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income)</u> YR 000s	<u>Sensitivity of equity</u> YR 000s
Yemeni Rials	24,889,888	497,798	398,238
US Dollars	2,380,479	47,610	38,088
Sterling Pound	546,169	10,923	8,738
Euro	182,539	3,651	2,921
Other Currencies	85,076	1,701	1,361

<u>Currency</u>	<u>The effect of decrease in interest rate 2%</u>		
	<u>Cumulative Interest Rate Sensitivity Gap</u> YR 000s	<u>Sensitivity of Net Interest Income (Statement of Profit or Loss and other Comprehensive Income)</u> YR 000s	<u>Sensitivity of equity</u> YR 000s
Yemeni Rials	24,889,888	( 497,798)	( 398,238)
US Dollars	2,380,479	( 47,610)	( 38,088)
Sterling Pound	546,169	( 10,923)	( 8,738)
Euro	182,539	( 3,651)	( 2,921)
Other Currencies	85,076	( 1,701)	( 1,361)

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### NATIONAL BANK OF YEMEN

#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

d. Exposure to exchange rate risk for foreign currency

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

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

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

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

	2015					Total YR 000s
	US Dollars YR 000s	Sterling Pound YR 000s	Euro YR 000s	Saudi Rial YR 000s	Others currencies YR 000s	
Assets	41,414,890	1,934,281	2,401,015	7,663,302	290,286	53,703,774
Liabilities	( 43,222,545)	( 1,575,526)	( 2,409,002)	( 8,244,840)	( 130,633)	( 55,582,546)
Net currency position	( 1,807,655)	358,755	( 7,987)	( 581,538)	159,653	( 1,878,772)

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

Effect of change in fair value of currency

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

<u>Change in currency rate (1%)</u>	Effect on Statement of Profit or Loss and other Comprehensive Income increase / ( decrease)	
	2015 YR 000s	2014 YR 000s
US\$	( 18,077)	23,805
Sterling Pound	3,588	5,462
EURO	( 80)	1,825
Saudi Rial	( 5,815)	1,203
Other Currencies	1,597	852

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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e. Operational risk

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

f. Other risks

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

**6. CAPITAL MANAGEMENT**

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

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

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

	<b><u>2015</u></b> <b><u>YR Million</u></b>	<b><u>2014</u></b> <b><u>YR Million</u></b>
Core capital	14,488	14,507
Supplementary capital	91	147
Total capital	<u>14,579</u>	<u>14,654</u>
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	15,737	19,076
Contingent liabilities and commitments	<u>8,700</u>	<u>11,408</u>
Total risk weighted assets and contingent liabilities and commitments	<u>24,437</u>	<u>30,484</u>
Capital adequacy ratio	<u>59.7%</u>	<u>48%</u>

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

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

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Cash on hand – local currency	1,205,952	686,993
Cash on hand – foreign currency	<u>11,957,450</u>	<u>881,312</u>
	<u>13,163,402</u>	<u>1,568,305</u>
Mandatory reserve with CBY – local currency	8,084,460	6,511,517
Mandatory reserve with CBY – foreign currency	<u>3,619,201</u>	<u>3,344,787</u>
	<u>11,703,661</u>	<u>9,856,304</u>
	<u>24,867,063</u>	<u>11,424,609</u>

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

**8. DUE FROM BANKS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Central Bank of Yemen</b>		
Current accounts – local currency	6,328,886	1,044,910
Current accounts – foreign currency	<u>1,364,314</u>	<u>3,269,722</u>
	<u>7,693,200</u>	<u>4,314,632</u>
<b>Local Banks</b>		
Current accounts – local currency	413	413
Current accounts – foreign currency	<u>74</u>	<u>-</u>
	<u>487</u>	<u>413</u>
<b>Foreign banks</b>		
Current accounts – foreign currency	10,269,022	7,194,820
Time deposits – foreign currency	<u>6,498,560</u>	<u>17,320,235</u>
	<u>16,767,582</u>	<u>24,515,055</u>
	<u>24,461,269</u>	<u>28,830,100</u>

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

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

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Treasury bills maturing within 90 days	58,775,000	35,806,770
Treasury bills maturing within 180 days	20,224,000	20,954,000
Treasury bills maturing within 360 days	<u>41,529,000</u>	<u>38,952,000</u>
	120,528,000	95,712,770
Less: Unearned discount balance	<u>( 4,223,808)</u>	<u>( 3,680,701)</u>
	<u>116,304,192</u>	<u>92,032,069</u>

The treasury bills carry an interest rate between 15.8% and 16.1% during the year 2015 (between 15.8 and 16.1 during the year 2014). In accordance with the Central Bank of Yemen instructions, treasury bills which mature within a period not exceeding three months are considered as part of cash and cash equivalents.

