CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
AND INDEPENDENT AUDITOR'S REPORT

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SANA'A, REPUBLIC OF YEMEN

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

TO THE CHAIRMAN AND BOARD OF DIRECTORS OF CENTRAL BANK OF YEMEN

Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Yemen ("the Bank"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity, reserves and government's profits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 8 to 51.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of Central Bank of Yemen Law no. (14) of 2000, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Central Bank of Yemen as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of Yemen Law no. (14) of 2000.

TO THE CHAIRMAN AND BOARD OF DIRECTORS OF CENTRAL BANK OF YEMEN

Report on other legal and regulatory requirements

We have obtained all information and explanations, which we considered necessary for the purpose of our audit. The Bank has kept proper books of accounts, and the accompanying financial statements are in agreement with these books. We further report that during the course of our audit, we have not become aware of any material violations of the Central Bank of Yemen Law no. (14) of 2000, except for the matters highlighted below:

- Paragraph (2) of Article (32) of the Central Bank of Yemen Law no. (14) of 2000 states that "*In exceptional circumstances, the Bank may grant a temporary financing to the Government in the form of emergency loans, if such loans are consistent with the monetary policy objectives of the Bank and would not cause the aggregate principal amount disbursed and outstanding on all Bank emergency loans to the Government to exceed the equivalent of 25% of the annual average ordinary revenue of the previous three financial years and for which accounts are available. The maturities of such loans shall not exceed six months*". However, the Government's outstanding emergency loans as of 31 December 2012 were amounting to YR 678,986,703 thousand (2011: YR 691,603,504 thousand) and emergency loans and advances provided to the Public Sector Corporations were amounting to YR 258,871,324 thousand (2011: YR 156,543,806 thousand) with a total financing to the Government amounting to YR 937,858,027 thousand (2011: YR 848,347,310 thousand), has exceeded the authorized limit of 25% of the annual average ordinary revenue of the previous three financial years amounting to approximately YR 590,000,000 thousand (exceeded limit by YR 347,858,027 thousand). In addition, the maturities of such loans and advances have exceeded six months, being extended from time to time.

- Paragraph (4) of Article (32) of the Central Bank of Yemen Law no. (14) of 2000 states that "*Bank's emergency loans granted to the Government and actually utilized shall be denominated and made payable in Rials only*". However, we noted that all loans provided to the Public Sector Corporations amounting to YR 258,871,324 thousand (Note 13), were denominated and made payable in United States Dollars.

Deloitte & Touche (M.E.) with Dr. Hajar

Sana'a, Republic of Yemen
7 May 2013

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CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	Notes	2012 YR'000	2011 YR'000
ASSETS			
Cash in foreign currencies	5	**9,136,095**	8,390,247
Gold and silver	6	**19,044,679**	17,839,112
Financial assets at fair value through profit or loss	7	**224,601,492**	222,536,566
Other financial assets	8	**160,647,844**	155,473,678
Balances with banks and financial institutions	9	**854,192,080**	508,767,848
International Monetary Fund related assets	10	**54,548,028**	54,291,032
Local treasury bills		**373,612**	10,123,252
Treasury bills purchased from the Government	11	**64,999,975**	64,999,969
Government's general account	12	**678,986,703**	691,603,504
Loans and advances	13	**258,871,324**	156,543,806
Property and equipment	14	**3,669,439**	3,870,740
Other assets	15	**11,196,631**	10,895,459
Total assets		**2,340,267,902**	1,905,335,213
LIABILITIES, CAPITAL, RESERVES AND GOVERNMENT'S PROFITS			
Liabilities			
Cash in circulation	16	**832,726,449**	800,253,991
Local banks' accounts	17	**244,814,513**	154,223,280
Ministries' and governmental corporations' accounts	18	**280,128,576**	362,795,081
Certificates of deposit	19	**91,890,000**	-
Treasury bills under repurchase scheme sold to banks	11	**64,802,697**	64,118,759
Foreign governments' and international associations' accounts	20	**255,356,480**	39,087,329
International Monetary Fund related liabilities	10	**88,839,618**	88,295,123
Other liabilities	21	**155,506,047**	93,641,684
Deferred tax liability	22	**1,596,546**	1,283,855
Total liabilities		**2,015,660,926**	1,603,699,102
Capital, reserves and Government's profits			
Paid-up share capital	23	**6,000,000**	6,000,000
Reserves	24	**37,770,295**	40,403,852
Net Government's profits		**24,543,888**	13,533,704
		68,314,183	59,937,556
Revaluation reserve	25	**256,292,793**	241,698,555
Total capital, reserves and Government's profits		**324,606,976**	301,636,111
Total liabilities, capital, reserves and Government's profits		**2,340,267,902**	1,905,335,213

The financial statements were approved by Central Bank of Yemen Board of Directors and authorized for issue on 7 May 2013, they were signed on its behalf by:

Ismail Shaif Al-Hakimi	Abdulkarim Ali Al-Magharem	Mohammed Awdh Binhamam
Central Accounts Manager	**Acting Deputy Governor of Accounts and IT**	**Governor**

The accompanying notes (1 to 38) form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 YR'000	2011 YR'000
Interest income	26	**173,652,157**	19,870,533
Interest expenses	27	**(17,829,716)**	(15,381,586)
Net interest income		**155,822,441**	4,488,947
Commission income		**586,941**	569,183
Other fees and commission expenses		**(372,751)**	(411,778)
		214,190	157,405
Investments and other income	28	**33,689,373**	23,817,411
Operating income		**189,726,004**	28,463,763
Currency printing and destruction expenses		**(1,586,956)**	(2,326,640)
Staff costs	30	**(6,282,939)**	(5,130,683)
General and administrative expenses		**(1,439,158)**	(1,157,449)
Depreciation of property and equipment	14	**(203,280)**	(241,569)
Operating expenses		**(9,512,333)**	(8,856,341)
Operating profit		**180,213,671**	19,607,422
Impairment losses on available-for-sale financial assets		**(68,060)**	(393,644)
Reversal of impairment losses on available-for-sale financial assets		**493,471**	-
Net gain on disposal of available-for-sale financial assets		-	6,779
Cumulative gain reclassified from investments fair value reserve on disposal of available-for-sale investments		**6,548,110**	1,432,711
Net gains arising on financial assets designated as at fair value through profit or loss	7	**1,138,044**	2,877,265
Loss on disposal of property and equipment		**(105,236)**	-
Other losses		**(1,953,055)**	-
Zakat expenses		**(417,765)**	(418,000)
Profit for the year before tax on commercial and industrial profits		**185,849,180**	23,112,533
Tax on commercial and industrial profits	22	**(37,169,836)**	(4,578,829)
Profit for the year (according to Central Bank of Yemen Law)		**148,679,344**	18,533,704
<u>Adjustments:</u>			
Reconciliation between profit for the year according to the Central Bank of Yemen Law and International Financial Reporting Standards:			
Profit for the year (according to Central Bank of Yemen Law)		**148,679,344**	18,533,704
Gains on revaluation of assets and liabilities in gold and foreign currencies	25	**14,594,238**	1,207,993
Profit for the year (according to International Financial Reporting Standards)		**163,273,582**	19,741,697
Other comprehensive income:			
Gains arising on revaluation of financial assets available for sale	24-2	**3,914,553**	4,441,909
Cumulative gain reclassified from Investments fair value reserve on sale of available-for-sale financial assets	24-2	**(6,548,110)**	(1,432,711)
Total comprehensive income for the year (according to International Financial Reporting Standards)		**160,640,025**	22,750,895

The accompanying notes (1 to 38) form an integral part of these financial statements

