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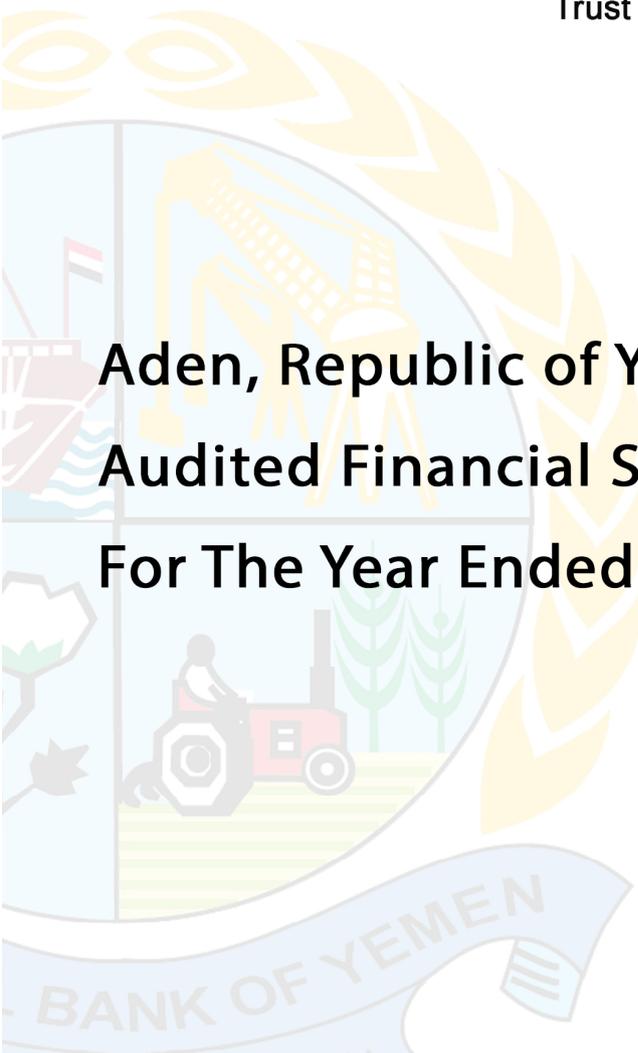
National Bank Of Yemen

Trust & Experience الخبرة والثقة

Aden, Republic of Yemen

Audited Financial Statements

For The Year Ended 31 December 2017





Dahman & Co.

Auditors . Accountants . Advisors

Correspondent to RSM Network

NATIONAL BANK OF YEMEN

Aden, Republic of Yemen

Audited Financial Statements

For The Year Ended 31 December 2017

NATIONAL BANK OF YEMEN
ADEN, REPUBLIC OF YEMEN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of National Bank of Yemen ("the Bank"), which comprise the statement of comprehensive income for the year ended 31 December 2017, the related statement of financial position, statement of changes in equity and statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial performance of the Bank for the year ended 31 December 2017 and its financial position and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and related local laws and regulations.

Basis for Opinion

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

Emphasis Of Two Matters

- Without qualifying our opinion, and as stated in Note 1-b on the financial statements, the Bank is working in an unfavorable environment that may affect its activities and would not enable it to provide some of its services to its customers or meet some of its commitments which raises doubt on Bank's capability to continue business on a going concern basis in the case of continuation of unstable security and political conditions and deterioration of local currency. This requires the State as owner of the Bank to take serious measures to address any difficulties the Bank may face in relation to such matters.
- We draw attention to Note 40-d on the financial statements, as the Bank has amended its financial statements by stating the impact of changes in fair value of a currency with respect to instructions of Central Bank of Yemen, Head Office/ Aden, in a subsequent period to the date of Board of Directors approval on the previous audited financial statements for the year ended 31 December 2017 on which an independent auditors' report was issued.

Responsibilities of Management and The Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, Prime Minister Decree no. 405 for 2013 on Re-organisation of the National Bank of Yemen and Bank's Articles of Association issued on 5 August 2013, related local laws and regulations and Central Bank of Yemen instructions and, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Continued...

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

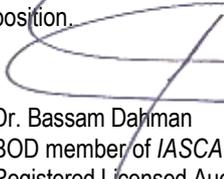
We also provide the Board of directors with a statement that we have complied with the ethical requirements of independence and communicate with them on all relationships and other matters that may reasonably be believed to affect our independence and where relevant protection is possible.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The Bank's financial statements have been prepared and comply, in all material respects, with the Prime Minister's Decree No. 405 of 2013 on the Re-organisation of the National Bank of Yemen and the Bank's Articles of Association issued on 5 August 2013 and Law No. 38 of 1998 on Banks and the Central Bank of Yemen instructions.
- The Bank maintains appropriate accounting records and the accompanying financial statements are in agreement therewith.
- Note 33 on the financial statements of the Bank discloses the significant related parties transactions and the terms on which they were made and the basis for managing conflicts of interest were clarified in the summary of significant accounting policies.

We also confirm that based on the information provided to us, nothing came to our attention that causes us to believe that the Bank during the financial year ended 31 December 2017 has contravened any of the Articles of the Prime Minister's Decree No. 405 of 2013 regarding the Re-organisation of the National Bank of Yemen and Bank's Articles of Association issued on 5 August 2013, Law No. 38 of 1998 on Banks and the Central Bank of Yemen instructions which may have a material impact on Bank's business or its financial position.


دحمان ومشاركونه
Dahman & Co.
License 973 ترخيص

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

Aden, Republic of Yemen
14 November 2018

NATIONAL BANK OF YEMEN
STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2017

REVENUES	Note	2017 YR' 000	2016 YR' 000
Activity Revenues:			
Interest on direct credit facilities to customers, net	4	(12,410,749)	(11,736,953)
Interest on due from banks, net	5	70,016	41,337
Commissions and fee income on banking services, net	6	648,315	399,008
Returns from held to maturity investments- treasury bills	7	23,819,097	20,531,101
Dividends from available for sale investments	8	18,000	26,614
Gain on selling and buying foreign currencies		1,532,623	452,815
Total activity revenues		13,677,302	9,713,922
Other revenues	9	2,580,849	960,290
TOTAL REVENUES		16,258,151	10,674,212
EXPENSES			
Salaries, wages and related expenses	10	(4,198,284)	(3,801,386)
General and administration expenses	11	(647,764)	(565,680)
Other expenses	12	(3,032,537)	(1,883,057)
TOTAL EXPENSES		(7,878,585)	(6,250,123)
Foreign exchange rate differences	13	(4,864,288)	(816,007)
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		3,515,278	3,608,082
Zakat	14	(250,000)	(250,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		3,265,278	3,358,082
Income tax	15	(653,056)	(463,792)
PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX		2,612,222	2,894,290
OTHER COMPREHENSIVE INCOME			
NET CHANGES IN FAIR VALUE FOR THE YEAR			
Re-evaluation gains on available for sale investments during the year		-	-
Re-evaluation difference on available for sale investments (written back)		-	-
Total Other Comprehensive Income For The Year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	16	2,612,222	2,894,290

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

The attached notes 1 to 41 form an integral part of these financial statements.



Arwa Ali Sulaiman AlKouri
Vice General Manager for
Banking Departments



Dr. Ahmed Ali Bin Sankar
General Manager



For Dr. Mohammad Husain Halboob
Chairman

NATIONAL BANK OF YEMEN

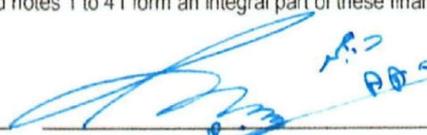
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	31 December 2017 YR' 000	31 December 2016 YR' 000
ASSETS			
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	17	21,686,611	21,540,280
Held to maturity investments, net	18	166,580,821	134,453,234
Due from banks	19	66,476,782	26,631,494
Direct credit facilities to customers, net of provision	20	7,242,628	7,327,533
Receivables and other assets, net	21	1,600,977	908,084
Available for sale investments, net	22	425,730	276,971
Property, plant and equipment, net of accumulated depreciation	23	2,498,407	2,571,179
Capital work in progress	24	1,072,210	908,426
TOTAL ASSETS		267,584,166	194,617,201
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	25	-	-
Customers' deposits	26	242,718,071	171,549,847
Payables and other liabilities	27	5,813,200	5,041,946
Other provisions	28	618,669	904,785
Total Liabilities		249,149,940	177,496,578
EQUITY			
Capital paid	29	10,000,000	10,000,000
Reserves	30	6,605,670	5,822,004
Proposed dividends	16-b	1,828,556	1,298,619
Total Equity		18,434,226	17,120,623
TOTAL LIABILITIES AND EQUITY		267,584,166	194,617,201
CONTINGENT LIABILITIES, COMMITMENTS AND CONTRA ACCOUNTS, NET	31	12,742,473	9,658,811

The attached notes 1 to 41 form an integral part of these financial statements.



Arwa Ali Sulaiman AlKouri
Vice General Manager for
Banking Departments



Dr. Ahmed Ali Bin Sankar
General Manager



For Dr. Mohammad Husain Halboob
Chairman

NATIONAL BANK OF YEMEN

STATEMENT OF CHANGES IN EQUITY
As At 31 December 2017

	<i>Capital (Note 29) YR'000</i>	<i>Reserves (Note 30) YR'000</i>	<i>Proposed dividends (Note 16-b) YR'000</i>	<i>Total YR'000</i>
Balance at 1 January 2017	10,000,000	5,822,004	1,298,619	17,120,623
Comprehensive income				
Profit for the year	-	-	2,612,222	2,612,222
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,612,222	2,612,222
Transaction with owners				
Prior year dividends (Note 16-b)	-	-	(1,298,619)	(1,298,619)
Transfer to statutory reserve (Note 30-a)	-	391,833	(391,833)	-
Transfer to general reserve (Note 30-b)	-	391,833	(391,833)	-
Total transaction with owners	-	783,666	(2,082,285)	(1,298,619)
Balance at 31 December 2017	<u>10,000,000</u>	<u>6,605,670</u>	<u>1,828,556</u>	<u>18,434,226</u>
Balance at 1 January 2016	10,000,000	5,265,454	(1,039,121)	14,226,333
Comprehensive income				
Profit for the year	-	-	2,894,290	2,894,290
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,894,290	2,894,290
Transaction with owners				
Prior year dividends (Note 16-b)	-	-	-	-
Transfer to statutory reserve (Note 30-a)	-	278,275	(278,275)	-
Transfer to general reserve (Note 30-b)	-	278,275	(278,275)	-
Total transaction with owners	-	556,550	(556,550)	-
Balance at 31 December 2016	<u>10,000,000</u>	<u>5,822,004</u>	<u>1,298,619</u>	<u>17,120,623</u>

The attached notes 1 to 41 form an integral part of these financial statements.