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

a. Loans and advances by type

	<b>Note</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Overdraft		7,109,640	9,802,816
Loans to customers		<u>5,372,293</u>	<u>5,839,098</u>
		12,481,933	15,641,914
Less:			
Provision for loans and advances	11	( 3,972,271)	( 3,026,530)
Uncollected interest	12	( <u>909,413</u> )	( <u>653,133</u> )
		<u>7,600,249</u>	<u>11,962,251</u>

- According to Article No. 85 of the Banks Law No. 38 of 1998, and Article No. 14 of the Income Tax Law No. 17 of 2010, all provisions made in compliance with the Central Bank of Yemen instructions on loans, advances, and contingent liabilities are exempt from income tax.

- Non-performing loans and advances amounted to YR 5,349,836 thousand as at December 31, 2015 after deducting uncollected interest of YR 909,413 thousand and balances secured by cash deposits of YR 3,400,107 thousand (As at December 31, 2014, the non-performing loans and advances amounted to YR 3,571,332 thousand after deducting uncollected interest by amount of YR 653,133 thousand and balances secured by cash deposits of YR 5,932,183 thousand). The break-up of the above amount is as follows:

	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Substandard loans and advances	450,890	480,185
Doubtful loans and advances	1,870,999	331,765
Bad loans and advances	<u>3,027,947</u>	<u>2,759,382</u>
	<u>5,349,836</u>	<u>3,571,332</u>

b. Loans and advances by industry

	<b>2015</b>		
	<b>Overdraft YR 000s</b>	<b>Loans to Customers YR 000s</b>	<b>Total YR 000s</b>
Trade	3,806,780	643,980	4,450,760
Industry	80,674	253,725	334,399
Service	38,483	2,000	40,483
Finance	-	1,299,938	1,299,938
Individuals and others	<u>3,183,703</u>	<u>3,172,650</u>	<u>6,356,353</u>
Total	<u>7,109,640</u>	<u>5,372,293</u>	<u>12,481,933</u>

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

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

**11. PROVISION FOR LOANS AND ADVANCES (PERFORMING AND NON-PERFORMING)**a. Provision for loans and advances by type

	<b>Note</b>	<b>2015</b>		
		<b>Specific YR 000s</b>	<b>General YR 000s</b>	<b>Total YR 000s</b>
Balance as at January 1, 2015		2,980,705	45,825	3,026,530
Retranslation differences of provision in foreign currencies		( 5,967)	-	( 5,967)
Add: provided during the year	28	1,826,620	46,060	1,872,680
Less: used during the year		( 89,633)	-	( 89,633)
Less: provision reversed	27	( 774,195)	( 57,144)	( 831,339)
<b>Balance as at December 31, 2015</b>		<b>3,937,530</b>	<b>34,741</b>	<b>3,972,271</b>

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

b. Provision for loans and advances by sector

	<b>2015</b>		
	<b>Corporate Loans YR 000s</b>	<b>Consumer Loans YR 000s</b>	<b>Total YR 000s</b>
Balance as at January 1, 2015	2,980,705	45,825	3,026,530
Retranslation differences of provision in foreign currencies	( 5,967)	-	( 5,967)
Add: provided during the year	1,826,620	46,060	1,872,680
Less: used during the year	( 89,633)	-	( 89,633)
Less: provisions reversed	( 774,195)	( 57,144)	( 831,339)
Balance as at December 31, 2015	<u>3,937,530</u>	<u>34,741</u>	<u>3,972,271</u>