CENTRAL BANK OF YEMEN

SANA'A, REPUBLIC OF YEMEN

STATEMENT OF CHANGES IN EQUITY, RESERVES AND GOVERNMENT'S PROFITS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Paid-up capital	General reserve	Voluntary reserve	Investments fair value reserve	Revaluation reserve	Net Government's profits	Total
2012	**YR'000**	**YR'000**	**YR'000**	**YR'000**	**YR'000**	**YR'000**	**YR'000**
Balance at 1 January	**6,000,000**	**12,000,000**	**2,380,042**	**26,023,810**	**241,698,555**	**13,533,704**	**301,636,111**
Profit for the year (according to Central Bank of Yemen Law)	-	-	-	-	-	**148,679,344**	**148,679,344**
Other comprehensive income for the year	-	-	-	**(2,633,557)**	-	-	**(2,633,557)**
Net gain on revaluation of assets and liabilities in gold and foreign currencies	-	-	-	-	**14,594,238**	-	**14,594,238**
Transfer to the Government	-	-	-	-	-	**(137,669,160)**	**(137,669,160)**
Balance at 31 December	**6,000,000**	**12,000,000**	**2,380,042**	**23,390,253**	**256,292,793**	**24,543,888**	**324,606,976**
2011							
Balance at 1 January	6,000,000	12,000,000	2,380,042	23,014,612	240,490,562	11,193,732	295,078,948
Profit for the year (according to Central Bank of Yemen Law)	-	-	-	-	-	18,533,704	18,533,704
Other comprehensive income for the year	-	-	-	3,009,198	-	-	3,009,198
Net gain on revaluation of assets and liabilities in gold and foreign currencies	-	-	-	-	1,207,993	-	1,207,993
Transfer to the Government	-	-	-	-	-	(16,193,732)	(16,193,732)
Balance at 31 December	6,000,000	12,000,000	2,380,042	26,023,810	241,698,555	13,533,704	301,636,111

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	YR'000	YR'000
Cash flows from operating activities		
Profit for the year	**148,679,344**	18,533,704
Adjustments for:		
Depreciation of property and equipment	**203,280**	241,569
Tax expense on commercial and industrial profits recognised in statement of comprehensive income	**37,169,836**	4,578,829
Zakat expense recognised in statement of comprehensive income	**417,765**	418,000
Loss on disposals of property and equipment	**105,236**	-
Adjustments on property and equipment	**(424)**	-
Impairment loss on available-for-sale financial assets	**68,060**	393,644
Reversal of impairment loss on available-for-sale financial assets	**(493,471)**	-
Gain on disposals of available-for-sale financial assets	-	(6,779)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	**(6,548,110)**	(1,432,711)
Net gain arising on financial assets at fair value through profit or loss	**(1,138,044)**	(2,877,265)
Management fees and commissions for the International Bank for Reconstruction and Development	**209,781**	208,294
Interest income earned from Arab Monetary Fund	**(47,088)**	(78,275)
Management fees and commissions for Arab Monetary Fund	**1,952**	7,921
Operating profit before changes in working capital	**178,628,117**	19,986,931
Net change in assets		
(Increase)/decrease in balances with banks and financial institutions	**(141,188,202)**	228,221,897
Increase in loans and advances	**(102,127,518)**	(74,302,515)
Decrease/(increase) in the Government's general account	**12,616,801**	(234,926,341)
Decrease/(increase) in other assets	**2,305,788**	(1,060,822)
	(228,393,131)	(82,167,781)
Net change in liabilities		
Increase/(decrease) in local banks' accounts	**90,591,233**	(98,693,842)
Decrease in ministries' and governmental corporations' accounts	**(82,666,505)**	(99,614,438)
Increase in foreign governments' and international associations accounts	**216,269,151**	1,378,040
Increase/(decrease) in IMF related liabilities	**544,495**	(5,104,971)
Increase in treasury bills under repurchase scheme sold to banks	**683,938**	963,996
Increase in certificates of deposit	**91,890,000**	-
Increase/(decrease) in other liabilities	**63,863,398**	(15,910,614)
Increase in deferred tax liability	**312,691**	496,724
	381,488,401	(216,485,105)
Cash generated from/(used in) operations	**331,723,387**	(278,665,955)
Zakat paid	**(418,000)**	(418,500)
Tax paid on commercial and industrial profits	**(35,170,566)**	(7,011,302)
Net cash generated by/(used in) operating activities	**296,134,821**	(286,095,757)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 YR'000	2011 YR'000
Cash flows from investing activities		
Proceeds on sale of available-for-sale financial assets	**30,173,868**	49,948,431
Proceeds on sale of held-to-maturity investments	**99,612**	-
Payments for purchase of available-for-sale financial assets	**(28,322,963)**	-
Payments for acquiring property and equipment	**(106,805)**	(281,090)
Proceeds from disposal of property and equipment	**15**	2,357
Net cash generated by investing activities	**1,843,727**	49,669,698
Cash flows from financing activities		
Cash in circulation	**32,472,458**	229,283,120
Amounts transferred to the Government	**(137,669,160)**	(16,193,732)
Net cash (used in)/generated by financing activities	**(105,196,702)**	213,089,388
Revaluation reserve account		
Increase in revaluation reserve account	**2,707,410**	1,753,087
Increase in reserve revaluation account	**2,707,410**	1,753,087
Net change in cash and cash equivalents during the year	**195,489,256**	(21,583,584)
Cash and cash equivalents at the beginning of the year	**646,572,348**	668,155,932
Cash and cash equivalents at the end of the year	**842,061,604**	646,572,348

Cash and cash equivalents at the end of the year comprise of the following:

	2012 YR'000	2011 YR'000
Cash in foreign currencies	**9,136,095**	8,390,247
Local treasury bills	**373,612**	10,123,252
Treasury bills purchased from the Government	**64,999,975**	64,999,969
Balances with banks and financial institutions	**713,003,894**	508,767,848
SDRs holdings with International Monetary Fund	**54,548,028**	54,291,032
	842,061,604	646,572,348

1. GENERAL INFORMATION

Central Bank of Yemen ("the Bank") was established under Law no. (4) of 1971. According to the Presidential Decree no. (21) of 1991, the Bank was merged with the Bank of Yemen, which was established under Banking System Law no. (36) of 1972. The Head Office of the Bank is in Sana'a, and the Bank is engaged in activities through 20 branches and 7 offices distributed in all governorates of the Republic of Yemen.

According to the provisions of Article no. (3) of Law no. (14) issued on 25 June 2000, regarding the Central Bank of Yemen that was approved by the Parliament and ratified by the President, "*the Bank has its own judicial personality, it is financially and administratively independent, has its own stamp and performs its duties in accordance with this Law totally independent from any other authority*".

According to Article no. (5) of Law no. (14) of 2000, "*the main objective of the Bank is to achieve stability of prices, maintain such stability and furnish suitable liquidity adequate to create stable financial system based on market's mechanism*".

Without contravention with the main objective mentioned above, the Bank performs its operations within Government's economic policies framework. In order to achieve this objective, it can do the following duties and specialties:

- Designing and adopting monetary policies that meet its main objective in achieving stability of prices and maintaining such stability.
- Defining foreign currencies exchange system in consultation with the Government, then design, adopt and execute foreign currencies price.
- Issueing licenses for banks and financial institutions and monitoring their activities.
- Holding and managing its official foreign reserves.
- Encouraging and simplifying the procedures of payment systems.
- Working as a bank, consultant and financial agent for the Government.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

For the year ended 31 December 2012, the Bank has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for the year beginning on 1 January 2012.

Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements

Amendments to IFRS 7 – *Disclosures – Transfer of Financial Assets*	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Standards and Interpretations adopted with no effect on the financial statements (continued)

Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*	The amendments to IAS 12 provide an exception to the general principal set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover a carrying amount of the asset. Specifically, the amendments established a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 *Investment Property* will be recovered entirely through sale.

Standards and Interpretations in issue but not yet effective

At the date of authorization of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective

	Effective for annual periods beginning on or after
New IFRS and relevant amendments	
Financial Instruments	
• IFRS 9: *Financial Instruments* (as revised in 2010 *to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements).*	January 2015
• Amendments to IFRS 9 and IFRS 7: *Mandatory Effective Date of IFRS 9 and Transition Disclosures.*	January 2015
• IFRS 10: *Consolidated Financial Statements.*	January 2013
• IFRS 11: *Joint Arrangements*	January 2013
• IFRS 12: *Disclosure of Interests in Other Entities*	January 2013
• Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosures in Other Entities: Transition Guidance and investments entities*	January 2013
• IAS 27: *Separate Financial Statements (as revised in 2011)*	January 2013
• IAS 27: *Separate Financial Statements amendments for investments entities*	January 2013
Fair value measurement	
• IFRS 13: *Fair Value Measurement*	January 2013
Revised IFRS	
Employee benefits	
• IAS 19: Employee Benefits (*as revised in 2011 for the post- employment benefits and termination benefits)*	January 2013

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Standards and Interpretations in issue but not yet effective (continued)

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective

	Effective for annual periods beginning on or after
Amendments to IFRSs	
• IFRS 1: *Government loans*	January 2013
• IAS 1: *Presentation of items of other comprehensive income*	July 2012
• IAS 32: *Offsetting Financial Assets and Financial Liabilities*	January 2013
• *Annual improvements to IFRSs 2009 to 2011 Cycles*	January 2013
• IFRS 7: *Disclosures – Offsetting Financial Assets and Financial Liabilities*	January 2013

Management anticipates that the adoption of the above Standards and Interpretations in future years will have no material impact on the financial statements of the Bank in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations to those Standards issued by the International Accounting Standard Board ("IASB") in so far as they are practically applicable to the Bank and comply with the requirements of Central Bank of Yemen Law no. (14) of 2000.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note (32) to the financial statements.