NATIONAL BANK OF YEMEN

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2017

	<i>Note</i>	2017	2016
		YR 000	YR 000
OPERATING ACTIVITIES			
Profit for the year after Zakat and income tax		2,612,222	2,894,290
<i>Adjustments for the following:</i>			
Depreciation of property, plant and equipment		109,957	117,056
Provisions made		2,666,899	1,571,,806
Provisions written back		(2,544,665)	(951,558)
Provisions used		471	196,178
Operating Profit Before Changes In Banking Assets And Liabilities Related To Operating Activities		2,844,884	3,827,772
CHANGES IN BANKING ASSETS			
Mandatory reserve balances with the Central Bank of Yemen		(6,466,507)	(810,851)
Due from banks maturing in over than three months		(5,413,531)	104,700
Direct credit facilities to customers before provision but after suspended interest		(1,401,431)	199,915
Receivables and other assets		(692,893)	(375,313)
Net (increase) in banking assets		(13,974,362)	(881,549)
CHANGES IN BANKING LIABILITIES			
Due to banks		-	(503)
Customers' deposits		71,168,224	11,828,290
Payables and other liabilities		771,254	1,634,534
Net increase in banking liabilities		71,939,478	13,462,321
Net Cash Flows From Operating Activities (1)		60,810,000	16,408,544
INVESTING ACTIVITIES			
Movement in property, plant and equipment		(72,772)	(87,875)
Capital work in progress		(163,784)	2,760
Available for sale investments		(148,758)	(37,096)
Held to maturity investments maturing in over than three months		(21,803,027)	(37,191,451)
Net Cash Flows (Used In) Investing Activities (2)		(22,188,341)	(37,313,662)
FINANCING ACTIVITIES			
Dividends paid		(185,518)	-
Net Cash Flows (Used In) Financing Activities (3)		(185,518)	-
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)		38,436,141	(20,905,118)
Cash and cash equivalents at 1 January		90,774,820	111,679,938
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	129,210,961	90,774,820

The attached notes 1 to 41 form an integral part of these financial statements.

1 GENERAL INFORMATION

1-a Incorporation

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

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

The Bank is wholly owned by the State of Yemen under the supervision of the Minister of Finance and is registered under commercial registration number 1748 and in chamber of commerce under no. 2404.

1-b Activity

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

The Bank has a Modernization And Development Project on which it has signed a contract with an international consultancy firm on 20 December 2006. The project is composed of two parts, the first is to provide management, operation and banking consultancy services and the second is to install and operate modern information technology hardware and software (Note 24-a) in order to enforce Bank's efficiency and competitiveness and maximise profit. The Bank finances both parts of the project from its own financial resources.

The Year Ended 31 December 2017

The Bank continued in business through its Head Office and 27 commercial branches spread all over the different Republic's governorates and one Islamic branch in Sana'a City under the management of Board of Directors chaired by Dr. Mohammad Husain Halboob - Chairman whose appointment is with respect to the Presidential Decree No. 12 of 2017 dated 28 January 2017 and an executive management team headed by Dr. Ahmed Ali Bin Sankar - General Manager whose appointment is with respect to Prime Minister Decree No. 7 of 2017 dated 29 January 2017. Number of employees as at year end was 966 employees (31 December 2016: 940 employees).

During the year the Board of Directors held 7 ordinary meetings and a number of extraordinary meetings during the period 17 January 2017 to 10 December 2017. It approved, in its capacity as the Bank's General Assembly, the audited financial statement for the year ended 31 December 2016 on 19 November 2017 and raised it to H.E. Minister of Finance - Aden on 31 December 2017.

The Bank achieved good results for the year under the continuation of unstable political and security conditions in the country since April 2015, the destruction of some of its branches' buildings located in military conflict areas, the affected volume of its transactions locally and abroad, difficulty of communication with some correspondent banks and dealing with foreign currencies exchange rates prevailing in the market based on float with respect to resolution issued by Office of the Governor of the Central Bank of Yemen, Head Office - Aden during the year (Note 34-d).

Although it difficult to predict the impact of the unstable security, political and economic conditions the Republic of Yemen is suffering from, and still is, and dealing with foreign currencies exchange rates prevailing in the market based on float which may be reflected on the financial statements and management's estimates concerning fair value of Bank's assets and liabilities and the financial plans prepared for the subsequent period, but management is working on taking the necessary measures to support the continuation of Bank operation. Therefore, management believes the Bank will continue in business as a going concern in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2-a Basis of Preparation

Considering what is mentioned in Note 1-b above, these financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS), being standards and interpretations issued by the International Accounting Standards Board (IASB), in force at 31 December 2017 and the requirements of related local laws, regulations and rules including Law No. 38 of 1998 on Banks and instructions issued by the Central Bank of Yemen including those included in its circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended).

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

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

The format of the statement of financial position considers liquidity and current / non-current calcification.

Transactions with owners in their capacity as owners are presented in the statement of changes in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-a Basis of Preparation (Continued)

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 32 shows in which item of the statement of financial position cash and cash equivalents are included. The cash flows from operating activities are determined by using the indirect method. Profit for the year is therefore adjusted by non-cash items, such as measurement's gains and losses, changes in provisions, as well as changes from receivables and payables. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interests received or paid are classified as operating cash flows. The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

The Bank discloses on risks it is exposed to in Note 34- Risk Management and discloses on capital adequacy in Note 35- Capital Management.

Basis of Measurement

The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the significant accounting policies below (e.g. certain financial instruments that are measured at fair value). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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. When measuring the fair value of an asset or a liability, the Bank uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

As at 31 December 2017 the fair value of financial instruments do not differ fundamentally from their fair values based on the valuation of the Bank's assets and liabilities as stated in the notes to the financial statements.

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

As at 31 December 2017 the fair value of available for sale investments of YR'000 425,729 (31 December 2016: YR'000 276,971) is carried on level 3 fair value measurements. There are no investments at fair value according to level 1 or 2 of fair value disclosures.

Presentation Currency

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

Application Of New IFRS Requirements

For the preparation of these financial statements, the following amendments are effective for the first time for the financial year beginning on or after 1 January 2017.

- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016) – The amendments require entities to provide information that enables users of financial statements to evaluate changes in liabilities arising from the entity's financing activities.
- Amendments to IAS 12 titled Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) – The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base (e.g. deferred tax asset related to unrealised losses on debt instruments measured at fair value), as well as certain other aspects of accounting for deferred tax assets.
- Amendments to IFRS 12 (Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016) - The amendments clarify that the disclosure requirements of the Standard apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations except for summarised financial information for those interests (i.e. paragraphs B10–B16 of IFRS 12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2-a Basis of Preparation (Continued)****Application Of New IFRS Requirements In Issue But Not Yet Effective**

The Bank has not applied the following new or amended pronouncements that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2017.

The Board of Directors anticipates that the new standards and amendments will be adopted in the Bank financial statements when they become effective. The Bank has assessed, where practicable, the potential effect of all these new standards and amendments that will be effective in future periods.

Amendments To Existing Standards

- Amendments to IAS 28 (Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments are not expected to have an effect on the Bank's financial statements.
- Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred. The amendments are not expected to have a material effect on the Bank's financial statements.
- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions (issued in June 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment (SBP) transactions, the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled. The amendments are not expected to have a material effect on the Bank's financial statements.
- Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17 ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach'). As the Bank has not issued insurance contracts, the amendments are not expected to have an effect on Bank's financial statements.
- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) – The amendments address a current conflict between the two Standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after 1 January 2016, was deferred indefinitely in December 2015 but earlier application is still permitted. This is not expected to have an effect on the Bank's financial statements.

New Interpretations

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) - The Interpretation, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The Interpretation is not expected to have a material effect on the Bank's financial statements.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017) – The Interpretation, applicable to annual periods beginning on or after 1 January 2019 (earlier application permitted), provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances. The Interpretation is not expected to have a material effect on the Bank's financial statements.

New Standards

- IFRS 9 *Financial Instruments* (issued in July 2014) – The Standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018 (earlier application permitted). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition and derecognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2-a Basis of Preparation (Continued)****Application Of New IFRS Requirements In Issue But Not Yet Effective (Continued)**New Standards (Continued)

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, IFRS 9 introduces an “expected credit loss (ECL)” model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
- The recognition and derecognition provisions are carried over almost unchanged from IAS 39.

The Directors anticipate that IFRS 9 will be adopted in the Bank's financial statements when it becomes mandatory.

- Apart from equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under IFRS 9, all the other Bank's financial assets and financial liabilities should continue to be measured on the same bases as currently under IAS 39.
 - Concerning impairment, the Directors expect to apply the simplified approach to recognise lifetime ECL for the Bank's trade receivables.
 - As the new hedge accounting requirements will align more closely with the Bank's risk management policies, a preliminary assessment of the Bank's current hedging relationships indicate that they will qualify as continuing hedging relationships upon application of IFRS 9. The Directors do not anticipate that the application of the IFRS 9 hedge accounting requirements will have a material impact on the Bank's financial statements.
- IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014 and amended for effective date and clarifications in September 2015 and April 2016 respectively) - The Standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), replaces IAS 11, IAS 18 and their Interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Directors anticipate that IFRS 15 will be adopted in the Bank's financial statements when it becomes mandatory, and they intend to use the full retrospective method of transition to the new Standard.

Based on the current accounting treatment of the Bank's major sources of revenue the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Bank, apart from providing more extensive disclosures on the Bank's revenue transactions. However, as the Directors are still in the process of assessing the full impact of the application of IFRS 15 on the Bank's financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Directors complete the detailed review.

- IFRS 16 *Leases* (issued in January 2016) - The Standard, effective for annual periods beginning on or after 1 January 2019 (earlier application permitted only if IFRS 15 also applied), replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Directors anticipate that IFRS 16 will be adopted in the Bank's financial statements when it becomes mandatory.
- IFRS 17 *Insurance Contracts* (issued in May 2017) - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. As the Bank has neither issued insurance contracts nor held reinsurance contracts, the Standard is not expected to have an effect on its financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-a Basis of Preparation (Continued)

Provisions of Central Bank of Yemen Circulars

The Bank complies to provisions of all circulars of Central Bank of Yemen including the following:

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

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2017.

2-b Trade And Settlement Date Accounting

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

2-c Revenue Recognition

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

- 1) Accepting cash deposits payable on demand or in accordance with other arrangements which may be withdrawn by checks, money order or payment order and granting loans and credit facilities and
- 2) (a) Purchasing and discounting of drafts, promissory notes, coupons and bonds for commercial purposes, (b) carrying out ordinary banking transactions with correspondents and obtaining customary banking facilities, (c) buying and selling foreign currencies, bullion, gold and silver coins, shares and bonds, (d) issuing and discounting promissory notes and letters of guarantee, (e) opening documentary credits and receiving bills of lading, (f) collecting checks, securities, drafts and promissory notes, (g) acting as agent or trustee in capacity of correspondent or agent of banking and financial institutions, (h) buying and selling government notes and securities, (i) financial leasing.

The Bank recognises activity revenue as follows:

- Interest received on direct credit facilities and paid for customers' deposits: on accrual basis using the effective interest rate method which is established on initial recognition of the financial asset / liability and is not revised subsequently. In compliance with Central Bank of Yemen instructions in its circular no. 6 of 1996, the Bank does not recognise revenue on interest on non-performing direct credit facilities (which passed due time 90 days or more) until actually collected.
- Commission and fee income on banking services for issuing documentary letters of credit and letters of guarantee, etc.: when earned.
- Dividends from available for sale investments: when the right of the Bank to receive payment is established.
- Returns on held to maturity investments - treasury bills: based on maturity period as it is recognised at the end of the financial period concerning the year of such interest and received at maturity date.
- Gain on selling foreign currency: this is represented by difference between rates of Central Bank of Yemen and selling amount to customers at selling date.