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

**12. UNCOLLECTED INTEREST**

	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Balance at the beginning of the year	653,133	508,256
Provided during the year	268,024	170,211
Recovered during the year	( 1,900)	( 22,157)
Retranslation differences of uncollected interest in foreign currencies	( 9,844)	( 3,177)
Balance at the end of the year	<u>909,413</u>	<u>653,133</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**13. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>Ownership Percentage %</b>	<b>No. of shares</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
a. <u>Financing investments - foreign</u>				
UBAC Curacao - Paris	0.88	45,202	97,135	97,135
Alubaf Arab International - Bahrain	0.33	13,768	147,930	178,079
Arab Financial Services Co. - Bahrain	0.167	10,000	<u>10,745</u>	<u>10,745</u>
			<u>255,810</u>	<u>285,959</u>
b. <u>Financing investments - local</u>				
Yemeni Co. for Financial Services - Yemen	10	3,107	66,766	66,766
Yemen Mobile Co. for Telecommunication - Yemen	0.139	120,000	61,200	61,200
Al-Amal Bank for Microfinance - Yemen	1	200	20,000	20,000
Al-Tadhamon Microfinance - Yemen	1	100	<u>1,000</u>	<u>1,000</u>
			<u>148,966</u>	<u>148,966</u>
			404,776	434,925
Less: Impairment loss on available-for-sale investments			<u>( 164,901)</u>	<u>( 164,901)</u>
			<u>239,875</u>	<u>270,024</u>

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

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

	<b>Note</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Prepaid expenses		400,479	350,536
Accrued interest		1,182	4,509
Inter - branch balances		225,566	24,298
Projects in process (advances)		570,297	388,645
Assets transferred to the Bank's ownership		16,934	16,934
Other debit balances		<u>1,415,794</u>	<u>936,575</u>
		2,630,252	1,721,497
Less: Provision for doubtful debts	15	<u>( 1,186,295)</u>	<u>( 909,559)</u>
		<u>1,443,957</u>	<u>811,938</u>

**15. PROVISIONS FOR DOUBTFUL DEBTS**

	<b>Note</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Balance at the beginning of the year		909,559	910,695
Retranslation differences of provision in foreign currencies		( 479)	( 642)
Add: provided during the year	28	277,215	-
Less: used during the year		<u>-</u>	<u>( 494)</u>
Balance at end of the year		<u>1,186,295</u>	<u>909,559</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**16. PROPERTY AND EQUIPMENT (NET)**

	2015					
	<u>Land and Buildings YR 000s</u>	<u>Leasehold Improvements YR 000s</u>	<u>Furniture and Fixtures YR 000s</u>	<u>Motor Vehicles YR 000s</u>	<u>Computer Equipment YR 000s</u>	<u>Total YR 000s</u>
<b><u>Cost / Revaluation</u></b>						
Balance as at January 1, 2015	2,449,146	161,356	683,982	159,356	560,241	4,014,081
Additions during the year	538	26,188	20,750	-	18,280	65,756
Disposal during the year	(49,539)	(250)	(26,628)	(7,128)	(36,109)	(119,654)
Balance as at December 31, 2015	<u>2,400,145</u>	<u>187,294</u>	<u>678,104</u>	<u>152,228</u>	<u>542,412</u>	<u>3,960,183</u>
<b><u>Accumulated depreciation</u></b>						
Balance as at January 1, 2015	216,895	90,326	355,985	134,350	456,079	1,253,635
Depreciation for the year	27,146	11,955	49,727	7,568	66,130	162,526
Disposal during the year	(16,261)	(106)	(8,859)	(4,134)	(26,978)	(56,338)
Balance as at December 31, 2015	<u>227,780</u>	<u>102,175</u>	<u>396,853</u>	<u>137,784</u>	<u>495,231</u>	<u>1,359,823</u>
<b><u>Net book value</u></b>						
December 31, 2015	<u>2,172,365</u>	<u>85,119</u>	<u>281,251</u>	<u>14,444</u>	<u>47,181</u>	<u>2,600,360</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**17. DUE TO BANKS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Local banks - current account – local currency	<u>503</u>	<u>569</u>
	<u>503</u>	<u>569</u>

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

**18. CUSTOMERS' DEPOSITS**

a. Customers' deposits by type

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Current accounts	49,046,175	19,385,403
Time deposits	71,973,286	70,789,734
Saving accounts	36,003,133	36,351,887
Margins of LC's, LG's and others	1,515,160	2,349,900
Other deposits	<u>1,183,803</u>	<u>1,078,489</u>
	<u>159,721,557</u>	<u>129,955,413</u>

- Customers' deposits as at December 31, 2015 include YR 4,485,636 thousand of margins held for direct and indirect facilities (as at December 31, 2014: YR 11,079,864 thousand).