Currency of presentation

The Financial Statements are presented in Yemeni Rials ("YR") and all the values are rounded to nearest thousands of Rials, except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies transactions

The Bank maintains its records in Yemeni Rials ("YR"). Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transactions. According to Article (8-4-A) of Law no. (14) of 2000, regarding Central Bank of Yemen, "*Net increase or decrease in any financial year resulting from the change in the evaluation of assets and liabilities, recorded in the statement of financial position and evaluated in gold and special withdraw rights or foreign currencies, resulting from the change of foreign currencies exchange rates in relation to Yemeni Rials, are recorded in the "Revaluation reserve account" in the statement of financial position of the Bank*".

Exchange rates differences resulting from transactions in foreign currencies are recognized in profit or loss.

Gold and silver

Gold and silver are recorded at fair value according to the international market prices; differences resulting from revaluation are included in the "Revaluation reserve account".

Financial instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

<u>Effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Gains and losses arising from revaluation of financial assets at fair value through profit or loss in foreign currencies are recorded in the "Revaluation reserve account" in compliance with Central Bank Law.

Available-for-sale financial assets ("AFS")

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Bank also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Available-for-sale financial assets ("AFS") (continued)

Dividends on AFS investments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recorded in the "Revaluation reserve account", in compliance with Central Bank Law, are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Held-to-maturity investments

Held-to-maturity investments (including local treasury bills and long-term bonds) are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. Relevant accrued interests are included in "other assets" at the statement of financial position date.

Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including balances with banks and financial institutions, Government's general account, IMF related balances, loans and advances, and others) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for such financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

The Bank classifies its financial liabilities into financial liabilities at amortised cost only (i.e. other financial liabilities).

Other financial liabilities

Other financial liabilities (including notes and coins issued, local banks' accounts, amounts due to ministries, governmental corporations' accounts, international associations' and foreign governments' accounts, treasury bills under repurchase scheme, certificates of deposit, IMF related liabilities, and other liabilities) are initially measured at their fair value which is the cost at the time of transaction and subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Expense is recognised on an effective interest basis, except for short-term payables when the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Treasury bills under repurchase scheme

Treasury bills sold with a commitment to repurchase in a future date are presented in the financial statement at their amortized cost. Difference between selling price and repurchase price is accounted for either as revenue or expense from repurchase contracts over the contract period.

The difference between sales and repurchase price is treated as interest expenditure and is recognized in profit or loss.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Transactions and balances with International Monetary Fund ("IMF")

Holdings of Special Drawing Rights ("SDR")

Holdings of Special Drawing Rights ("SDR") is an account that keeps the Central Bank of its assets from the SDR at the International Monetary Fund. The SDRs value as a reserve asset derives from the commitments of members to hold and accept SDRs, and to honour various obligations connected with the operation of the SDR system. The IMF ensures that the SDRs claim on freely usable currencies is being honoured in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market.

The Bank transacts with the International Monetary Fund ("IMF") as the depository of the Government of Yemen, therefore, not all transactions by the Bank with the IMF have been included in these financial statements.

The Bank considers the total quota with the IMF as an off-balance sheet asset item and the unpaid portion of payable amount to the IMF for quota is considered as an off-balance sheet liability item. The SDR holdings are treated as Bank's assets in the statement of financial position. The cumulative allocation of SDRs by the IMF, IMF Accounts No. (1) and (2), and loans are treated as liabilities in the statement of financial position of the Bank. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at the statement of financial position date as published by the IMF are included in the "Revaluation reserve account" as per the requirements of the Central Bank of Yemen Law no. (14) of 2000.

Cash and cash equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand in foreign currencies, local treasury bills, treasury bills within repurchase scheme, balances with banks and financial institutions (due within three months) and holding account with International Monetary Fund.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss. The cost of property and equipment is their purchase cost, together with any incidental expenses of acquisition.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property 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 and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

Consigned assets

Consigned assets are not considered part of the Bank's assets, therefore, not included in the financial statements of the Bank.

Cash in circulation

Cash in circulation balance in Yemeni Rials represents a bank liability to the holders. Cash in circulation balance appears in the financial statement after deducting non-circulated cash from the nominal value of issued cash. The balance of non-circulated cash retained in the Bank's vaults is not a Bank liability until it is made available for circulation.

Republic of Yemen's external loans and budget accounts

The Bank is managing the external loans of the Republic of Yemen and bookkeeping for the Government general budget. These items do not represent a liability to the Bank and therefore are not included in these financial statements.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

In accordance with Article (8-1) of Law no. (14) of 2000, regarding Central Bank of Yemen, adequate provisions for the following items should be recognized:

- Bad and doubtful loans;
- Assets depreciation; and
- Any other necessary provision approved by the board of the Bank.

Contingent liabilities and commitments

Contingent liabilities and commitments are stated under "memorandum accounts and other commitments" less the balance of monetary insurance on such contingent liabilities and commitments. Memorandum accounts and other commitments are not recognized in the statement of financial position as they do not represent Bank's assets and liabilities at the statement of financial position date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Dividends and interest income

Dividend income from investments is recognised when right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest is accrued on non-performing loans and advances but guaranteed by the Government in the statement of comprehensive income when due.

Profits from “available-for-sale financial assets” are recognized in the statement of comprehensive income at the time of selling or collecting the financial assets’ value, except for, the interest income realized from Arab Monetary Fund, classified as “available-for-sale financial asset” as interest income is recognized in the statement of comprehensive income within “investment income” when due. Also, investments dividend incomes from Arab Fund Program are recognized when announced.

Treasury bills issuance fees, revenues and other commissions are recognized when due.

Leases

Finance lease contract is the contract in which lease transfer substantially all the risks and rewards of ownership to the lessee regardless of whether the assets’ ownership was actually transferred at the end or not, whereas operating lease is any lease contract other than finance lease contract.

All leases which have been entered into by the Bank are operating leases. Rentals payable under operating lease are charged to statement of comprehensive income on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of printing and destruction of cash

Notes printing and coins minting expenses which include ordering, printing, minting, freight, carriage insurance and handling costs .All costs related to the printing and destruction of cash are charged to the same year in which printing and destruction of cash has been made.

Tax on commercial and industrial profits

According to Article no. (160) of the Income Tax Law no. (17) of 2010, "*The Bank has become liable for income tax*".

Current tax on commercial and industrial profits

Current tax on commercial and industrial profits is the expected tax payable on the taxable income for the year, using the tax rates ruling at reporting date.

Deferred tax on commercial and industrial profits

Deferred tax is provided for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed as deferred tax.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which unused tax losses and credit can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax arising from revaluation of investments is recognized (if any) as adjustment over the surplus/(deficit) arising from revaluation of investments.

Zakat

The Bank pays Zakat in accordance with the applicable Zakat Law. .

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note (3), the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations as described below, that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY (CONTINUED)

Critical judgments in applying accounting policies (continued)

Management decides on acquisition of an investment whether it should be classified as held for trading, or at fair value through profit or loss, available-for-sale or held-to-maturity investments.

Held-to-maturity investments

The management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgments. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances for example, selling an insignificant amount close to maturity, it will be required to classify the entire class as available for sale. The investments would, therefore, be measured at fair value.

Available-for-sale financial assets

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgment based on its intentions to hold such financial assets.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of financial instruments and fair value estimation

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment

The Bank reviews the estimated useful lives and the residual values of property and equipment at the end of each annual reporting period.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, maintenance programs, and normal wear and tear using best estimates.

Contingent liabilities

There are various factors that could result in a contingent liability being disclosed if the probability of any outflow in settlement is not remote. The assessment of the outcome and financial effect is based upon management's best knowledge and judgement of current facts as at the reporting date.