2-d Lease Contracts

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

2-e Employees' Benefits

Regular Leave For Employees

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

Social Insurance

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2-f Zakat**

The Bank pays estimated amount of Zakat divided to Zakat General Directorate branches in several governorates and gets a clearance of total amount paid to Zakat General Directorate -Capital / Aden. Donations and charities paid upon management decision are stated in general and administrative expenses.

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

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

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

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

Payroll Tax

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

2-h Profit Distribution

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

- 15% statutory reserve;
- 15% general reserve;
- 60% Government share in excess of profit;
- 10% employee's incentives according to their activity according to performance reports based on recommendation of Bank management and approval of Board of Directors.

2-i Financial Assets**Recognition And Initial Measurement**

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Classification And Subsequent Measurement

Subsequent measurement of financial assets depends on how they have been treated on initial recognition. IAS 39 prescribes classification of the financial assets in one of the following four categories:

Financial Assets At Fair Value Through Profit And Loss

Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives.

For the year ended on 31 December 2017, the Bank did not carry any financial assets classified in this category.

Loans And Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that the Bank intends to sell immediately or in the near term cannot be classified in this category.

For the year ended on 31 December 2017, the Bank had financial assets that are classified in this category and are represented by bank balances, cash on hand direct credit facilities to customer, receivables and other assets.

- Mandatory Reserve With Central Bank Of Yemen

This reserve represents balances the Bank has to maintain at Central Bank of Yemen against customers' deposits it has in Yemeni Rial and foreign currencies as per article no. 11-c of Law No. 38 of 1998 on Banks.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-i Financial Assets (Continued)

Classification And Subsequent Measurement (Continued)

Loans And Receivables (Continued)

• **Mandatory Reserve With Central Bank Of Yemen (Continued)**

This balance is not available for daily use of the Bank. With respect to Central Bank of Yemen circular no. 4 for 2009 on weekly reporting on calculating the mandatory reserve on deposits, the mandatory reserve is calculated on the basis of the average deposit balances during the week at 7% on deposits in local currency and 20% on deposits in foreign currencies. This reserve ratio on all deposits in foreign currencies at the Bank has been reduced to 10% with respect to article no. 1 of the Governor of the Central Bank of Yemen Resolution no. 3 of 2013.

• **Due From Banks**

Deposits and balances with banks are presented at cost after deducting any amount that has been written off and any impairment in their value.

• **Direct Credit Facilities**

Direct credit facilities are stated on the statement of financial position net of relevant provision and uncollected interest. These facilities are represented by loans and overdraft facilities.

Provision for losses on direct credit facilities are calculated as per Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998 after deducting uncollected interest, cash or bank guarantees of high quality and can get liquefied in short term in same currency of credit facility according to the credit classification category resulting from this facilities loss review at the following rates as a minimum:

General provisions for performing categories		Specific provision for non performing categories	
- Good	2%	- Substandard	15%
- Under watch	2%	- Doubtful	45%
		- Bad	100%

Loans are written off by debiting the provision after all the necessary legal procedures have been completed, and the final loss has been determined or by direction from Central Bank of Yemen upon review of the portfolio. Proceeds from loans previously written off in prior years are credited to "other revenue".

As per Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended) the suspended interest, i.e. interest on loans that are three months passed due and not marginally paid are not to be added to customers receivables or added to statement of income unless it is collected and after collecting the original debt.

• **Receivables**

Debit accounts are stated at cost less the allowance for any uncollectible amounts. An estimate of doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off as incurred. Loss is recognised in profit or loss.

Held To Maturity Financial Assets:

These are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Bank has the positive intent and ability to hold to maturity.

For the year ended on 31 December 2017, the Bank carried financial assets classified in this category represented by treasury bills.

• **Treasury Bills**

Treasury bills issued by the Central Bank of Yemen on behalf of the Ministry of Finance in order to obtain cash flows to face general expenditure of the Government are stated at their nominal value, less unamortised discount from date of purchase to its due date on the bases of the straight-line method. With respect to Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended), treasury bills, which mature within a period not exceeding three months, are considered as part of cash and cash equivalents.

Available For Sale Financial Assets:

These are non-derivative financial assets that are designated as available for sale on initial recognition when intended to be held for an indefinite period of time and may be sold in response to requirements for liquidity or changes in interest rates, exchange rates or equity prices or are not classified in one of the previous categories. These (long term) investments are carried at fair value which is the fair price for the consideration paid to purchase it and all acquisition expenses.

Subsequently, they are re-measured at fair value and the changes in fair value are recognised in the related reserve in equity in the period they appeared, except for losses of impairment and gain or loss of foreign exchange. A provision is made for each continuing impairment on the bases of each individual investment based on last audited financial statements issued by investment entities and their fair value are adjusted at the continuing impairment ratio. The provision made is carried to statement of income.

For the year ended on 31 December 2017, the Bank carried financial assets classified in this category represented by shareholding in foreign and local companies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-i Financial Assets (Continued)

Impairment And Un-Collectability

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

2-j Non-Financial Assets

Property, Plant and Equipment

Initial And Subsequent Recognition

All items of property, plant and equipment are initially recognised at historical cost which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequently, after initial recognition, items of property, plant and equipment are carried at cost less any accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of an asset, less its estimated residual value over its useful economic life using the straight-line method at rates as stated in the Council of Ministers' Resolution no. 144 of 1999 as shown below:

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

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

Impairment

The carrying amounts of such assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Value in use is the present value of the estimated future cash flows of the asset / unit. Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

De-recognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2-j Non- Financial Assets (Continued)****Capital Work In Progress**

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

2-k Financial Liabilities**Recognition And Initial Measurement**

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Classification And Subsequent Measurement

Subsequent measurement of financial liabilities depends on how they have been treated on initial recognition. IAS 39 prescribes classification of the financial liabilities in one of the following two categories:

Liabilities At Fair Value Through Profit And Loss:

Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives.

For the year ended on 31 December 2017, the Bank did not carry any financial liabilities held for trading or designated as at fair value through profit and loss.

Other Financial Liabilities:

All liabilities, which have not been classified in the previous category, fall into this residual category.

For the year ended on 31 December 2017, the Bank had financial liabilities classified in this category represented by customers' deposits, payables, other liabilities and other provisions.

- Customers' deposits

Customers' deposits mainly comprise current accounts, saving accounts and fixed deposits. They are stated at amortised cost.

- Payables

Credit accounts are stated in the financial statements at amortised cost.

- Other provisions

The Bank makes other provisions other than collective depreciation, provisions for impairment of available for sale investment, loss on credit facilities and doubtful debts. Other provisions are recognised when the Bank has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and are able to be reliably measured.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2-l Reserves**Statutory Reserve And General Reserve**

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

Surplus On Revaluation Of Property, Plant And Equipment Reserve

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2-l Reserves (Continued)****Cumulative Changes In Fair Value Reserve**

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

2-m Contingent Liabilities, Commitments And Contra Accounts**Indirect Credit Facilities**

These accounts are represented by letters of guarantee and documentary letters of credit (import and export). They are contingent liabilities which the Bank is a party of and may convert to direct commitments on the Bank in the future, therefore, they are not stated in the statement of financial position. Letters of guarantee and documentary letters of credit impose the Bank to re-pay amounts based on it on behalf of customer with a condition that the customer has failed to repay according to contract provisions.

These accounts are stated at unamortised value, i.e. after deduction of cash margin. They are treated as performing debts because they are provided to customers against cash guarantee. A general provision is made for it except for letters of guarantee issued by foreign banks as they are treated as free of credit risk.

Other Contingent Liabilities, Commitments and Contra Accounts

Other contingent liabilities and commitments are represented by non-cancelable credit granting contracts, acceptances on vendors facilities, re-discounted bills, deferred exchange contracts and interest rate contracts, etc.

Contra accounts are represented by deposits for collection, insurance or guarantee or freely deposited such as checks and drafts for collection, securities deposited for guarantee, etc. that no contingent responsibility is held on the Bank for depositing them since the Bank is not a party of and its responsibility is restricted to good keeping to them. Therefore, they are also not stated in the statement of financial position.

2-n Cash And Cash Equivalents

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

2-o Related Party Transactions

In its ordinary course of business, the Bank conducts transactions with other entities that falls in the definition of related parties as comprised in the International Accounting Standard 24, *Related Party Disclosures*. A related party is a person or entity that is able to control or exercise significant and material influence over the Bank's financial and operating decision making process.

The Bank discloses transactions made with related parties such as Board of Directors, senior management, their families and companies in which they own 25% or more of its share capital in its financial statements. The Bank deals with related parties on the same basis it deals with others in accordance to provisions of Banks Law and interpretation of Central Bank of Yemen in its circular no. 4 of 1999 on Lending Related Parties And Their Related Interest.

The pricing policies and terms of these transactions are approved by the Bank's management.

2-p Translation Of Foreign Currencies

- The Bank maintains its accounting records in Yemeni Rial which is the Bank's functional and presentation currency.
- Transactions denominated in foreign currencies or required to be paid in foreign currencies are initially recorded in Yemeni Rial according to exchange rate at date of the transactions.
- Monetary assets and liabilities denominated in foreign currencies at year end are retranslated into Yemeni Rial at exchange rate ruling at statement of financial position date. Non-monetary items measured at historical cost in foreign currency are retranslated using exchange rate ruling at transaction date. Non-monetary items measured at fair value such as investment instruments in shares available for sale are retranslated using exchange rate ruling when determining fair value and its recognition in equity. Exchange rate differences are included in the statement of comprehensive income.
- The Bank does not deal in forward foreign exchange contracts.