- Other deposits as at December 31, 2015 include YR 526,953 thousand of unclaimed balances (as at December 31, 2014: YR 526,953) that represent balances from previous years which have not been claimed by the beneficiaries. Management regularly reviews the likelihood that these amounts will be claimed, and based on the outcome of such review, the Bank considers the amount that should be transferred to the Ministry of Finance in accordance with the Article No. 79 of the Banks Law No. 38 of 1998.

b. Customers' deposits by sector

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Public and mixed sectors	14,646,189	8,494,827
Individuals	128,074,697	103,633,328
Corporations	13,398,913	12,266,172
Others	<u>3,601,758</u>	<u>5,561,086</u>
	<u>159,721,557</u>	<u>129,955,413</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**19. CREDIT BALANCES AND OTHER LIABILITIES**

	<u>Note</u>	<u>2015</u> <u>YR 000s</u>	<u>2014</u> <u>YR 000s</u>
Income tax	19.a	-	7,212
Interest payable		1,640,631	1,561,742
Accrued expenses		187,097	147,067
Other credit balances		<u>1,579,684</u>	<u>926,415</u>
		<u>3,407,412</u>	<u>2,642,436</u>

**19.a Income tax**

	<u>2015</u> <u>YR 000s</u>	<u>2014</u> <u>YR 000s</u>
Balance at the beginning of the year	7,212	264,784
Add: provided during the year	-	7,212
Less: paid during the year	( 7,212)	( 264,784)
Balance at the end of the year	<u>-</u>	<u>7,212</u>

**20. OTHER PROVISIONS**

<u>Description</u>	<u>Note</u>	<u>2015</u>		
		<u>Provision for Contingent Liabilities YR 000s</u>	<u>Provision for Contingent Claims YR 000s</u>	<u>Total YR 000s</u>
Balance as at January 1, 2015		101,741	105,631	207,372
Add: provided during the year	28	11,125	-	11,125
Less: used during the year		-	-	-
Less: provisions reversed	27	( 57,337)	-	( 57,337)
Balance as at December 31, 2015		<u>55,529</u>	<u>105,631</u>	<u>161,160</u>

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

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

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### NATIONAL BANK OF YEMEN

#### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2015

#### 21. EQUITY

a. Share capital

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

As at December 31, 2015, the share capital is YR 10 billion (as at December 31, 2014: YR 10 billion) divided into 10 million shares of YR 1,000 per share.

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

	<u>Amount</u> <u>YR 000s</u>
Share capital according to the Articles of Association	20,000,000
Less: amounts not yet paid	( 10,000,000)
Share capital as at December 31, 2015	<u>10,000,000</u>

b. Legal reserve

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

c. General reserve

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

d. Revaluation of property and equipment surplus reserve

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

e. Fair value reserve

As at December 31, 2015, fair value reserve for available-for-sale investments include a positive fair value amount of YR 50,090 thousand (as at December 31, 2014: YR 50,090 thousand) which represent the revaluation income on the available-for-sale investment.

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

	<u>2015</u>		
	<u>Gross</u> <u>Commitments</u> <u>YR 000s</u>	<u>Margin Held</u> <u>YR 000s</u>	<u>Net</u> <u>Commitments</u> <u>YR 000s</u>
Letters of credit	4,075,076	( 638,257)	3,436,819
Letters of guarantee	10,661,929	( 876,688)	9,785,241
Others	517,982	( 215)	517,767
	<u>15,254,987</u>	<u>( 1,515,160)</u>	<u>13,739,827</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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	<b>2014</b>		
	<b>Gross Commitments YR 000s</b>	<b>Margin Held YR 000s</b>	<b>Net Commitments YR 000s</b>
Letters of credit	8,589,050	( 1,289,061)	7,299,989
Letters of guarantee	12,411,556	( 1,029,259)	11,382,297
Others	<u>1,503,511</u>	( <u>31,580</u> )	<u>1,471,931</u>
	<u>22,504,117</u>	( <u>2,349,900</u> )	<u>20,154,217</u>