5. CASH IN FOREIGN CURRENCIES

	2012	2011
	YR'000	YR'000
Cash in foreign currencies	**9,136,095**	8,390,247

6. GOLD AND SILVER

	2012	2011
	YR'000	YR'000
Gold	**18,797,656**	17,613,206
Silver	**247,023**	225,906
	19,044,679	17,839,112

Gold was evaluated according to the international market price as of 31 December 2012 at YR 357,168 - equivalent to USD 1,662.10 per ounce (2011: YR 334,663 - equivalent to USD 1,565.31 per ounce).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year 2009, the Bank invested USD 1,000 million in investment portfolios managed by the International Bank for Reconstruction and Development. The following is the statement of changes in fair value of these investments:

	2012		2011	
	USD'000	**YR'000**	USD'000	YR'000
Fair value at 1 January	**1,040,863**	**222,536,566**	1,028,379	219,867,510
Net gains arising from financial assets designated at FVTPL	**5,298**	**1,138,044**	13,458	2,877,265
Fees and commissions for managing the investments during the year	**(968)**	**(209,781)**	(974)	(208,294)
Change in exchange rate	-	**1,136,663**	-	85
Fair value at 31 December	**1,045,193**	**224,601,492**	1,040,863	222,536,566

8. OTHER FINANCIAL ASSETS

	2012	2011
	YR'000	YR'000
Available-for-sale financial assets (Note 8.1)	**160,647, 844**	155,374,066
Held-to-maturity investments (Note 8.2)	-	99,612
	160,647,844	155,473,678

8. OTHER FINANCIAL ASSETS (CONTINUED)

8.1 Available-for-sale financial assets

	2012			2011		
	Fair value/cost	**Impairment losses**	**Net fair value/cost**	Fair value/cost	Impairment losses	Net fair Value/cost
	YR'000	**YR'000**	**YR'000**	YR'000	YR'000	YR'000
AFS financial assets at fair value						
Managed by the Bank for International Settlements ("BIS") (Note 8-1-1)	**159,206,624**	**-**	**159,206,624**	152,564,142	-	152,564,142
Managed by the Arab Monetary Fund (Note 8-1-2)	**1,979,691**	**(930,557)**	**1,049,134**	3,766,930	(1,349,092)	2,417,838
Shares of UBAC Group – Krakow (Note 8-1-3)	**106,951**	**(106,951)**	**-**	106,408	(106,408)	-
	161,293,266	**(1,037,508)**	**160,255,758**	156,437,480	(1,455,500)	154,981,980
AFS financial assets at cost						
Contribution in the Arab Trading Finance Programme (Note 8-1-4)	**392,086**	**-**	**392,086**	392,086	-	392,086
	161,685,352	**(1,037,508)**	**160,647,844**	156,829,566	(1,455,500)	155,374,066

8.1.1 Investments managed by the Bank for International Settlements

As of 31 December 2012, the Bank owns 1,968,380 investment units of category (a) which includes amounts of USD 132.5 purchased during the year , amounting to USD 262 million, and 2,575,169 investment units of category (d) amounting to EURO 362 million and 970,906 investment units of category (c) amounting to USD 133 million were disposed during the year. These investments are managed by the Bank for International Settlements.

8. OTHER FINANCIAL ASSETS (CONTINUED)

8.1 Available-for-sale financial assets (continued)

8.1.1 Investments managed by the Bank for International Settlements (continued)

The following is a statement of changes in fair value of investments managed by the Bank for International Settlements during the year ended 31 December 2012:

	Category (a)		Category (c)		Category (d)		Category (e)		Total
	USD'000	**YR'000**	**USD'000**	**YR'000**	**Euro'000**	**YR'000**	**USD'000**	**YR'000**	**YR'000**
Fair value at 1 January	**128,948**	**27,568,920**	**132,494**	**28,327,354**	**348,944**	**96,667,868**	**-**	**-**	**152,564,142**
Additions	**132,474**	**28,322,963**	**-**	**-**	**-**	**-**	**-**	**-**	**28,322,963**
Disposals during the year	**-**	**-**	**(132,512)**	**(28,331,002)**	**-**	**-**	**-**	**-**	**(28,331,002)**
Change in exchange rate	**-**	**285,311**	**-**	**-**	**-**	**2,450,657**	**-**	**-**	**2,735,968**
Net gain on AFS financial assets	**1,164**	**250,010**	**18**	**3,648**	**13,377**	**3,660,895**	**-**	**-**	**3,914,553**
Fair value at 31 December	**262,586**	**56,427,204**	**-**	**-**	**362,321**	**102,779,420**	**-**	**-**	**159,206,624**

The following is a statement of changes in fair value of investments managed by the Bank for International Settlements during the year ended 31 December 2011:

	Category (a)		Category (c)		Category (d)		Category (e)		Total
	USD'000	YR'000	USD'000	YR'000	Euro'000	YR'000	USD'000	YR'000	YR'000
Fair value at 1 January	127,027	27,158,318	130,347	27,868,289	337,665	95,535,461	205,684	43,975,341	194,537,409
Disposals during the year	-	-	-	-	-	-	(206,667)	(44,185,444)	(44,185,444)
Change in exchange rate	-	-	-	-	-	(2,229,732)	-	-	(2,229,732)
Net gain on AFS financial assets	1,921	410,602	2,147	459,065	11,279	3,362,139	983	210,103	4,441,909
Fair value at 31 December	128,948	27,568,920	132,494	28,327,354	348,944	96,667,868	-	-	152,564,142

8. OTHER FINANCIAL ASSETS (CONTINUED)

8.1 Available-for-sale financial assets (continued)

8.1.2 Investments managed by the Arab Monetary Fund

As of 31 December 2012, the Bank owns an investment portfolio of USD 4,8 million managed by the Arab Monetary Fund. The following is a statement of changes in fair value of investments managed by the Arab Monetary Fund during the year ended 31 December 2012:

	2012	
	USD'000	**YR'000**
Balance at 1 January	**17,619**	**3,766,930**
Interest income earned during the year (Note 28)	**220**	**47,088**
Gain on disposal of available-for-sale financial assets	-	-
Fees and commissions for managing the investments during the year	**(9)**	**(1,952)**
Change in exchange rate	-	**10,491**
Disposals	**(8,617)**	**(1,842,866)**
	9,213	**1,979,691**
Impairment loss on available-for-sale financial assets	**(4,330)**	**(930,557)**
Fair value at 31 December	**4,883**	**1,049,134**

The following is a statement of changes in fair value of investments managed by the Arab Monetary Fund during the year ended 31 December 2011:

	2011	
	USD'000	YR'000
Balance at 1 January	44,213	9,452,784
Interest income earned during the year (Note 28)	366	78,275
Gain on disposal of available-for-sale financial assets	32	6,779
Fees and commissions for managing the investments during the year	(37)	(7,921)
Change in exchange rate	-	-
Disposals	(26,955)	(5,762,987)
	17,619	3,766,930
Impairment loss on available-for-sale financial assets	(6,310)	(1,349,092)
Fair value at 31 December	11,309	2,417,838

Impairment losses on available-for-sale financial assets managed by the Arab Monetary Fund are as follows:

	2012	2011
	YR'000	YR'000
Balance at 1 January	**1,349,092**	955,539
Impairment loss on available-for-sale financial assets	**68,060**	393,644
Recovered Impairment loss on available-for-sale financial assets	**(493,471)**	-
Change in exchange rate	**6,876**	(91)
Balance at 31 December	**930,557**	1,349,092

8. OTHER FINANCIAL ASSETS (CONTINUED)

8.1 Available-for-sale financial assets (continued)

8.1.3 Investments in shares of UBAC Group - Krakow

The Bank owns 6,594 shares of category (a). 1,034 shares of category (b) and 2,326 shares of category (d) in UBAC – Krakow group; due to the fact that neither dividends were made during the previous years nor expected dividends will be made, a provision has been made for the total investments as the present value of the expected cash flow equals zero.

8.1.4 Contribution in the Arab Trading Finance Programme, at cost

The Bank's investment in the Arab Trading Finance Programme represents a share in the capital of the programme being 300 shares.

	2012		2011	
	USD'000	**YR'000**	USD'000	YR'000
Share in capital of the programme	**2,010**	**392,086**	2,010	392,086

The above AFS investment is not listed in an active market and whose fair value cannot be reliably measured; therefore, investment is measured at cost.

8.2 Held-to-maturity investments

Held-to-maturity investments represent long-term bonds at Bank of England amounting to GBP 300,000, which was matured in 2012 and was carrying an annual interest rate of 7.75% (2011: 7.75%).

9. BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2012	2011
	YR'000	YR'000
Current accounts	**118,183,879**	27,675,304
Demand deposits	**3,742,017**	4,908,089
Time deposits	**732,266,538**	476,184,793
	854,192,434	508,768,186
Provision for balances with banks and financial institutions	**(354)**	(338)
	854,192,080	508,767,848

The balances with banks and financial institutions are containing deposits with different maturities, held abroad as shown in maturity table and geographical distribution included in Note (32).

10. BALANCES RELATED INTERNATIONAL MONETARY FUND

	2012		2011	
	SDR'000	**YR'000**	SDR'000	YR'000
IMF related assets				
Holdings in SDRs	**165,162**	**54,548,028**	165,400	54,291,032
IMF related Liabilities				
Interest bearing loan – Non-current (Note 10-1)	**34,790**	**11,490,093**	34,790	11,419,470
Allocation of SDRs (Note 10-2)	**232,251**	**76,705,638**	232,251	76,234,168
Other liabilities due to IMF - A/Cs (1 & 2) (Note 10-3)	**1,942**	**643,887**	1,858	641,485
Total IMF related liabilities	**268,984**	**88,839,618**	268,899	88,295,123

10-1 Interest bearing loan

This loan represent loan to reduce poverty and to promote high growth and it is Long-term financing provided by the International Monetary Fund (IMF) for Member States with low incomes. The interest rate levied on loan is 0.5 percent per annum. The repayment period given for such loans by IMF is over a maximum period of 10 years

10-2 Allocation of Special Drawing Rights (SDR)

The SDR is a reserve asset created by the IMF in order to meet a long-term global need to supplement existing reserve assets. SDRs are allocated to member countries in proportion to their IMF quotas. SDR allocations can only be made to countries that participate in the IMF's SDR Department (an accounting unit within the IMF). The IMF to supplement existing official reserve assets, such as gold holdings, foreign exchange, and reserve positions in the IMF, created SDRs. Members of IMF shall be obligated to pay to the IMF an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Rights Department at the point of termination or liquidation of IMF's SDR Department.

10-3 Other liabilities due to IMF

These represent amounts owed by the Bank to IMF which are account no (1) and account no (2) opened according to IMF rules and regulations for operational and administrative transactions. The accrued interest income on SDR Holdings are included among other assets and the accrued interest expenses on SDR allocations are included in other liabilities.

Other International Monetary Fund accounts consist of the Yemen's Government membership Quota of SDR 243.5 million and securities accounts which are the responsibility of Government of Yemen as a fiscal agent and as such are not accounted for in the financial statements of the Bank.

11. TREASURY BILLS PURCHASED AND SOLD

Based on the decision of the Government Bonds Committee, that was formed according to Law no. (19) of 1995, the Central Bank of Yemen purchased treasury bills from the Government in the amount of YR 65 billion (2011: YR 65 billion) to be issued to banks under the repurchase scheme.

The following table shows the details of treasury bills purchased from the Government:

	2012	2011
	YR'000	YR'000
Treasury bills purchased from the government	**64,999,975**	64,999,969

Interest rates on treasury bills purchased from the Government were between 22.56% and 22.24% (2011: 22.61% and 22.99%).

The following table shows details of treasury bills sold to banks under repurchase scheme:

	2012	2011
	YR'000	YR'000
Treasury bills sold to local banks under the repurchase scheme	**64,802,697**	64,118,759

Interest rates on treasury bills sold to banks under the repurchase scheme were between 22.2% and 22.9% (2011: 22.54% and 23%).

12. GOVERNMENT'S GENERAL ACCOUNT

	2012	2011
	YR'000	YR'000
Government's general account	**678,986,703**	691,603,504

As at 31 December 2012, the overall Republic of Yemen Government position ended with a net deficit. This position was attributable to overdrawn Yemen Government voted accounts. Such advances were made in line with paragraph (2) of Article (32) of the Central Bank of Yemen Law no. (14) of 2000 and were solely for the purpose of providing temporary financial accommodation to the Government of Yemen. Such advances bear interest rates as determined by the Bank in accordance with the Central Bank of Yemen Law no. (14) of 2000.

A total interest of YR 155,442,312 thousand was charged in 2012 on the overdrawn Yemen Government position in various periods at the interest rate equal to rediscount rate for the previous month.

13. LOANS AND ADVANCES

	2012	2011
	YR'000	YR'000
<u>Loans and advances to Public Sector Corporations:</u>		
A. Yemen Economic Corporation	**8,490,378**	8,431,380
B. Aden Refinery Company	**82,782,978**	77,842,080
C. Yemen Petroleum Company	**153,333,889**	47,577,792
D. Yemen Gas Company	**14,884,795**	23,313,270
	259,492,040	157,164,522
Provision for loans and advances (Note 13-1)	**(620,716)**	(620,716)
	258,871,324	156,543,806

13. LOANS AND ADVANCES (CONTINUED)

A. Loan facility to Yemen Economic Corporation

As a result of the approval letter of the Ministry of Finance dated 16 August 2008, the Central Bank of Yemen provided a loan facility to the Yemen Economic Corporation starting from March 2008. Later on, and as a result of the Ministry of Finance memorandum letter no. (1239) dated 5 October 2011, the loan facility has been extended until the end of December 2012. In addition, and as a result of the Prime Minster letter no (RO/26/4128) dated 17 July 2012 and Ministry of Finance memorandum letter no. (220) dated 30 July 2012, the loan facility has further been extended until the end of June 2013. It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. As at 31 December 2012, the loan facility balance was amounting to USD 36.6 million - equivalent to YR 8.5 Billion (2011: USD 36 million - equivalent to YR 8.4 Billion).

B. Loan facility to Aden Refinery Company

As a result of the Government Cabinet decision no. (193) of the year 2008, and the approval letter of the Ministry of Finance no. (1779) dated 13 May 2008; the Central Bank of Yemen provided a loan facility to the Aden Refinery Company to be able to import and cover the local market needs and demands of Diesel. The decision was approved by Government Cabinet and the loan facility agreement was signed on 25 May 2008. Later on, and as a result of the Ministry of Finance memorandum letter no. (234) dated 29 December 2012, the loan facility has been extended until the end of March 2013. It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. As at 31 December 2012, the loan facility balance was amounting to USD 385 million - equivalent to YR 82.8 Billion (2011: USD 364 million - equivalent to YR 77.8 Billion).

C. Loan facility to Yemen Petroleum Company

As a result of the Ministry of Finance memorandum letter no. (363) dated 13 July 2011; the Central Bank of Yemen signed a loan facility agreement with the Yemen Petroleum Company on 17 July 2011. The loan facility agreement states that the Central Bank of Yemen will provide the Yemen Petroleum Company a maximum loan facility of USD 200 million to be used in importing unleaded gasoline. It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. In addition, on 17 December 2011, and based on the Ministry of Finance memorandum letter no. (252) dated 14 December 2011; an extension to the above loan facility agreement has been signed to authorize raising the loan facility amount with additional USD 126 million to become USD 326 million in total.

At the same time and as a result of the Ministry of Finance memorandum letter no. (248) dated 7 December 2011, the loan facility has been extended until the end of December 2012. Later on, and as a result of the and Ministry of Finance memorandum letter no.(44) dated 11 March 2012 to authorize raising the loan facility amount with additional USD 474 million to become USD 800 million in total .In addition, and as a result of the Ministry of Finance memorandum letter no. (237) dated 30 December 2012, the loan facility has been extended until the end of December 2013. As at 31 December 2012, the loan facility balance was amounting to USD 713.5 million - equivalent to YR 153.3 Billion (2011: USD 223 million - equivalent to YR 47.6 Billion).