2-q Offsetting The Financial Assets And Liabilities

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

2-r Fiduciary Assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Management Estimates

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

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

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

4 INTEREST ON DIRECT CREDIT FACILITIES TO CUSTOMERS, NET

	2017 YR'000	2016 YR'000
Interest on direct credit facilities to customers (Note 4-a)	996,856	1,102,853
Cost of customers' deposits (Note 4-b)	<u>(13,407,605)</u>	<u>(12,839,806)</u>
Total interest on direct credit facilities to customers, net	<u>(12,410,749)</u>	<u>(11,736,953)</u>

4-a Interest On Direct Credit Facilities To Customers

	2017 YR'000	2016 YR'000
Overdraft facilities	250,199	551,517
Short term loans	<u>746,657</u>	<u>551,336</u>
Total interest on direct credit facilities to customers	<u>996,856</u>	<u>1,102,853</u>

4-b Cost Of Customers' Deposits

	2017 YR'000	2016 YR'000
Fixed deposits	(10,109,434)	(9,720,660)
Saving accounts	<u>(3,298,171)</u>	<u>(3,119,146)</u>
Total cost of customers' deposits	<u>(13,407,605)</u>	<u>(12,839,806)</u>

5 INTEREST ON DUE FROM BANKS, NET

	2017 YR'000	2016 YR'000
Interest on due from foreign banks (Note 5-a)	70,016	41,337
Interest on due to banks	<u>-</u>	<u>-</u>
Total interest on due from banks, net	<u>70,016</u>	<u>41,337</u>

5-a Interest On Due From Foreign Banks

	2017 YR'000	2016 YR'000
Fixed deposits	69,621	40,889
Current accounts	<u>395</u>	<u>448</u>
Interest on due from foreign banks	<u>70,016</u>	<u>41,337</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

6 COMMISSIONS AND FEE INCOME ON BANKING SERVICES, NET

	2017	2016
	YR '000	YR '000
Commissions and fee income on banking services (Note 6-a)	662,323	403,821
Commissions and fee expenses on banking services (Note 6-b)	<u>(14,008)</u>	<u>(4,813)</u>
Total commissions and fee income on banking services, net	<u><u>648,315</u></u>	<u><u>399,008</u></u>

6-a Commissions And Fee Income On Banking Services

	2017	2016
	YR '000	YR '000
Commissions received:		
Letters of guarantee	153,701	114,621
Documentary letters of credit	23,255	29,328
Transfer of funds	4,003	3,633
Others	<u>481,364</u>	<u>256,239</u>
Total commissions and fee income on banking services	<u><u>662,323</u></u>	<u><u>403,821</u></u>

6-b Commissions And Fee Expenses On Banking Services

	2017	2016
	YR '000	YR '000
Commissions paid:		
To foreign banks	(13,825)	(4,417)
On Central Bank Of Yemen Sheets	(179)	(357)
To collect loans installments	<u>(4)</u>	<u>(39)</u>
Total commissions and fee expenses on banking services	<u><u>(14,008)</u></u>	<u><u>(4,813)</u></u>

7 RETURNS FROM HELD TO MATURITY INVESTMENTS

	2017	2016
	YR '000	YR '000
Treasury bills	<u>23,819,097</u>	<u>20,531,101</u>
Total returns from held to maturity investments	<u><u>23,819,097</u></u>	<u><u>20,531,101</u></u>

8 DIVIDENDS FROM AVAILABLE FOR SALE INVESTMENTS

	2017	2016
	YR '000	YR '000
Yemen Mobile Company - Yemen	<u>18,000</u>	<u>26,614</u>
Total dividends from available for sale investments	<u><u>18,000</u></u>	<u><u>26,614</u></u>

9 OTHER REVENUES

	2017	2016
	YR '000	YR '000
Written back provision for:		
Losses on direct credit facilities: (Note 20-b-2)	2,013,776	906,264
Islamic Branches' Department Project (Note 28)	313,159	-
Doubtful debts (Note 21-e)	210,772	-
Losses on indirect credit facilities (Note 28-b)	6,958	45,294
Prior years revenue	23,999	1,472
Changing local currency notes charges	12,185	6,878
Interest on documentary letter of credit delayed repayment	-	355
Penalty to Central Bank of Yemen recovered	<u>-</u>	<u>27</u>
Total other revenues	<u><u>2,580,849</u></u>	<u><u>960,290</u></u>

10 SALARIES, WAGES AND RELATED EXPENSES

	2017	2016
	YR '000	YR '000
Basic salaries and wages	1,566,171	1,451,410
Bonuses and incentives	1,422,689	1,252,593
Allowances and benefits	930,686	861,512
Bank's contribution in social insurance	155,075	115,846
Training:		
Institute of Banking Studies (Note 10-a)	2,026	5,795
Other entities	7,873	4,716
Others	<u>113,764</u>	<u>109,514</u>
Total salaries, wages and related expenses	<u><u>4,198,284</u></u>	<u><u>3,801,386</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

10 SALARIES, WAGES AND RELATED EXPENSES (CONTINUED)

During the year ended 31 December 2017 the Bank paid YR'000 399,487 (2016: YR'000 361,130) for payroll tax on its employees up till year end based on related tax declarations. Tax inspection has not been finalised by Tax Authority up till statement of financial position date.

10-a Training - Institute of Banking Studies

	2017	2016
	YR'000	YR'000
Bank's contribution in Institute's annual budget (Note 10-a-1)	2,026	5,690
Special training fees	-	105
Total training- Institute of Banking Studies	<u>2,026</u>	<u>5,795</u>

10-a-1 Bank's Contribution In Institute's Annual Budget

The Bank contributes in the estimated annual budget of Institute of Banking Studies with respect to the Order of Law No. 27 of 1978 on Establishing And Organising The Institute Of Banking Studies.

11 GENERAL AND ADMINISTRATION EXPENSES

	2017	2016
	YR'000	YR'000
Guards and security	158,446	127,308
Local and abroad transport	79,540	25,000
Fuel and oil - vehicles and generators	68,975	68,023
Maintenance and repairs	66,301	61,395
Rent	55,158	56,472
Stationery and printing	37,392	33,001
Electricity and water	35,067	42,772
Charity and donations	25,771	19,208
Professional and consultancy fees	21,021	18,090
Advertisement and publishing	20,880	31,528
Postage and communication	20,455	24,184
Prescriptions	17,498	13,535
Hospitality and reception	14,239	11,920
Insurance	11,894	9,828
Information technology	3,650	2,103
Public charges	2,972	3,140
Penalties - Central Bank of Yemen	249	1,873
Other	8,256	16,300
Total general and administration expenses	<u>647,764</u>	<u>565,680</u>

12 OTHER EXPENSES

	2017	2016
	YR'000	YR'000
Provisions' expenses (Note 12-a)	2,666,899	1,571,806
Annual subscription fees to Bank Deposit Insurance Corporation (Note 12-b)	246,472	187,486
Depreciation of property plant and equipment (Note 23)	109,957	117,906
Judicial expenses (Note 12-c)	6,902	3,251
Prior years expenses (Note 12-d)	2,307	2,608
Total other provisions	<u>3,032,537</u>	<u>1,883,057</u>

12-a Provisions' Expenses

	2017	2016
	YR'000	YR'000
Provision's expense for:		
Losses on direct credit facilities (Note 20-b-2)	2,663,864	794,352
Losses on indirect credit facilities (Note 28-b)	3,035	14,295
Social insurance differences	-	450,000
Islamic Branches' Department Project	-	313,159
Total provisions' expenses	<u>2,666,899</u>	<u>1,571,806</u>

12-b Annual Subscription Fees To Bank Deposit Insurance Corporation

The Bank pays annual subscription fees to Bank Deposit Insurance Corporation in accordance to Law No. 21 of 2008 on Bank Deposit Insurance Corporation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2017

12 OTHER EXPENSES (CONTINUED)

12-c Judicial Expenses

These expenses are represented by amounts paid for Bank's court cases and recovery of non performing debts.

12-d Prior Years Expenses

For the year ended 31 December 2017 these expenses were represented mainly by payment of bills and correction of entries (2016: differences in Bank branches' rent and interest on loans to employees who passed away in previous years).

13 FOREIGN EXCHANGE RATE DIFFERENCES

	2017 YR'000	2016 YR'000
(Loss) on re-translation of credit balances in foreign currencies	(6,096,903)	(876,543)
Gain on re-translation of debt balances in foreign currencies	1,232,615	60,536
Net foreign exchange rate difference	<u>(4,864,288)</u>	<u>(816,007)</u>

14 ZAKAT

	2017 YR'000	2016 YR'000
Balance at 1 January	-	-
Made for the year	250,000	250,000
(Paid) during the year:		
Aden	(242,000)	(240,000)
Hodiedah	(5,000)	(8,000)
Taiz	(2,000)	(2,000)
Hadramout- Coast	(600)	-
Hadramout- Valley	(400)	-
Balance at 31 December	<u>-</u>	<u>-</u>

The Bank received a clearance on Zakat liability for the year ended 31 December 2017 from Zakat General Directorate – Capital / Aden on 7 December 2017 (2016: 7 January 2017).

15 INCOME TAX

	2017 YR'000	2016 YR'000
Balance at 1 January	463,792	-
Made for the year (Note 15-a)	653,056	463,792
(Paid) during the year – for prior year	(508,792)	-
Balance at 31 December	<u>608,056</u>	<u>463,792</u>

15-a Made For The Year

	2017 YR'000	2016 YR'000
Profit for the year after Zakat and before income tax	3,265,278	3,358,082
(Loss) for the year carried forward from prior year	-	(1,039,121)
Net Profit for the year after Zakat and before income tax	<u>3,265,278</u>	<u>2,318,961</u>
Made for the year	<u>653,056</u>	<u>463,792</u>

16 COMPREHENSIVE INCOME FOR THE YEAR

For the year ended 31 December 2017 total comprehensive income (excess profits) of the Bank amounted YR'000 2,612,222 (2016: comprehensive income of YR'000 2,894,290).

16-a Basic Earnings Per Share

		2017	2016
Comprehensive income for the year	YR'000	<u>2,612,222</u>	<u>2,894,290</u>
Weighted average number of shares	1000 shares	<u>10,000</u>	<u>10,000</u>
Basic earnings per share	YR	<u>261</u>	<u>289</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2017

16 COMPREHENSIVE INCOME FOR THE YEAR (CONTINUED)

16-b Proposed Dividends

For the year ended 31 December 2017 the comprehensive income (excess profits) after paying Zakat and tax was distributed as follows:

	2017 YR '000	2016 YR '000
Balance at 1 January	1,298,619	(1,039,121)
Comprehensive income for the year	2,612,222	2,894,290
Government's share in prior year's profit- retained	(1,113,101)	-
Bank's employees' share in prior year's profit-paid	(185,518)	-
Balance distributable for the year	<u>2,612,222</u>	1,855,169
Transfer to statutory reserve during the year	(391,833)	(278,275)
Transfer to general reserve during the year	(391,833)	(278,275)
Balance at 31 December	<u>1,828,556</u>	<u>1,298,619</u>
Proposed dividends for current year:		
Government's share	1,567,333	1,113,101
Employees' share	261,223	185,518
Total proposed dividends	<u>1,828,556</u>	<u>1,298,619</u>

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

	2017 YR '000	2016 YR '000
Cash on hand:		
In local currency	1,582,902	1,528,822
In foreign currencies	1,122,690	7,496,946
Total cash on hand	<u>2,705,592</u>	<u>9,025,768</u>
Mandatory reserve balances with the Central Bank of Yemen:		
In local currency	11,947,454	8,696,170
In foreign currencies	7,033,565	3,818,342
Total mandatory reserve balances with the Central Bank of Yemen	<u>18,981,019</u>	<u>12,514,512</u>
Total cash on hand and mandatory reserve balances with the Central Bank of Yemen	<u>21,686,611</u>	<u>21,540,280</u>

18 HELD TO MATURITY INVESTMENTS, NET

	2017 YR '000	2016 YR '000
Treasury bills:		
Nominal value for a duration of:		
90 days	92,017,000	68,194,000
180 days	25,233,000	21,579,000
360 days	55,600,000	49,183,000
Total nominal value	<u>172,850,000</u>	<u>138,956,000</u>
Issuance discount:		
90 days	1,999,536	1,159,983
180 days	878,482	684,596
360 days	3,391,161	2,658,187
Total issuance discount	<u>6,269,179</u>	<u>4,502,766</u>
Total held to maturity investments, net	<u>166,580,821</u>	<u>134,453,234</u>

As at 31 December 2017 these treasury bills carry interest rates ranging from 15.8 - 16.6% (31 December 2016: 15.8 - 16.1%) and the last one matures on 30 December 2018 (2016: 24 December 2017).