<b>23. INTEREST INCOME</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
<u>Interest on loans to customers</u>		
Interest earned on loans and overdrafts	<u>1,509,435</u>	<u>1,612,369</u>
<u>Interest on due from banks</u>		
Interest from deposits	92,028	131,919
Interest from current accounts	<u>323</u>	<u>139</u>
	<u>92,351</u>	<u>132,058</u>
Interest on treasury bills held to maturity	<u>14,611,330</u>	<u>13,877,540</u>
	<u>16,213,116</u>	<u>15,621,967</u>

<b>24. INTEREST EXPENSES</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
<u>Interest on customers' deposits</u>		
Interest on time deposits	9,000,066	8,705,314
Interest on saving accounts	<u>2,981,325</u>	<u>2,966,403</u>
	<u>11,981,391</u>	<u>11,671,717</u>

<b>25. FEES AND COMMISSION INCOME</b>	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Commission on letter of credits	48,792	118,154
Commission on letter of guarantees	124,702	193,518
Commission on transfer of funds	7,389	20,836
Commission on other banking services	<u>156,158</u>	<u>225,632</u>
	<u>337,041</u>	<u>558,140</u>

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**26. GAIN ON FOREIGN CURRENCY TRANSACTIONS**

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
(Loss) from translation of foreign currencies balances	( 322,583)	( 55,946)
Gain on dealing in foreign currencies transactions	<u>420,182</u>	<u>57,931</u>
	<u>97,599</u>	<u>1,985</u>

**27. OTHER OPERATING INCOME**

	<b><u>Note</u></b>	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
<u>Provisions reversed</u>			
Provision for loans and advances	11	831,339	872,683
Other provisions	20	<u>57,337</u>	<u>27,983</u>
		888,676	900,666
Other income		<u>8,672</u>	<u>36,006</u>
		<u>897,348</u>	<u>936,672</u>

**28. PROVISIONS PROVIDED DURING THE YEAR**

	<b><u>Note</u></b>	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
Provisions for loans and advances (performing and non-performing)	11	1,872,680	762,598
Provisions for doubtful debts	15	277,215	-
Other provisions	20	<u>11,125</u>	<u>31,149</u>
		<u>2,161,020</u>	<u>793,747</u>

**29. STAFF COSTS**

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
Basic salaries	1,356,960	1,296,905
Bonuses and incentives	1,198,655	1,245,942
Allowances and benefits	684,938	794,123
Social security	96,215	104,433
Others	<u>147,123</u>	<u>97,876</u>
	<u>3,483,891</u>	<u>3,539,279</u>

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**30. OTHER EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Zakat expenses	220,000	220,000
Subscriptions	191,632	188,934
Security guarding	95,137	74,704
Water, electricity and fuel	62,883	79,571
Maintenance expenses	50,611	46,777
Rent	47,515	46,479
Professional fees and consultancy	28,758	44,463
Stationery and printing supplies	21,391	30,884
Travelling and transportation	18,012	46,323
Telephone, telex and postage	16,384	24,540
Donations	14,842	28,781
Advertisement and publication	12,456	36,244
Training expenses	10,122	21,209
Hospitality and reception	9,376	13,373
Government fees	3,317	3,471
Other expenses	<u>25,559</u>	<u>47,571</u>
	<u><u>827,995</u></u>	<u><u>953,324</u></u>

**31. (LOSS) EARNINGS PER SHARE**

	<b><u>2015</u></b>	<b><u>2014</u></b>
Net (Loss) profit for the year (YR thousand)	<u>( 1,039,121)</u>	<u>28,847</u>
Number of shares (thousand shares)	<u>10,000</u>	<u>10,000</u>
(Loss) Earnings per share (YR)	<u><u>( 103.91)</u></u>	<u><u>2.9</u></u>

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**32. MATURITIES OF ASSETS AND LIABILITIES**

The schedule below illustrates the maturity of assets and liabilities as at December 31, 2015