13. LOANS AND ADVANCES (CONTINUED)

D. Loan facility to Yemen Gas Company

As a result of the Ministry of Finance memorandum letter dated 14 June 2009; the Central Bank of Yemen signed a loan facility agreement with the Yemen Gas Company on 18 July 2009. The loan facility agreement states that the Central Bank of Yemen will provide the Yemen Gas Company a maximum loan facility of USD 35 million to be used in importing approximately (40) thousand metric tons of liquefied petroleum gas to cover the local market needs and demands of gas. In addition, on 4 July 2011, and based on the Ministry of Finance memorandum letters no. (156) dated 16 June 2011 and no. (164) dated 2 July 2011; an extension to the above loan facility agreement has been signed to authorize raising the loan facility amount with additional USD 32.5 million to become USD 67.5 million. However, and as per the Ministry of Finance memorandum letter no. (382) dated 3 August 2011, another extension was agreed to raise the loan facility amount with an additional USD 30 million to become USD 97.5 million. Subsequently, on 19 October 2011, and based on the Ministry of Finance memorandum letters no. (204) dated 24 September 2011 and no. (218) dated 18 October 2011; an extension to the above loan facility agreement has been also signed to raise the loan facility amount with additional USD 23.5 million to become USD 121 million in total. At the same time and as a result of the Ministry of Finance memorandum letter no. (264) dated 28 December 2011; the loan facility period has been extended until the end of December 2012. In addition and as a result of the Ministry of Finance memorandum letter no. (230) dated 16 December 2012; the loan facility period has been extended until the end of December 2013. It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. As at 31 December 2012, the loan facility balance was amounting to USD 69.2 million - equivalent to YR 14.9 Billion (2011: USD 109 million - equivalent to YR 23.3 Billion).

13-1 Past due and impaired loans and advances

	2012		2011	
	Impaired loans	**Provision provided**	Impaired loans	Provision provided
	YR'000	**YR'000**	YR'000	YR'000
Non-performing loans and advances	**620,716**	**620,716**	620,716	620,716

14. PROPERTY AND EQUIPMENT

	Lands	Buildings	Furniture and fixtures	Vehicles	Capital work in progress	Total
Cost	**YR'000**	**YR'000**	**YR'000**	**YR'000**	**YR'000**	**YR'000**
Balance at 1 January 2011	611,541	2,704,385	2,018,389	580,087	410,463	6,324,865
Additions during the year	-	-	36,717	355	244,018	281,090
Transfers during the year	-	-	7,476	-	(7,476)	-
Disposals during the year	-	-	(5,561)	-	-	(5,561)
Balance at 1 January 2012	**611,541**	**2,704,385**	**2,057,021**	**580,442**	**647,005**	**6,600,394**
Additions during the year	**891**	**500**	**30,334**	**44,626**	**30,454**	**106,805**
Transfers during the year	-	-	**315**	-	**(315)**	-
Disposals during the year	-	**(133,137)**	**(89,547)**	**(28,619)**	-	**(251,303)**
Balance at 31 December 2012	**612,432**	**2,571,748**	**1,998,123**	**596,449**	**677,144**	**6,455,896**
Accumulated depreciation						
Balance at 1 January 2011	-	503,237	1,549,118	438,934	-	2,491,289
Depreciation during the year	-	53,611	144,707	43,251	-	241,569
Disposals during the year	-	-	(3,204)	-	-	(3,204)
Balance at 1 January 2012	-	**556,848**	**1,690,621**	**482,185**	-	**2,729,654**
Depreciation during the year	-	**52,677**	**112,480**	**38,123**	-	**203,280**
Disposals during the year	-	**(33,133)**	**(84,527)**	**(28,393)**	-	**(146,053)**
Adjustments	-	**(959)**	**(4,969)**	**5,504**	-	**(424)**
Balance at 31 December 2012	-	**575,433**	**1,713,605**	**497,419**	-	**2,786,457**
Net carrying amount						
As of 31 December 2012	**612,432**	**1,996,315**	**284,518**	**99,030**	**677,144**	**3,669,439**
As of 31 December 2011	611,541	2,147,537	366,400	98,257	647,005	3,870,740
Used depreciation rates	-	2 %	10%- 15%	20 %		

15. OTHER ASSETS

	2012 YR'000	2011 YR'000
Accrued interest	9,847,503	10,635,103
Prepaid expenses	460,919	14,705
Other receivables	938,616	1,699,538
	11,247,038	12,349,346
Provision for other receivables (Note 15.1)	(50,407)	(1,453,887)
	11,196,631	10,895,459

15-1 Provision for other receivables

	2012 YR'000	2011 YR'000
Balance at 1 January	1,453,887	1,453,898
Reversal of provision	(644,670)	-
Written off during the year	(762,091)	-
Exchange rate differences	3,281	(11)
Balance at 31 December	50,407	1,453,887

16. CASH IN CIRCULATION

	2012 YR'000	2011 YR'000
Balance at 1 January	800,253,991	570,970,871
New issued cash for circulation	146,005,000	200,502,500
Net movement in cash available for circulation in vault	(101,070,520)	43,617,583
Net movement in cash burned during the year	(11,252,500)	(17,160,266)
Net movement in damaged cash in vault	(1,209,522)	2,323,303
Balance at 31 December	832,726,449	800,253,991

17. LOCAL BANKS' ACCOUNTS

	2012 YR'000	2011 YR'000
Local currency		
Current accounts	87,563,449	25,310,704
Statutory reserves	71,847,507	52,395,818
	159,410,956	77,706,522
Foreign currencies		
Current accounts	20,346,445	20,058,164
Statutory reserves	65,057,112	56,458,594
	85,403,557	76,516,758
	244,814,513	154,223,280

18. MINISTRIES' AND GOVERNMENTAL CORPORATIONS' ACCOUNTS

	2012	2011
	YR'000	YR'000
Ministries' and projects' accounts		
Local currency	**79,240,752**	64,310,050
Foreign currency	**47,373,098**	159,547,524
	126,613,850	223,857,574
Governmental corporations' and organizations' accounts		
Local currency	**86,636,004**	66,316,466
Foreign currency	**66,878,722**	72,621,041
	153,514,726	138,937,507
	280,128,576	362,795,081

19. CERTIFICATES OF DEPOSIT

During the year 2012, the Bank issued certificates of deposit to the local banks that mature in periods between 30 to 91 days and carry annual interest rate of 19.66% (2011: Nil%) the bank did not issue certificates of deposit during last year 2011.

20. FOREIGN GOVERNMENTS' AND INTERNATIONAL ASSOCIATIONS' ACCOUNTS

	2012	2011
	YR'000	YR'000
Saudi Fund for Development ("SFD") deposit (*)	**214,890,000**	-
Others	**40,466,480**	39,087,329
	255,356,480	39,087,329

(*) Central Bank of Yemen signed a Deposit Agreement with the Saudi Fund for Development ("SFD"), on 4 September 2012 of which SFD will deposit an amount of USD 1,000 million in the Central Bank of Yemen for the period of twelve years starting from the date of depositing the amount.

The amount of the deposit of USD 1,000 million was deposited in Central Bank of Yemen on 12 September 2012.

The repayments of the deposit will start after a grace of four years from date of deposit. The deposit is payable in 16 semi-annual instalments of an amount of USD 62.5 Million each. The first instalment is due on 12 September 2016.

It has been agreed that the deposit balance will carry an interest rate of three months LIBOR of USD, which will be paid every three months date of deposit. The outstanding balance of SFD deposit as at 31 December 2012 was amounting to USD 1,000 million (2011: USD Nil).

21. OTHER LIABILITIES

	2012	2011
	YR'000	YR'000
Interest payable	**4,079,563**	2,455,279
Letters of credit margins	**63,382,553**	46,080,657
Provision for tax on commercial and industrial profits (Note 22)	**5,768,684**	4,082,105
Other liabilities	**82,275,247**	41,023,643
	155,506,047	93,641,684

22. TAXATION

Deferred tax liability

Deferred taxes are calculated on all temporary differences using a principal tax rate of 20%. The net deferred tax (liability)/asset and deferred tax credited/(debited) to profit or loss are attributable to the following items:

	2012			2011		
	1 January	Credited/ (Debited) to profit or loss	31 December	1 January	Credited/ (Debited) to profit or loss	31 December
Asset	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
Tax effect of impairment in other financial assets	213,168	13,612	226,780	134,439	78,729	213,168
Tax effect of reversal in Other financial assets impairment	-	(98,694)	(98,694)	-	-	-
Liability						
Tax effect of financial assets at FVTPL	(1,497,023)	(227,609)	(1,724,632)	(921,570)	(575,453)	(1,497,023)
	(1,283,855)	(312,691)	(1,596,546)	(787,131)	(496,724)	(1,283,855)

Tax on commercial and industrial profits

According to Article no. (160) of Income Tax Law no. (17) of 2010. "The Bank has become liable for tax on commercial and industrial profits" starting from 1 January 2010. As the revenues of years prior to 1 January 2010 were not taxable, therefore, the opening balances of assets as at 1 January 2010 were considered the tax base for tax calculation purposes. Details tax on commercial and industrial profits are in the below schedule:

	2012	2011
	YR'000	YR'000
Current taxation		
Tax expense	36,857,145	4,082,105
Deferred taxation		
Deferred tax recorded	312,691	496,724
	37,169,836	4,578,829

The following is reconciliation between income taxes calculated on accounting profits at the applicable tax rates with the tax expense on commercial and industrial profits for the year:

	2012	2011
	YR'000	YR'000
Net profit for the year before tax (according to the Central Bank of Yemen Law)	185,849,180	22,894,145
Tax on accounting profit at 20%	37,169,836	4,578,829
Add/(less) tax effect of:		
Deferred tax of impairment in other financial assets	13,612	78,729
Deferred tax of reversal in impairment in other financial assets	(98,694)	-
Deferred tax of financial assets at fair value through profit or loss	(227,609)	(575,453)
	36,857,145	4,082,105

23. PAID–UP SHARE CAPITAL

As per Clause (1) of Article (6) of Central Bank of Yemen Law no. (14) of 2000, and the Bank's board decision no. (12) of 2004, the authorized and paid-up capital is YR 6 billion (2011: YR 6 billion).