19 DUE FROM BANKS

	2017 YR '000	2016 YR '000
Local banks (Note 19-a)	46,595,298	16,707,824
Foreign banks (Note 19-b)	19,881,484	9,923,670
Total due from banks	<u>66,476,782</u>	<u>26,631,494</u>

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

19 DUE FROM BANKS (CONTINUED)

19-a Due From Local Banks

	2017	2016
	YR'000	YR'000
Current accounts at Central Bank of Yemen:		
In foreign currencies	28,696,611	5,017,060
In local currency	17,898,215	11,690,334
Total due from Central Bank of Yemen	46,594,826	16,707,394
Due from other local banks		
Commercial current accounts	298	298
Islamic investment deposits	174	132
Total due from other local banks	472	430
Total due from local banks	46,595,298	16,707,824

19-b Due From Foreign Banks

	2017	2016
	YR'000	YR'000
Current accounts	12,423,753	3,204,170
Fixed deposits	7,457,731	6,719,500
Total due from foreign banks	19,881,484	9,923,670

20 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET OF PROVISION

	2017	2016
	YR'000	YR'000
Gross direct credit facilities to customers (Note 20-a)	14,840,143	12,782,332
Provision for losses on direct credit facilities to customers (Note 20-b)	(5,531,408)	(4,045,072)
Suspended interest (Note 20-c)	(2,066,107)	(1,409,727)
Total direct credit facilities to customers, net of provision	7,242,628	7,327,533

20-a Gross Direct Credit Facilities To Customers

20-a-i Beneficiaries

		----- 2017 -----		
		Overdraft facilities	Short term loans	Total
		YR'000	YR'000	YR'000
Private sector		5,586,603	4,119,309	9,705,912
Public sector		4,156,945	-	4,156,945
Employees		-	971,899	971,899
Related parties		-	5,387	5,387
Total		9,743,548	5,096,595	14,840,143
		----- 2016 -----		
		Overdraft facilities	Short term loans	Total
		YR'000	YR'000	YR'000
Private sector		5,565,775	4,275,999	9,841,774
Public sector		2,096,307	-	2,096,307
Employees		-	840,263	840,263
Related parties		-	3,988	3,988
Total		7,662,082	5,120,250	12,783,332

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2017

20 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET OF PROVISION (CONTINUED)

20-a Gross Direct Credit Facilities To Customers (Continued)

20-a-ii Purposes

		2017		
		Overdraft facilities	Short term loans	Total
		YR '000	YR '000	YR '000
Commercial		6,808,586	989,650	7,798,236
Finance		2,213,205	221,153	2,434,358
Industrial		139,157	861,790	1,000,947
Services		582,600	2,000	584,600
Others		-	3,022,002	3,022,002
	Total	9,743,548	5,096,595	14,840,143

		2016		
		Overdraft facilities	Short term loans	Total
		YR '000	YR '000	YR '000
Commercial		4,006,074	1,251,546	5,257,620
Finance		3,088,192	99,520	3,187,712
Industrial		527,333	295,476	822,809
Services		40,483	9,115	49,598
Others		-	3,464,593	3,464,593
	Total	7,662,082	5,120,250	12,782,332

20-a-iii Credit Category

		2017		
		Overdraft facilities	Short term loans	Total
		YR '000	YR '000	YR '000
Performing:				
Good		534,596	1,506,301	2,040,897
Under watch		121,399	344,530	465,929
	Total performing	655,995	1,850,831	2,506,826
Non-performing:				
Substandard		1,034,700	185,074	1,219,774
Doubtful		1,191,809	171,816	1,363,625
Bad		6,861,044	2,888,874	9,749,918
	Total non-performing	9,087,553	3,245,764	12,333,317
	Total	9,743,548	5,096,595	14,840,143

		2016		
		Overdraft facilities	Short term loans	Total
		YR '000	YR '000	YR '000
Performing:				
Good		4,088,053	1,396,986	5,485,039
Under watch		381,048	420,483	801,531
	Total performing	4,469,101	1,817,469	6,286,570
Non-performing:				
Substandard		-	114,558	114,558
Doubtful		721,678	227,619	949,297
Bad		2,471,303	2,960,604	5,431,907
	Total non-performing	3,192,981	3,302,781	6,495,762
	Total	7,662,082	5,120,250	12,782,332

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2017

20 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET OF PROVISION (CONTINUED)

20-b Provision For Losses On Direct Credit Facilities

20-b-i Calculating and Making Provision

----- 2017 -----					
	<i>Gross facility value</i>	<i>Cash guarantees retained</i>	<i>Suspended interest</i>	<i>Net facility value</i>	<i>Provision</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>
Performing:					
Good	2,040,897	(636,775)	(219)	1,403,903	28,078
Under watch	465,929	-	(12)	465,917	9,318
Total performing	<u>2,506,826</u>	<u>(636,775)</u>	<u>(231)</u>	<u>1,869,820</u>	<u>37,396</u>
Non-performing:					
Substandard	1,219,774	(9,275)	(15,176)	1,195,323	179,298
Doubtful	1,363,625	(739,893)	(39,027)	584,705	263,117
Bad	9,749,918	(2,686,648)	(2,011,673)	5,051,597	5,051,597
Total non-performing	<u>12,333,317</u>	<u>(3,435,816)</u>	<u>(2,065,876)</u>	<u>6,831,625</u>	<u>5,494,012</u>
Total	<u>14,840,143</u>	<u>(4,072,591)</u>	<u>(2,066,107)</u>	<u>8,701,445</u>	<u>5,531,408</u>

----- 2016 -----					
	<i>Gross facility value</i>	<i>Cash guarantees retained</i>	<i>Suspended interest</i>	<i>Net facility value</i>	<i>Provision</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>
Performing:					
Good	5,486,037	(3,882,906)	(377)	1,602,754	32,055
Under watch	801,531	(-)	(-)	801,531	16,031
Total performing	<u>6,287,568</u>	<u>(3,882,906)</u>	<u>(377)</u>	<u>2,404,285</u>	<u>48,086</u>
Non-performing:					
Substandard	114,558	(-)	(11,177)	103,381	15,507
Doubtful	949,297	(72,250)	(192,669)	684,378	307,970
Bad	5,431,907	(552,894)	(1,205,504)	3,673,509	3,673,509
Total non-performing	<u>6,495,762</u>	<u>(625,144)</u>	<u>(1,409,350)</u>	<u>4,461,268</u>	<u>3,996,986</u>
Total	<u>12,783,330</u>	<u>(4,508,050)</u>	<u>(1,409,727)</u>	<u>6,865,553</u>	<u>4,045,072</u>

20-b-2 Provision Movement

----- 2017 -----			
	<i>General</i>	<i>Specific</i>	<i>Total</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>
Balance at 1 January	48,086	3,996,986	4,045,072
Re-translation difference on balances in foreign currencies	9,634	826,614	836,248
Written back during the year (Note 9)	(461,182)	(1,552,594)	(2,013,776)
Used during the year	(-)	(-)	(-)
Made during the year (Note 12-a)	<u>440,858</u>	<u>2,223,006</u>	<u>2,663,864</u>
Balance at 31 December	<u>37,396</u>	<u>5,494,012</u>	<u>5,531,408</u>
----- 2016 -----			
	<i>General</i>	<i>Specific</i>	<i>Total</i>
	<i>YR '000</i>	<i>YR '000</i>	<i>YR '000</i>
Balance at 1 January	34,741	3,937,530	3,972,271
Re-translation difference on balances in foreign currencies	3,376	188,430	191,806
Written back during the year (Note 9)	(16,676)	(889,588)	(906,264)
Used during the year	(-)	(7,093)	(7,093)
Made during the year (Note 12-a)	<u>26,645</u>	<u>767,707</u>	<u>794,352</u>
Balance at 31 December	<u>48,086</u>	<u>3,996,986</u>	<u>4,045,072</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

20 DIRECT CREDIT FACILITIES TO CUSTOMERS, NET OF PROVISION (CONTINUED)

20-c Suspended Interests

	2017 YR'000	2016 YR'000
Balance at 1 January	1,409,727	909,413
Re-translation difference on balances in foreign currencies	216,237	(332,876)
Written off during the year	(510)	-
Written back during the year	(315,297)	(38,687)
Made during the year	755,950	871,877
Balance at 31 December	<u>2,066,107</u>	<u>1,409,727</u>

21 RECEIVABLES AND OTHER ASSETS, NET

	2017 YR'000	2016 YR'000
Islamic Branches' Department – National Bank of Yemen (Note 21-a)	745,729	-
Inter-branch accounts (Note 21-b)	465,080	569,891
Prepayments	62,940	413,208
Assets acquired by the Bank against debts (Note 21-c)	16,934	16,934
Interest receivable	1,807	29,366
Other receivables (Note 21-d)	1,263,103	1,009,915
Total receivables and other assets	2,555,593	2,039,314
Provision for doubtful debts (Note 9-e)	(954,616)	(1,131,230)
Total receivables and other assets, net	<u>1,600,977</u>	<u>908,084</u>

21-a Islamic Branches' Department – National Bank of Yemen

On 16 April 2017 the Bank officially inaugurated an Islamic branch in Sana'a City, Republic of Yemen which represents the first branch of the Islamic Branches' Department. The establishment of this department comes as a response to Board of Directors' Resolution No. 33 of 2009 issued on 17 March 2009 on the recommendation of the Committee for the Preparation and Study of Establishing a Branch for Islamic Transactions and H.E. Minister of Finance approval on this resolution dated 1 April 2009. The Bank has obtained a final license to open an Islamic Branch from the Central Bank of Yemen on 10 March 2015 based on an initial approval granted to the Bank under no.7139 dated 18 December 2014.

21-b Inter – branch Accounts

As at 31 December 2017 the amount mainly represents difference in amounts in Islamic Branches' Department - National Bank of Yemen account and Bank's Head Office because of delayed related entries due to conditions the country is going through. Management is following up with completion of clearing such amounts during the subsequent period in compliance to Central Bank of Yemen circular no. 2 of 2002 on Rules on Preparation and Presentation of the Financial Statements and Basis of Evaluation of Banks (amended).

21-c Assets Acquired By The Bank Against Debts

The Bank maintains, in this account, real estates that have been collateralised for its non-performing debt settlement which 5 years have passed on, until they are disposed of in compliance to article no. 73 of Law No. 38 of 1998 on Banks. Management is following up with settling this account in the light of conditions the country is going through.

21-d Other Receivables

As at 31 December 2017 this account includes embezzled and robbed amounts of YR'000 841,048 due to the unstable security conditions the country is going through. Management is following up with addressing such amounts and has provided for in the provision for doubtful debts.