<u>Description</u>	<b>2015</b>				<b>Total YR 000's</b>
	<b>Due within three months YR 000's</b>	<b>Due from three to six months YR 000's</b>	<b>Due from six months to one year YR 000's</b>	<b>Due over one year YR 000's</b>	
<b>Assets</b>					
Cash on hand & reserve balances with CBY	24,867,063	-	-	-	24,867,063
Due from banks	22,312,369	2,148,900	-	-	24,461,269
Treasury bills – held to maturity	76,204,167	27,179,530	12,920,495	-	116,304,192
Loans and advances (net)	1,926,186	367,211	5,266,306	40,546	7,600,249
Available-for-sale investments	-	-	-	239,875	239,875
Other assets	<u>1,182</u>	<u>-</u>	<u>132</u>	<u>4,043,003</u>	<u>4,044,317</u>
	<u>125,310,967</u>	<u>29,695,641</u>	<u>18,186,933</u>	<u>4,323,424</u>	<u>177,516,965</u>
<b>Liabilities and equity</b>					
Due to banks	503	-	-	-	503
Customers' deposits	87,884,605	10,454,680	21,899,342	39,482,930	159,721,557
Other liabilities and equity	<u>1,156,248</u>	<u>170,072</u>	<u>356,250</u>	<u>16,112,335</u>	<u>17,794,905</u>
	<u>89,041,356</u>	<u>10,624,752</u>	<u>22,255,592</u>	<u>55,595,265</u>	<u>177,516,965</u>
Net	<u>36,269,611</u>	<u>19,070,889</u>	<u>( 4,068,659)</u>	<u>( 51,271,841)</u>	<u>-</u>

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

<u>Description</u>	<b>2014</b>				<b>Total YR 000's</b>
	<b>Due within three months YR 000's</b>	<b>Due from three to six months YR 000's</b>	<b>Due from six months to one year YR 000's</b>	<b>Due over one year YR 000's</b>	
<b>Assets</b>					
Cash on hand & reserve balances with CBY	11,424,609	-	-	-	11,424,609
Due from banks	25,578,295	2,745,575	506,230	-	28,830,100
Treasury bills – held to maturity	35,016,171	20,233,690	36,782,208	-	92,032,069
Loans and advances (net)	2,152,489	393,184	7,771,360	1,645,218	11,962,251
Available-for-sale investments	-	-	-	270,024	270,024
Other assets	<u>3,661</u>	<u>715</u>	<u>132</u>	<u>3,567,876</u>	<u>3,572,384</u>
	<u>74,175,225</u>	<u>23,373,164</u>	<u>45,059,930</u>	<u>5,483,118</u>	<u>148,091,437</u>
<b>Liabilities and equity</b>					
Due to banks	569	-	-	-	569
Customers' deposits	91,677,049	12,507,315	25,601,167	169,882	129,955,413
Other liabilities and equity	<u>865,056</u>	<u>161,578</u>	<u>338,503</u>	<u>16,770,318</u>	<u>18,135,455</u>
	<u>92,542,674</u>	<u>12,668,893</u>	<u>25,939,670</u>	<u>16,940,200</u>	<u>148,091,437</u>
Net	<u>( 18,367,449)</u>	<u>10,704,271</u>	<u>19,120,260</u>	<u>( 11,457,082)</u>	<u>-</u>

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**NATIONAL BANK OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

	<b>2015</b>				
	<b>YR %</b>	<b>US\$ %</b>	<b>Saudi Riyal %</b>	<b>Sterling Pound %</b>	<b>EUR %</b>
<b><u>Assets</u></b>					
<b>Loans and advances to customers:</b>					
- Facilities	21.00	8.00	-	-	-
<b>Due from banks:</b>					
- Time deposits	-	1.03	-	0.25	-
Treasury bills – held to maturity	16.85	-	-	-	-
<b><u>Liabilities</u></b>					
<b>Customers' deposits:</b>					
- Time deposits	15.00	0.25	0.25	0.25	0.25
- Savings accounts	15.00	0.25	0.25	0.25	0.25
<b>2014</b>					
	<b>YR %</b>	<b>US\$ %</b>	<b>Saudi Riyal %</b>	<b>Sterling Pound %</b>	<b>EUR %</b>
<b><u>Assets</u></b>					
<b>Loans and advances to customers:</b>					
- Facilities	21.00	8.00	-	-	-
<b>Due from banks:</b>					
- Time deposits	-	1.03	0.33	0.53	-
Treasury bills – held to maturity	15.97	-	-	-	-
<b><u>Liabilities</u></b>					
<b>Customers' deposits:</b>					
- Time deposits	15.00	0.25	0.25	0.25	0.25
- Savings accounts	15.00	0.25	0.25	0.25	0.25