24. RESERVES

24.1 General reserve

As per Article (8-2-A) of Central Bank of Yemen Law no. (14) of 2000, *"The Bank shall establish a General Reserve to which an annual appropriation shall be made equivalent to 10% of the net profit for that year until the accumulated balance of the General Reserve is equal to twice the amount of the paid-up capital of the Bank. This percentage may be increased by authorization of the Council of Ministers, upon the recommendation of the Board. The General Reserve may be used to offset losses of the Bank"*.

24.2 Investments fair value reserve

The investments fair value reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired. The investments fair value reserve contains mainly the results of revaluating the available-for-sale financial assets managed by the Bank for International Settlements.

	Bank for International Settlements				
	Category (a)	Category (c)	Category (d)	Category (e)	Total
	YR'000	YR'000	YR'000	YR'000	YR'000
Balance at 1 January 2011	5,410,962	6,085,397	10,295,645	1,222,608	23,014,612
Net gains during the year	410,602	459,065	3,362,139	210,103	4,441,909
Less: cumulative gains reclassified to profit or loss on sale of available-for-sale financial assets	-	-	-	(1,432,711)	(1,432,711)
Balance at 1 January 2012	**5,821,564**	**6,544,462**	**13,657,784**	-	**26,023,810**
Net gains during the year	**250,010**	**3,648**	**3,660,895**	-	**3,914,553**
Less: cumulative gains reclassified to profit or loss on sale of available-for-sale financial assets	-	**(6,548,110)**	-	-	**(6,548,110)**
Balance at 31 December 2012	**6,071,574**	-	**17,318,679**	-	**23,390,253**

25. REVALUATION RESERVE

In accordance with Article (8-4-A) of Central Bank Law no. (14) of 2000, *"Net increase or decrease in any financial year resulting from the change in the evaluation of assets and liabilities, recorded in the balance sheet and evaluated in gold and special drawing rights or foreign currencies, resulting from the change of foreign currencies exchange rates in relation to Yemeni Rials, are recorded in the "Revaluation reserve account"*.

The differences resulted from changes in exchange rates, during the year ended 31 December 2012, resulted in gains amounting to YR 14,594,238 thousand (2011: gains of YR 1,207,993 thousand).

26. INTEREST INCOME

	2012 YR'000	2011 YR'000
Interests on balances at banks and financial institutions	2,321,811	4,467,531
Interests on treasury bills purchased from the Government	14,735,726	14,725,863
Interests on local banks' overdraft accounts	376,279	267,950
Interests on the loans and advances	776,029	409,189
Interests on the Government's general account (*)	155,442,312	-
	173,652,157	19,870,533

(*) During the year 2012, Central Bank of Yemen has agreed with the Ministry of Finance to charge interests on the Government's general account (overdraft) at an interest rate equals to rediscount rate for the previous month., The Bank's Board of Directors on their 9th meeting on 23 November 2011, had decided not to charge the Government with any interests on its overdraft accounts for the year ended 31 December 2011.

27. INTEREST EXPENSES

	2012 YR'000	2011 YR'000
Interest on treasury bills sold to banks under repurchase scheme	14,232,108	13,681,605
Interests on local banks' balances	82,914	361,136
Interests on foreign governments' and international associations accounts	1,637,507	1,338,845
Interests on certificates of deposit	1,877,187	-
	17,829,716	15,381,586

28. INVESTMENTS AND OTHER INCOME

	2012 YR'000	2011 YR'000
Income fee from the issuance of treasury bills (Note 29)	32,180,552	22,513,790
Income from available-for-sale financial assets (Note 8-1-2)	47,088	78,275
Income from transactions in foreign currencies	308,003	876,197
Income form held-to-maturity investments	7,898	7,714
Other income	1,145,832	341,435
	33,689,373	23,817,411

29. INCOME FEE FROM THE ISSUANCE OF TREASURY BILLS

The Bank charges Ministry of Finance issuance fees at 1% of total treasury bills issued during the year.

30. STAFF COSTS

	2012 YR'000	2011 YR'000
Salaries, allowances and bonuses	6,274,809	5,123,258
Other costs	8,130	7,425
	6,282,939	5,130,683

31. RELATED PARTIES TRANSACTIONS

Parties are considered to be related if they have the ability to control the Bank or exercise significant influence over its financial and operational decisions.

Transactions are entered into with related parties in the normal course of business. The Government of Republic of Yemen is considered the most significant related party.

Due from related parties

The following is a summary of due from related parties' balances as of the statement of financial position date:

	2012	2011
	YR'000	YR'000
Due from the Government		
Local treasury bills	**373,612**	10,123,252
Treasury bills purchased from the government	**64,999,975**	64,999,969
Loans and advances	**258,871,324**	156,543,806
Government's general account	**678,986,703**	691,603,504
	1,003,231,614	923,270,531

Due to related parties

The following is a summary of due to related parties' balances as of the statement of financial position date:

	2012	2011
	YR'000	YR'000
Various ministries' and governmental corporations' accounts	**280,128,576**	362,795,081

The following is a summary of key income and expenses transactions with related parties included in these financial statements:

	2012	2011
	YR'000	YR'000
Interest on treasury bills purchased from the Government	**14,735,726**	14,725,863
Interest on overdraft accounts of the Government	**155,442,312**	-
Interests on the loans and advances	**776,029**	409,189
Income fees from the issuance of treasury bills	**32,180,552**	22,513,790

Key management personnel benefits

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the governor, the governor's vice, deputies and the members of the Board of Directors.

	2012	2011
	YR'000	YR'000
Salaries and remuneration of key management personal	**231,000**	182,086

32. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed through a process of identifying, measuring, prioritizing, monitoring and reviewing policies, subject to risk limits and other controls. This process of risk management is critical to the Bank's continued profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk, credit risk and liquidity risk).

Risk management is carried out within the framework of the policy of foreign exchange reserve management and asset allocation strategy approved by the Board of Directors through the Investment Committee and the Executive Committee for Investment, which has been re-established in the Year 2008.

The Investment Committee reviews the suitability of foreign reserve management policy and contribute to the development of appropriate investment policies of the Bank in order to achieve the desired goals, which is the preservation of capital and liquidity and then maximize the return on investment. The also make recommendations to the Board of Directors, and is responsible for the approval and oversight and compliance in accordance with the policies set out in the " investment policy guidelines "

The Executive Committee implements the investment policies approved by the Board of Directors and the decisions of the higher Committee for Investment and prepares of investment plans and reviews the reports for investment operations for the previous period.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Strategy in using financial instruments

The Bank holds foreign exchange reserves for the purposes of servicing foreign debts and other Government obligations as a fiscal agent of the Government of the Republic of Yemen and for servicing its own foreign exchange obligations, The Bank also holds foreign exchange reserves for liquidity against external shocks, implementation of monetary and exchange rate policies, and providing confidence to the markets. In view of the Bank's priorities of safe investment, liquidity and return, the Bank with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

Financial risks that arise in the management of foreign exchange reserves result from market behaviour. The Bank endeavours to minimize such risks by managing them in accordance with the Strategic Asset Allocation framework. Foreign exchange reserves are managed by observing the investment criteria defined in the Investment Policies approved by the Board and in compliance with the targets and limits stipulated in the Investment Guidelines, which are reviewed by the Investment Committee whenever need arise.