21-e Provision for Doubtful Debts

	2017 YR'000	2016 YR'000
Balance at 1 January	1,131,230	1,186,295
Re-translation difference on balances in foreign currencies	35,158	8,251
Written back during the year - salaries and bonuses, war period 2015 (Note 9)	(210,772)	-
Provision reclassification difference (Note 22-c)	(1,000)	-
Difference for settlement	-	(63,316)
Balance at 31 December	<u>954,616</u>	<u>1,131,230</u>

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22 AVAILABLE FOR SALE INVESTMENTS, NET

	2017	2016
	YR'000	YR'000
Foreign (Note 22-a)	467,835	297,902
Local (Note 22-b)	204,305	159,953
Total available for sale investments	672,140	457,855
Provision for impairment (Note 22-c)	(246,410)	(180,884)
Total available for sale investments, net	425,730	276,971

22-a Foreign Available For Sale Investments

	<i>Percentage of shares</i>	<i>No. of Shares</i>	<i>2016 YR'000</i>	<i>Re-translation difference on balances in foreign currencies YR'000</i>	2017 YR'000
UBAC Curacao N V- Curacao	0.88	45,202	113,117	64,527	177,644
ALUBAF Arab International Bank - Bahrain	0.33	13,768	172,272	98,269	270,541
Arab Financial Services Company - Bahrain	0.167	10,000	12,513	7,137	19,650
Total			<u>297,902</u>	<u>169,933</u>	<u>467,835</u>

22-b Local Available For Sale Investments

	<i>Percentage of shares</i>	<i>No. of Shares</i>	<i>2016 YR'000</i>	<i>Re-translation difference on balances in foreign currencies YR'000</i>	2017 YR'000
Yemen Financial Services Company -Yemen (Note 22-b-i)	7.06	3,107	77,753	44,352	122,105
Yemen Mobile Company-Yemen	0.139	120,000	61,200	-	61,200
Al-Amal Bank for Microfinance -Yemen (Note 22-b-ii)	1	200	20,000	-	20,000
Aden Foundation for Microfinance - Yemen (22-b-iii)	1	200	1,000	-	1,000
Total			<u>159,953</u>	<u>44,352</u>	<u>204,305</u>

22-b-i Yemen Financial Services Company -Yemen

This share comes before approving the increase in the company's share capital at 30% in a subsequent period (Note 40-a).

22-b-ii Al-Amal Bank for Microfinance -Yemen

Investment's amount represents what was paid by the Bank for shares from the authorized share amounting 400 shares of total value of YR 40,000,000.

22-b-iii Aden Foundation for Microfinance

The name "Al-Tadamon Foundation for Microfinance" was amended to "Aden Foundation for Microfinance" with respect to Insurance and Social Affairs Office approval in accordance to foundation's letter on that regard.

22-c Provision for Impairment

	2017	2016
	YR'000	YR'000
UBAC Curacao N V - Curacao	177,644	113,118
Yemen Financial Services Company - Yemen	67,766	67,766
Aden Foundation for Microfinance (Note 21-e)	1,000	-
Total provision for impairment	246,410	180,884

Calculation of impairment of these investments is due to not receiving any dividends from for many years and it is not expected to receive any dividends from during the coming years.

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23 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

	<i>Land</i> (Note 23-a) YR'000	<i>Buildings</i> YR'000	<i>Leasehold</i> <i>improvements</i> YR'000	<i>Furniture and</i> <i>equipment</i> YR'000	<i>Motor</i> <i>vehicles</i> YR'000	<i>Swift, computer</i> <i>hardware and</i> <i>software</i> YR'000	<i>Total</i> YR'000
At 1 January 2017	1,215,282	1,193,427	199,436	726,614	152,528	560,771	4,048,058
Additions during the year	-	-	51,414	72,088	23,406	138,331	285,239
Disposals during the year	-	(97,406)	(34,753)	(26,752)	-	(238,151)	(397,062)
Re-classification difference	-	4,214	(8,545)	(6,869)	1	11,199	-
At 31 December 2017	1,215,282	1,100,235	207,552	765,081	175,935	472,150	3,936,235
At 1 January 2016	1,204,482	1,195,663	187,294	678,104	152,228	542,412	3,960,183
Additions during the year	10,800	459	12,142	48,510	300	18,359	90,570
Disposals during the year	-	(2,695)	-	-	-	-	(2,695)
At 31 December 2016	1,215,282	1,193,427	199,436	726,614	152,528	560,771	4,048,058
Accumulated Depreciation							
At 1 January 2017	-	253,035	116,353	445,498	144,232	517,761	1,476,879
Charged for the year	-	25,802	13,901	47,454	5,995	16,805	109,957
Disposals during the year	-	(24,335)	(2,345)	(11,166)	-	(111,162)	(149,008)
Re-classification difference	-	1,767	(2,407)	(9,322)	1	9,961	-
At 31 December 2017	-	256,269	125,502	472,464	150,228	433,365	1,437,828
At 1 January 2016	-	227,780	102,175	396,853	137,784	495,231	1,359,823
Charged for the year	-	26,105	14,178	48,645	6,448	22,530	117,906
Disposals during the year	-	(850)	-	-	-	-	(850)
At 31 December 2016	-	253,035	116,353	445,498	144,232	517,761	1,476,879
Net Book Value							
At 31 December 2017	1,215,282	843,966	82,050	292,617	25,707	38,785	2,498,407
At 31 December 2016	1,215,282	940,392	83,083	281,116	8,296	43,010	2,571,179

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

23-a Additions To Land

As at 31 December 2017 no land additions (31 December 2016: land plot in AlHabeelain, Lahj Governorate, Republic of Yemen).

24 CAPITAL WORK IN PROGRESS

	2017 YR'000	2016 YR'000
Automation and Technology Project (Note 24-a)	759,566	-
Bank's buildings rehabilitation projects (Note 24-b)	312,644	265,428
Islamic Branches' Department Project (Note 21-a)	-	642,998
Total capital work in progress	1,072,210	908,426

24-a Automation and Technology Project

On 22 May 2017, the Bank's management signed the work contract for the purchase and supply of systems, programs, application and training of a banking system with ICSFS, Amman, Jordan, which was awarded the tender with respect to Bids Higher Committee's Resolution No. 61 of 2014 for the implementation of part 2 - installing and operating modern information technology hardware and software of the Bank's Development And Modernization Project (Note 1-b).

24-b Bank's Buildings Rehabilitation Projects

	2017 YR'000	2016 YR'000
Sayoon new branch	182,754	181,016
Al-Shihr branch	46,577	30,991
Head Office	29,828	29,828
Lahj branch	25,250	-
Al-Mukalla Branch repair	14,187	13,233
Others	14,048	10,358
Total Bank's buildings rehabilitation projects	312,644	265,426

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24 CAPITAL WORK IN PROGRESS (CONTINUED)

24-b Bank's Buildings Rehabilitation Projects (Continued)

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

25 DUE TO BANKS

As 31 December 2017 there is no due to banks balances (31 December 2016: Nil).

26 CUSTOMERS' DEPOSITS

	2017 YR'000	2016 YR'000
Current accounts	104,215,820	51,037,716
Fixed deposits	86,093,325	78,941,421
Saving accounts	48,220,062	39,251,668
Cash deposits on indirect credit facilities (Note 31)	1,786,227	868,814
Unclaimed balances (Note 26-a)	902,769	580,632
Deposits on behalf of Central Bank of Yemen –Socotra Branch (Note 26-b)	368,156	185,723
Others	<u>1,131,712</u>	<u>683,873</u>
Total customers' deposits	<u>242,718,071</u>	<u>171,549,847</u>

26-a Unclaimed Balances

The Bank keeps deposits that have passed more than 15 years period of time without any movement of withdraw or deposit and have not been claimed by their owners. Increase of the amount during the year 2017 is due to re-translation difference on balances in foreign currencies as management re-translate these balances annually. Management monitors and evaluates status of this account in compliance to article no. 79-2 of the Law No. 38 of 1998 on Banks in the light of conditions the country is going through.

26-b Deposits On Behalf Of Central Bank Of Yemen – Socotra Branch

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

27 PAYABLES AND OTHER LIABILITIES

	2017 YR'000	2016 YR'000
Accrued interest payable on saving accounts and deposits	1,900,666	1,755,847
Government's share in prior year's profit	1,113,101	-
Government entities (Note 27-a)	968,265	758,702
Employees entitlements (Note 27-b)	804,780	1,109,560
Surplus re-payments on direct credit facilities	12,456	15,148
Projects maintenance guarantee	6,860	6,985
Others	<u>1,007,072</u>	<u>1,395,704</u>
Total payables and other liabilities	<u>5,813,200</u>	<u>5,041,946</u>

27-a Government Entities

	2017 YR'000	2016 YR'000
Tax Authority - income tax (Note 15)	653,056	463,792
Skills Development Fund	151,638	130,616
General Authority for Insurance and Pensions	129,463	100,186
Zakat General Directorate - Capital / Aden	<u>34,108</u>	<u>64,108</u>
Total government entities	<u>968,265</u>	<u>758,702</u>

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For the Year Ended 31 December 2017

27 PAYABLES AND OTHER LIABILITIES (Continued)

27-b Employees Entitlements

	2017 YR'000	2016 YR'000
Social insurance	298,448	298,748
Employees' regular leave (Note 27-a-i)	236,909	198,199
Bounces and incentives	160,631	281,256
Outstanding commitments:		
Salaries	66,046	268,644
Medication	42,746	62,713
Total employees entitlements	<u>804,780</u>	<u>1,109,560</u>

27-b-i Employees' Regular Leave

	2017 YR'000	2016 YR'000
Balance at 1 January	198,199	187,097
Made during the year	94,768	85,415
(Used) during the year	(56,058)	(74,313)
Balance at 31 December	<u>236,909</u>	<u>198,199</u>

28 OTHER PROVISIONS

	2017 YR'000	2016 YR'000
Provision for:		
Contingent claims - social insurance differences (Note 28-a)	450,000	450,000
Losses on indirect credit facilities (Note 28-b)	33,705	30,171
Islamic Branches' Department Project (Note 9)	-	313,159
Others	134,964	111,455
Total other provisions	<u>618,669</u>	<u>904,785</u>

28-a Contingent Claims - Social Insurance Differences

The amount represents provision made by management against social insurance differences resulting from Bank employees acquiring salaries increase until reaching an appropriate treatment with General Authority for Insurance and Pensions. In a subsequent period, the Bank formed a work team to participate in calculating insurance contribution e (Note 40-b).

28-a Provision For Losses On Indirect Credit Facilities

	2017 YR'000	2016 YR'000
Balance at 1 January	30,171	55,529
Re-translation difference on balances in foreign currencies (Written back) during the year (Note 9)	7,457	5,641
Made during the year (Note 12-a)	(6,958)	(45,294)
Balance at 31 December	<u>33,705</u>	<u>14,295</u>

29 CAPITAL

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

As at 31 December 2017, Bank's paid capital is YR'billions ten (31 December 2016: YR'billions ten) distributed to ten million shares of nominal value YR 1,000 per share. Management is following up with executing increase of Bank's capital with respect to H.E. Minister of Finance letter addressed to Chairman dated 15 October 2017 on approving Board of Directors resolution no. 69 of 2017 issued in its fourth extraordinary meeting held on 25 September 2017 on National Bank of Yemen paid capital provided that, the increase to be paid in three years time.