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

	2015						
	<u>Industrial YR 000s</u>	<u>Agriculture YR 000s</u>	<u>Trading YR 000s</u>	<u>Service YR 000s</u>	<u>Finance YR 000s</u>	<u>Individuals &amp; others YR 000s</u>	<u>Total YR 000s</u>
<b><u>Assets</u></b>							
Cash on hand and reserve balance with CBY	-	-	-	-	24,867,063	-	24,867,063
Due from banks	-	-	-	-	24,461,269	-	24,461,269
Treasury bills held to maturity	-	-	-	-	116,304,192	-	116,304,192
Loans and advances (net)	-	-	5,879,694	-	-	1,720,555	7,600,249
Available for sale investments	-	-	-	-	239,875	-	239,875
<b><u>Liabilities</u></b>							
Due to banks	-	-	-	-	503	-	503
Customers deposits	3,874,447	6,171,212	8,687,524	16,054,194	1,278,139	123,656,041	159,721,557
<b>Contingent liabilities and commitments (net)</b>	456,566	736,941	4,290,835	6,037,809	6,775	2,210,901	13,739,827
<b>2014</b>							
	<u>Industrial YR 000s</u>	<u>Agriculture YR 000s</u>	<u>Trading YR 000s</u>	<u>Service YR 000s</u>	<u>Finance YR 000s</u>	<u>Individuals &amp; others YR 000s</u>	<u>Total YR 000s</u>
<b><u>Assets</u></b>							
Cash on hand and reserve balance with CBY	-	-	-	-	11,424,609	-	11,424,609
Due from banks	-	-	-	-	28,830,100	-	28,830,100
Treasury bills held to maturity	-	-	-	-	92,032,069	-	92,032,069
Loans and advances (net)	-	-	9,187,231	-	-	2,775,020	11,962,251
Available for sale investments	-	-	-	-	270,024	-	270,024
<b><u>Liabilities</u></b>							
Due to banks	-	-	-	-	569	-	569
Customers deposits	1,643,482	342,815	9,602,626	9,335,321	667,024	108,364,145	129,955,413
<b>Contingent liabilities and commitments (net)</b>	171,904	-	9,697,055	7,696,586	908,563	1,680,109	20,154,217

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**35. DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS**

	<b>2015</b>					
	<b>Republic of Yemen YR 000s</b>	<b>America YR 000s</b>	<b>Europe YR 000s</b>	<b>Asia YR 000s</b>	<b>Africa YR 000s</b>	<b>Total YR 000s</b>
<b><u>Assets</u></b>						
Cash on hand and reserve balances with CBY	24,867,063	-	-	-	-	24,867,063
Due from banks	7,693,687	-	12,423,667	4,191,013	152,902	24,461,269
Treasury bills - held to maturity	116,304,192	-	-	-	-	116,304,192
Loans and advances (net)	7,600,249	-	-	-	-	7,600,249
Available for sale investments	81,200	-	-	158,675	-	239,875
<b><u>Liabilities</u></b>						
Due to Banks	503	-	-	-	-	503
Customers deposits	159,721,557	-	-	-	-	159,721,557
<b><u>Contingent liabilities and commitments (net)</u></b>						
	2,562,196	33,505	5,855,719	5,055,080	233,327	13,739,827
	<b>2014</b>					
	<b>Republic of Yemen YR 000s</b>	<b>America YR 000s</b>	<b>Europe YR 000s</b>	<b>Asia YR 000s</b>	<b>Africa YR 000s</b>	<b>Total YR 000s</b>
<b><u>Assets</u></b>						
Cash on hand and reserve balances with CBY	11,424,609	-	-	-	-	11,424,609
Due from banks	4,315,045	-	15,326,342	8,937,573	251,140	28,830,100
Treasury bills - held to maturity	92,032,069	-	-	-	-	92,032,069
Loans and advances (net)	11,962,251	-	-	-	-	11,962,251
Available for sale investments	81,200	-	-	188,824	-	270,024
<b><u>Liabilities</u></b>						
Due to Banks	569	-	-	-	-	569
Customers deposits	129,955,413	-	-	-	-	129,955,413
<b><u>Contingent liabilities and commitments (net)</u></b>						
	4,060,842	50,439	7,731,569	8,051,726	259,641	20,154,217

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**36. SIGNIFICANT FOREIGN CURRENCIES POSITIONS**

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

	<b>December 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Surplus (Deficit) YR 000s</b>	<b>Percentage of Capital and Reserves %</b>	<b>Surplus (Deficit) YR 000s</b>	<b>Percentage of Capital and Reserves %</b>
US Dollars	( 1,807,655)	( 12.40)	2,380,551	16.33
Sterling Pound	358,755	2.46	546,157	3.75
Euro	( 7,987)	( 0.06)	182,578	1.25
Saudi Rial	( 581,538)	( 3.99)	120,304	0.83
Other	<u>159,653</u>	<u>1.10</u>	<u>85,229</u>	<u>0.58</u>
Net (deficit) surplus	<u>( 1,878,772)</u>	<u>( 12.89)</u>	<u>3,314,819</u>	<u>22.74</u>

The US Dollar exchange rate as at December 31, 2015 was YR 214.89 (as at December 31, 2014: US Dollar exchange rate was YR 214.89).

**37. TRANSACTIONS WITH RELATED PARTIES**

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

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

	<b>2015 YR 000s</b>	<b>2014 YR 000s</b>
Loans and advances (net)	5,846	11,537
Customers' deposits	32,543	42,434
Interest and commission received	-	83
Interest and commission paid	1,739	1,778
Salaries and benefits	55,340	54,980

**NATIONAL BANK OF YEMEN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**38. TAX STATUS**

- Corporate and salaries taxes have been cleared up to the year 2011, and the relevant taxes were paid in accordance with the Tax Authority assessment.
- During the year 2015, the Bank was notified with additional tax assessment form no (3) for the year 2010 amounting to YR 529.8 million plus 100% penalties. The Bank has appealed this assessment within the legal deadline. The Bank management believes that this additional assessment will not result in any additional liabilities on the Bank.
- The Bank has submitted the tax declaration for the year 2012 and paid the amount due according to the declaration within the legal deadline. During 2016, the Bank was notified with additional tax assessment based on notification form no. (3) for the year 2012 of YR 69,954 thousand for corporate tax and YR 61,989 thousand for salary tax (after deducting the tax paid). The Bank has appealed this assessment within the legal deadline. The Bank management believes that this additional assessment will not result in any additional liabilities on the Bank.
- The Bank has submitted the tax declarations for the years 2013 and 2014 and paid the amounts due within the legal deadline according to the tax declarations. The Tax Authority has not performed its review and the Bank has not been notified of any assessments for these years from the Tax Authority.

**39. ZAKAT**

- The Bank submits its Zakat declarations annually and remits the amount due based on the declarations.
- The Bank has paid the Zakat until the end of the year 2015 according to the Zakat declaration. No additional assessment notification was issued by the Zakat Department.

**40. TRUST ACTIVITIES**

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

**41. CONTINGENT LIABILITIES**

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**42. OPERATING LEASE**

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

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
No later than one year	11,680	18,325
Later than one year and not later than five years	59,219	16,602
Later than five years	<u>119,325</u>	<u>18,325</u>
	<u><u>190,224</u></u>	<u><u>53,252</u></u>

**43. OPERATING ENVIRONMENT IN YEMEN**

Lately, the Republic of Yemen suffered from political, security and economic crises, which starting from March 2015 resulted in a decline of the country's business and economic activities.

The final resolution and the effects of the above events are difficult to predict due to the events' are still continuing at the date of issuing the financial statements for the year 2015. Management confirms it is taking appropriate measures to support the sustainability of the Bank's business in the current economic circumstances that could affect the financial statements for the year ended on December 31, 2015, management estimates of the fair values of the assets and liabilities, and the budget plan for the year 2016.

**44. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statements classifications for more appropriate presentation for the current year. These reclassifications did not affect equity or accumulated loss.