30 RESERVES

	2017 YR'000	2016 YR'000
Statutory reserve (Note 30-a)	3,700,220	3,308,387
General reserve (Note 30-b)	2,215,598	1,823,765
Surplus on revaluation of property, plant and equipment reserve	639,762	639,762
Fair value accumulated changes reserve	50,090	50,090
Total reserves	<u>6,605,670</u>	<u>5,822,004</u>

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30 RESERVES (CONTINUED)

30-a Statutory Reserve

	2017 YR'000	2016 YR'000
Balance at 1 January	3,308,387	3,030,112
Transfer to reserve during the year	<u>391,833</u>	<u>278,275</u>
Balance at 31 December	<u><u>3,700,220</u></u>	<u><u>3,308,387</u></u>

30-b General Reserve

	2017 YR'000	2016 YR'000
Balance at 1 January	1,823,765	1,545,490
Transfer to reserve during the year	<u>391,833</u>	<u>278,275</u>
Balance at 31 December	<u><u>2,215,598</u></u>	<u><u>1,823,765</u></u>

31 CONTINGENT LIABILITIES, COMMITMENTS AND CONTRA ACCOUNTS, NET

	----- 2017 -----		
	<i>Gross commitment YR'000</i>	<i>Cash margin YR'000</i>	<i>Net commitment YR'000</i>
Indirect credit facilities:			
Letters of guarantee - foreign banks	11,117,257	(-)	11,117,257
Letters of guarantee - local	3,040,951	(1,539,289)	1,501,662
Documentary letters of credit	<u>246,938</u>	<u>(246,938)</u>	<u>-</u>
Total	<u><u>14,405,146</u></u>	<u><u>(1,786,227)</u></u>	<u><u>12,618,919</u></u>
Others			
Draft and cheques for collection	98,103	(-)	98,103
Bank commitments against drafts received for collection	<u>25,451</u>	<u>(-)</u>	<u>25,451</u>
Total	<u><u>123,554</u></u>	<u><u>(-)</u></u>	<u><u>123,554</u></u>
Total contingent liabilities, commitments and contra accounts, net	<u><u>14,528,700</u></u>	<u><u>(1,786,227)</u></u>	<u><u>12,742,473</u></u>

	----- 2016 -----		
	<i>Gross commitment YR'000</i>	<i>Cash margin YR'000</i>	<i>Net commitment YR'000</i>
Indirect credit facilities:			
Letters of guarantee - foreign banks	7,589,816	(-)	7,589,816
Letters of guarantee - local	2,131,564	(804,634)	1,326,930
Documentary letters of credit	<u>108,631</u>	<u>(29,375)</u>	<u>79,256</u>
Total	<u><u>9,830,011</u></u>	<u><u>(834,009)</u></u>	<u><u>8,996,002</u></u>
Others			
Draft received for collection	349,560	(-)	349,560
Deferred bank cheques	<u>348,054</u>	<u>(34,805)</u>	<u>313,249</u>
Total	<u><u>697,614</u></u>	<u><u>(34,805)</u></u>	<u><u>662,809</u></u>
Total contingent liabilities, commitments and contra accounts, net	<u><u>10,527,625</u></u>	<u><u>(868,814)</u></u>	<u><u>9,658,811</u></u>

32 CASH AND CASH EQUIVALENTS

	2017 YR'000	2016 YR'000
Treasury bills maturing in less than 3 months (Note 34-b)	67,486,318	57,161,758
Due from Banks maturing in less than 3 months (Note 34-b)	59,019,051	24,587,294
Cash on hand (Note 17)	<u>2,705,592</u>	<u>9,025,768</u>
Total cash and cash equivalents	<u><u>129,210,961</u></u>	<u><u>90,774,820</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 December 2017

33 TRANSACTIONS WITH RELATED PARTIES

For the year ended 31 December 2017 transactions with related parties were as shown below. Management believes that the transactions were made at arm's length basis.

	2017	2016
	YR'000	YR'000
Statement of Comprehensive Income		
Interest income	1,113	-
Interest cost	2,616	2,683
Salaries, wages and related expenses	65,793	44,704
Statement of Financial Position		
Direct credit facilities – loans	5,387	3,988
Customers' deposits	33,960	39,816

34 RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing the risks professionally. The Bank defines risk as the possibility of incurring losses or profits foregone that may be caused by internal or external factors as the Bank is exposed to credit risk, liquidity risk, interest risk and foreign currency risk. The core functions of the Bank's risk management are identifying all risks that effect the Bank, measuring such risks, managing risk positions and determining capital allocations.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Risks are managed by Bank's management under policies approved by the Board of Directors which provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Bank's management determines and hedge financial risks in cooperation with other operating units in the Bank. In addition, internal audit department is responsible for the independent review of risk management and the control environment. Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/ her responsibilities.

34-a Credit Risk

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

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

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

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34 RISK MANAGEMENT (CONTINUED)

34-a Credit Risk (Continued)

Exposure To Credit Risk

The table below shows the maximum exposure of some of statement of financial position items and off financial position items to credit risk as at 31 December 2017.

	2017 YR'000	2016 YR'000
FINANCIAL ASSETS:		
Mandatory reserve balances with the Central Bank of Yemen	18,981,019	12,514,512
Held to maturity investments, net	166,580,821	134,453,234
Due from banks	66,476,782	26,631,494
Direct credit facilities to customers, net	7,242,628	7,327,533
Receivables and other assets (except for prepayments), net	1,538,037	494,876
Available for sale investments, net	425,730	276,971
Total financial assets	<u>261,245,017</u>	<u>181,698,620</u>
CONTINGENT LIABILITIES, COMMITMENTS AND CONTRA ACCOUNTS, NET		
Total exposure to credit risk	<u>12,742,473</u>	<u>9,658,811</u>
	<u>273,987,490</u>	<u>191,357,431</u>

The Bank manages concentration of credit risk by distributing the portfolio over diversified economic sectors and geographical locations as shown below.

Distribution Of Financial Instruments According To Economic Sectors

	2017					
	Finance YR'000	Trade YR'000	Industry YR'000	Services YR'000	Other YR'000	Total YR'000
Financial Assets						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,686,611	-	-	-	-	21,686,611
Held to maturity investments, net	166,580,821	-	-	-	-	166,580,821
Due from banks	66,476,782	-	-	-	-	66,476,782
Direct credit facilities to customers, net	-	4,840,352	-	533,407	1,868,869	7,242,628
Available for sale investments, net	425,730	-	-	-	-	425,730
Total	<u>255,169,944</u>	<u>4,840,352</u>	<u>-</u>	<u>533,407</u>	<u>1,868,869</u>	<u>262,412,572</u>
Financial Liabilities						
Due to banks	-	-	-	-	-	-
Customers' deposits	10,894,725	24,002,323	7,468,103	54,195,156	146,157,764	242,718,071
Total	<u>10,894,725</u>	<u>24,002,323</u>	<u>7,468,103</u>	<u>54,195,156</u>	<u>146,157,764</u>	<u>242,718,071</u>
Contingent Liabilities, Commitments And Contra Accounts, net						
	<u>36,354</u>	<u>11,234,400</u>	<u>27,905</u>	<u>922,141</u>	<u>521,673</u>	<u>12,742,473</u>
----- 2016 -----						
	Finance YR'000	Trade YR'000	Industry YR'000	Services YR'000	Other YR'000	Total YR'000
Financial Assets						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,540,280	-	-	-	-	21,540,280
Held to maturity investments, net	134,453,234	-	-	-	-	134,453,234
Due from banks	26,631,494	-	-	-	-	26,631,494
Direct credit facilities to customers, net	-	5,252,271	-	-	2,075,262	7,327,533
Available for sale investments, net	276,971	-	-	-	-	276,971
Total	<u>182,901,979</u>	<u>5,252,271</u>	<u>-</u>	<u>-</u>	<u>2,075,262</u>	<u>190,229,512</u>
Financial Liabilities						
Due to banks	-	-	-	-	-	-
Customers' deposits	6,093,000	18,263,535	5,035,043	19,201,057	122,957,212	171,549,847
Total	<u>6,093,000</u>	<u>18,263,535</u>	<u>5,035,043</u>	<u>19,201,057</u>	<u>122,957,212</u>	<u>171,549,847</u>
Contingent Liabilities, Commitments And Contra Accounts, net						
	<u>483,802</u>	<u>6,506,980</u>	<u>65,424</u>	<u>347,208</u>	<u>2,255,397</u>	<u>9,658,811</u>

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34 RISK MANAGEMENT (CONTINUED)

34-a Credit Risk (Continued)

Distribution Of Financial Instruments According To Geographical Locations

	2017					Total YR'000
	Republic of Yemen YR'000	America and Caribbean YR'000	Europe YR'000	Asia YR'000	Africa YR'000	
Financial Assets						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,686,611	-	-	-	-	21,686,611
Held to maturity investments, net	166,580,821	-	-	-	-	166,580,821
Due from banks	46,595,298	-	8,367,085	11,365,299	149,100	66,476,782
Direct credit facilities to customers, net	7,242,628	-	-	-	-	7,242,628
Available for sale investments, net	135,539	-	-	290,191	-	425,730
Total	<u>242,240,897</u>	<u>-</u>	<u>8,367,085</u>	<u>11,655,490</u>	<u>149,100</u>	<u>262,412,572</u>
Financial Liabilities						
Due to banks	-	-	-	-	-	-
Customers' deposits	242,349,915	-	-	368,156	-	242,718,071
Total	<u>242,349,915</u>	<u>-</u>	<u>-</u>	<u>368,156</u>	<u>-</u>	<u>242,718,071</u>
Contingent Liabilities, Commitments And Contra Accounts, net	<u>1,706,374</u>	<u>61,276</u>	<u>2,175,826</u>	<u>8,509,160</u>	<u>289,837</u>	<u>12,742,473</u>

	2016					Total YR'000
	Republic of Yemen YR'000	America and Caribbean YR'000	Europe YR'000	Asia YR'000	Africa YR'000	
Financial Assets						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,540,280	-	-	-	-	21,540,280
Held to maturity investments, net	134,453,234	-	-	-	-	134,453,234
Due from banks	16,707,825	-	4,973,617	4,861,747	88,305	26,631,494
Direct credit facilities to customers, net	7,327,533	-	-	-	-	7,327,533
Available for sale investments, net	92,186	-	-	184,785	-	276,971
Total	<u>180,121,058</u>	<u>-</u>	<u>4,973,617</u>	<u>5,046,532</u>	<u>88,305</u>	<u>190,229,512</u>
Financial Liabilities						
Due to banks	-	-	-	-	-	-
Customers' deposits	171,549,847	-	-	-	-	171,549,847
Total	<u>171,549,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,549,847</u>
Contingent Liabilities, Commitments And Contra Accounts, net	<u>1,999,275</u>	<u>39,018</u>	<u>2,095,000</u>	<u>5,340,959</u>	<u>184,559</u>	<u>9,658,811</u>

34-b Liquidity Risk

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

The Central Bank of Yemen in accordance to its circular no. 3 of 1997 on Liquidity Ratio requires each bank in Yemen to keep a liquidity ratio of not less than 25%. As at 31 December 2017 the Bank's liquidity ratio was 90% (31 December 2016: 91%).

Maturity Of Financial Position Items And Net Maturity Gap

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

NATIONAL BANK OF YEMEN

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

34 RISK MANAGEMENT (CONTINUED)

34-b Liquidity Risk (Continued)

Maturity Of Financial Position Items And Net Maturity Gap (Continued)

	2016					Total YR'000
	Less than 3 months YR'000	3 to 6 months YR'000	6 months to 1 year YR'000	More than a year YR'000		
Financial Assets						
Cash on hand and mandatory reserve balances with the Central Bank of Yemen	21,540,280	-	-	-	-	21,540,280
Held to maturity investments, net	57,161,758	30,766,663	46,524,813	-	-	134,453,234
Due from banks	24,587,294	-	-	2,044,200	-	26,631,494
Direct credit facilities to customers, net	2,658,948	15,719	2,570,051	2,082,815	-	7,327,533
Available for sale investments, net	-	-	-	276,971	-	276,971
Other assets	908,084	-	-	3,479,605	-	4,387,689
Total	106,856,364	30,783,382	49,094,864	7,883,591	-	194,617,201
Financial Liabilities and Equity						
Due to banks	-	-	-	-	-	-
Customers' deposits	129,324,317	13,438,434	28,465,338	321,758	-	171,549,847
Other liabilities	1,191,598	178,714	385,536	4,190,883	-	5,946,731
Equity	-	-	-	17,120,623	-	17,120,623
Total	130,515,915	13,617,148	28,850,874	21,633,264	-	194,617,201
Net gap	(23,659,551)	17,165,234	20,243,990	(13,749,673)	-	-

34-c Interest Rate Risk

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

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

Average Interest Rates On Financial Instruments

	2017				
	Yemeni Rial %	US Dollar %	Sterling Bound %	Euro %	Saudi Rial %
Financial Assets					
Mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	-
Held to maturity investments, net	16.08	-	-	-	-
Due from banks - fixed deposits	-	1.24	0.25	-	-
Direct credit facilities to customers, net	21.00	11.00	-	-	-
	-	-	-	-	-
Financial Liabilities					
Due to banks	-	-	-	-	-
Customers' deposits	15.00	0.25	0.25	0.25	0.25
2016					
Financial Assets					
Mandatory reserve balances with the Central Bank of Yemen	-	-	-	-	-
Held to maturity investments, net	16.39	-	-	-	-
Due from banks - fixed deposits	-	0.44	0.10	-	-
Direct credit facilities to customers, net	21.00	8.00	-	-	-
	-	-	-	-	-
Financial Liabilities					
Due to banks	-	-	-	-	-
Customers' deposits	15.00	0.25	0.25	0.25	0.25

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

34 RISK MANAGEMENT (CONTINUED)

34-d Currency Rate Risk (Continued)

Foreign Currencies Exchange Rate (Continued)

In compliance with the above resolution and in the light that exchange rate bulletins, attached to the Central Bank of Yemen Head Office / Aden instructions on the monthly closing of accounts and the evaluation of foreign currency positions, include the exchange rate of the US Dollar and the Saudi Riyal, the Bank has adopted a procedure that is based on a reference to define foreign currencies' rates that includes extracting exchange rates of foreign currencies the Bank deals with from a website, in accordance to the exchange rate of the US Dollar as included in the exchange rate bulletin issued by the Central Bank of Yemen, Head Office / Aden. The exchange rate bulletin issued by the Bank under this procedure is approved by the Vice General Manager for Banking Departments.

Foreign Currency Positions

Using exchange rates resulting from foreign currencies exchange rates procedure mentioned above for evaluating foreign currencies positions, the ratio of net foreign currency positions of the Bank to core capital and reserves on 31 December 2017 were as shown below:

		----- 2017 -----			
		<i>Assets</i>	<i>Liabilities</i>	<i>Net foreign</i>	<i>Ratio to core</i>
		<i>Long position</i>	<i>Short position</i>	<i>currency</i>	<i>capital and</i>
		<i>YR'000</i>	<i>YR'000</i>	<i>positions</i>	<i>reserves</i>
		<i>YR'000</i>			
		<i>%</i>			
UAE Dirham		4,236,419	(8,133)	4,228,286	27
Sterling pound		5,935,713	(2,481,927)	3,453,786	22
Euro		1,324,365	(1,810,626)	(486,261)	(3)
Saudi Rial		4,172,633	(9,881,099)	(5,708,466)	(36)
US Dollar		51,088,428	(62,999,472)	(11,911,044)	(75)
Others		90,969	(12,672)	78,297	1
	Total	<u>66,848,527</u>	<u>(77,193,929)</u>	<u>(10,345,402)</u>	<u>(64)</u>
----- 2016 -----					
		<i>Assets</i>	<i>Liabilities</i>	<i>Net foreign</i>	<i>Ratio to core</i>
		<i>Long position</i>	<i>Short position</i>	<i>currency</i>	<i>capital and</i>
		<i>YR'000</i>	<i>YR'000</i>	<i>positions</i>	<i>reserves</i>
		<i>YR'000</i>			
		<i>%</i>			
UAE Dirham		2,626,320	(198,151)	2,428,169	16
Sterling pound		2,634,954	(1,273,357)	1,361,597	9
Saudi Rial		5,882,473	(4,682,340)	1,200,133	8
Euro		1,013,612	(1,098,167)	(84,555)	(1)
US Dollar		20,695,175	(32,834,051)	(12,138,876)	(80)
Others		19,527	(7,749)	11,778	-
	Total	<u>32,872,061</u>	<u>(40,093,815)</u>	<u>(7,221,754)</u>	<u>(48)</u>

Such foreign currencies positions exceedings for the year ended 31 December 2017 come as a reflection of Bank's transactions with such currencies in the light of conditions the country is going through (Note 1-b), including selling cash in foreign currencies at discounted rates to governmental entities to buy fuel and food materials with a difficulty in recovering these amounts from the government, delayed feeding of Bank's accounts at foreign banks with foreign currencies by authorised entities. Management is following-up with addressing reasons of such exceedings in compliance with Central Bank of Yemen circular number 6 of 1998 on Exposure To Foreign Currency Risk.

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

To calculate the impact of changes in the fair value of a currency, with respect to Central Bank of Yemen, Head Office/ Aden instructions in a subsequent period (note 40-d), the Bank took in account the exchange rates it uses in evaluating significant foreign currencies positions and the average exchange rate of these currencies in accordance with market rates obtained from the Central Bank of Yemen / Head Office Aden, shown below:

	<i>Exchange rates used by Bank</i>		<i>Average exchange rate according to market</i>	
	-----YR-----		-----YR-----	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
US Dollar	393.00	250.25	455.00	310
Sterling pound	530.78	306.39	614.52	379.54
Euro	471.64	261.78	546.05	324.28
UAE Dirham	107.01	68.14	121.44	84.14
Saudi Rial	103.00	66.70	119.25	82.62

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 31 December 2017

34 RISK MANAGEMENT (CONTINUED)

34-d Currency Rate Risk (Continued)

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

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

	<i>Impact on statements of comprehensive income and changes in equity increase / (decrease)</i>	
	<i>2017</i>	<i>2016</i>
	<i>YR'000</i>	<i>YR'000</i>
UAE Dirham	570,173	570,160
Sterling pound	544,896	325,079
Euro	(76,717)	(20,188)
Saudi Rial	(900,608)	286,449
US Dollar	(1,879,096)	(2,898,293)
Total	<u>(1,741,352)</u>	<u>(1,736,793)</u>

35 CAPITAL MANAGEMENT

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

The Central Bank of Yemen, in accordance to its circular no. 2 of 1997 amending circular no. 3 of 1996 on Minimum Limit Of Capital Ratio To Risk - Weighted Assets (Capital Adequacy) requires each bank in Yemen to maintain a ratio of total capital to the risk - weighted assets at or above the internationally agreed minimum of 8%.

35-a Capital Adequacy

Capital (equity) adequacy ratio is the ratio of capital to its risks. According to Central Bank of Yemen circular no. 2 of 1997 amending circular no. 3 of 1996 on Minimum Limit Of Capital Ratio To Risk - Weighted Assets (Capital Adequacy) total capital of the Bank is divided in two tiers:

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

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

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

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

For the year ended 31 December 2017, capital adequacy ratio was as follows:

	<i>2017</i>	<i>2016</i>
	<i>YR'million</i>	<i>YR'million</i>
Capital		
Core capital	15,773	15,033
Capital cushions	1,715	1,899
Total capital	<u>17,488</u>	<u>16,932</u>
Risk- weighted assets		
On statement of financial position	9,759	8,588
Off statement of financial position	12,743	9,595
Total risk - weighted assets	<u>22,502</u>	<u>18,183</u>
Adequacy ratio of:		
Core capital	<u>70%</u>	<u>83%</u>
Total capital	<u>78%</u>	<u>93%</u>

36 TRUST ACTIVITIES

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

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

37 CAPITAL COMMITMENTS

As at 31 December 2017 capital commitments amounted USD 6,250 equal to YR'1000 2,456 for final 50% payment of the value of the Design Contract of Head Office and main branch buildings in Aden.

38 LEGAL STATUS AND CONTINGENT ASSETS AND LIABILITIES

During the year ended 31 December 2017, the Bank had cases filed against non-performing customers for not paying their debts and cases filed against the Bank by customers. While for some cases the verdict was in favor of the Bank, the related legal procedures have not been completed, yet. Some other cases are still in concerned court. Management has made adequate provisions for non-performing loans.

39 COMPARATIVE FIGURES

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

40 SUBSEQUENT EVENTS**40-a Investment in Yemen Financial Services Company - Yemen**

With respect to Company's letter dated 11 March 2018, the increase of Company's share capital at 30% will be approved with a new resolution and amended Articles of Association after completion of shares of all banks.

40-b Social Insurance Differences

With respect to Bank's letter dated 8 May 2018, addressed to the Head of General Authority for Insurance and Pensions, Aden Governorate, the Bank has formed a work team to participate with the committee assigned by the Authority to review and calculate social contribution entitlements for insured employees of the Bank and defining increase in salaries and wages and banking allowance difference.

40-c Authorising Deputy Chairman To Sign The Financial Statements

On 25 September 2018, H.E. Minister of Finance authorised Mr. Sami Abdulhamid Makawi - Deputy Chairman to chair the Board of Directors extraordinary meeting and sign the Bank's audited financial statements for the year ended 31 December 2017 in place of Dr. Mohammad Husain Halboob.

40-d Stating Impact Of Changes in Fair Value Of A Currency (Foreign Currency Sensitivity Analysis)

On 2 October 2018 the Board of Directors of the National Bank of Yemen approved the previous Bank's audited financial statements for the year ended 31 December 2017 on which the independent auditors' report was issued. In a subsequent period to 2 October 2018, the Bank received instructions from Central Bank of Yemen, Head Office/ Aden to state the impact of changes in fair value of a currency (foreign currency sensitivity analysis), as there is no circular issued by Central Bank of Yemen on it in a prior period. It also received information on average exchange rates for significant foreign currencies in accordance to market rates as at 31 December 2017. The Bank amended its financial statements according to these instructions and provided the independent auditors with the audit evidence required on 12 November 2018.

41 REPORTING TO H.E. MINISTER OF FINANCE

The amended audited financial statements (Note 40-d) will be raised to H.E. the Minister of Finance, representative of the State, owner of the Bank, after the Bank obtaining approval Central Bank of Yemen, Head Office/ Aden for publishing.

Dahman & Co.

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