Risk measurement and reporting systems

The Bank's financial risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

32. RISK MANAGEMENT (CONTINUED)

Detailed reports are prepared for interest rate, currency and liquidity and geographic risks on a monthly basis and presented to the investment committee. Also the quarterly investment reports raised to the Board of Directors, which cover the whole risk management in the investment management.

Risk mitigation

As part of its overall risk management, the Bank uses various limits specified in its guidelines and policies to manage exposures resulting from changes in interest rates, foreign currencies, equity risk, credit risk and exposure arising from forecast transactions. Such limits specify various types of risk and the amount the Bank is willing and able to take.

Consequently, interest rate risk arising from foreign investment is mitigated by targeting average duration of the foreign assets and investing in low risk assets. Strategic currency risk is mitigated by limiting foreign assets to major reserves currencies in such a way that the weight of individual currency matches expected Government and Bank foreign obligations in that currency. To lessen the impact of the credit risk, the Bank engages with counterparts of high credit quality which have been rated by International Credit Rating Agencies. In the course of mitigating its financial risks, the Bank does not utilize derivative instruments. Derivative instruments may be used during monetary policy implementation.

Excessive risk concentration

Concentrations arise when a number of counter parties are engaged in similar business activities, or in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by the changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of the credit risks are controlled and managed accordingly.

Credit risk

In its financial operations, the Bank is exposed to credit risk, defined as the probability of a complete or partial failure of a counterpart to fulfil his obligations arising from a financial transaction.

The management of the credit risk that the Bank is exposed to in the foreign exchange reserve management is based on the principal of minimizing default probabilities of the counter parties and the financial loss in case of default. In this framework, the Bank confines its investment to leading international financial institutions and debtors that meet the minimum rating criteria specified in the Investment Policy based on credit ratings given by the International Credit Rating Agencies. The specified minimum rating criteria depends on whether the investment is short or long term in nature.

Accordingly, for short term investments, the Bank takes on exposure to issuers/issues having at least F1 according to Fitch rating agency with a maturity up to one year while it can invest in securities issued or directly guaranteed by foreign governments and Supranational which have a long-term rating of at least 'A' according to S&P or an equivalent credit rating. The average maturity of the long term investments is guided by the Investment Guidelines which is reviewed and approved by the Investment Committee once a year.

Overall, the credit risk assumed during reserve management remains at quite low levels as a great portion of reserves are invested in assets issued or directly guaranteed by the respective governments as well as by supranational institutions such as the World Bank and Bank for International Settlements.

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

Paragraphs (2), (4) and (6) of Article (32) of the Central Bank of Yemen Law no. (14) of 2000 states that:

Paragraph (2): "*In exceptional circumstances, the Bank may grant a temporary financing to the Government in the form of emergency loans, if such loans are consistent with the monetary policy objectives of the Bank and would not cause the aggregate principal amount disbursed and outstanding on all Bank emergency loans to the Government to exceed the equivalent of 25% of the annual average ordinary revenue of the previous three financial years and for which accounts are available. The maturities of such loans shall not exceed six months*".

Paragraph (4): "*Bank emergency loans granted to the Government and actually utilized shall be denominated and made payable in Rials only. For each emergency loan there must be a written emergency loan agreement executed between the Government, represented by its Minister of Finance, and the Bank. The agreement shall clearly state the principal amount of the emergency loan, its maturity, and the applicable rates of interest and other charges*".

The procedures followed by the management of the Bank to reduce credit risk include the adherence to the requirements of Central Bank Law no. (14) of 2000 through the implementation of the requirements of paragraph (6) of Article (32) which states that:

Paragraph (6): "*If the Bank believes that there are risks involved in any aspect of the monetary policy or the risk of exceeding the limit stipulated in paragraph (2) of this Article, the Bank shall submit a report on these risks to the Council of Ministers and the Parliament, together with such recommendations as it may deem appropriate to forestall or otherwise remedy the situation, and avoid its recurrence in the future*".

The following is the exposure to credit risk without taking retained guarantees into account:

	2012	2011
	YR'000	YR'000
Statement of financial position items		
Other financial assets	**160,647,844**	155,374,066
Balances with banks and financial institutions	**854,192,080**	508,767,848
IMF related assets	**54,548,028**	54,291,032
Loans and advances	**258,871,324**	156,543,806
Other assets	**10,735,712**	10,880,754
Off statement of financial position items	**10,479,031**	18,400,838

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

The distribution of assets, liabilities of statement of financial position items by geographic region at 31 December 2012 is as follows:

	Yemen	Asia	America	Europe	Total
	YR million	YR million	YR million	YR million	YR million
Assets					
Cash in foreign currencies	9,136	-	-	-	9,136
Gold and silver	1,118	-	15,631	2,296	19,045
Financial assets at fair value through profit or loss	-	-	224,601	-	224,601
Other financial assets	-	1,441	-	159,207	160,648
Balances with banks and financial institutions	-	466,098	110,136	277,958	854,192
IMF related assets	-	-	54,548	-	54,548
Local treasury bills	374	-	-	-	374
Treasury bills purchased from the Government	65,000	-	-	-	65,000
Government's general account	678,987	-	-	-	678,987
Loans and advances	258,871	-	-	-	258,871
Property and equipment	3,669	-	-	-	3,669
Other assets	11,197	-	-	-	11,197
Total assets	1,028,352	467,539	404,916	439,461	2,340,268
Liabilities					
Cash in circulation	832,726	-	-	-	832,726
Local banks' accounts	244,815	-	-	-	244,815
Ministries' and governmental' corporations accounts	280,129	-	-	-	280,129
Certificates of deposit	91,890	-	-	-	91,890
Treasury bills under repurchase scheme sold to banks	64,803	-	-	-	64,803
Foreign governments' and international associations' accounts	-	255,356	-	-	255,356
IMF related liabilities	-	-	88,840	-	88,840
Other liabilities	155,506	-	-	-	155,506
Deferred tax liability	1,596	-	-	-	1,596
Total liabilities	1,671,465	255,356	88,840	-	2,015,661
Total capital, reserves and Government's profits	324,607	-	-	-	324,607
Total liabilities, capital, reserves and Government's profits	1,996,072	255,356	88,840	-	2,340,268

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

The distribution of assets, liabilities of statement of financial position items by geographic region at 31 December 2011 is as follows

	Yemen	Asia	America	Europe	Total
	YR million	YR million	YR million	YR million	YR million
Assets					
Cash in foreign currencies	8,390	-	-	-	8,390
Gold and silver	1,042	-	14,646	2,151	17,839
Financial assets at fair value through profit or loss	-	-	222,537	-	222,537
Other financial assets	-	2,803	-	152,671	155,474
Balances with banks and financial institutions	-	231,171	26,822	250,774	508,767
IMF related assets	-	-	54,291	-	54,291
Local treasury bills	10,123	-	-	-	10,123
Treasury bills purchased from the Government	65,000	-	-	-	65,000
Government's general account	691,604	-	-	-	691,604
Loans and advances	156,544	-	-	-	156,544
Property and equipment	3,871	-	-	-	3,871
Other assets	10,895	-	-	-	10,895
Total assets	947,469	233,974	318,296	405,596	1,905,335
Liabilities					
Cash in circulation	800,254	-	-	-	800,254
Local banks' accounts	154,223	-	-	-	154,223
Ministries' and governmental corporations' accounts	362,795	-	-	-	362,795
Certificates of deposit	-	-	-	-	-
Treasury bills under repurchase scheme sold to banks	64,119	-	-	-	64,119
Foreign governments' and international associations' accounts	-	39,087	-	-	39,087
IMF related liabilities	-	-	88,295	-	88,295
Other liabilities	93,642	-	-	-	93,642
Deferred tax liability	1,284	-	-	-	1,284
Total Liabilities	1,476,317	39,087	88,295	-	1,603,699
Total capital, reserves and Government's profits	301,636	-	-	-	301,636
Total liabilities, capital, reserves and Government's profits	1,777,953	39,087	88,295	-	1,905,335

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality per class of financial assets is managed by the Bank using internal ratings. The table below shows the quality by class of asset for all financial assets exposed to credit risk, based on the Bank's credit rating system. The amount presented is gross of impairment allowances.

	2012			
	Neither passed due nor impaired	**Past due but not impaired**	**Individually impaired**	**Total**
	YR'000	**YR'000**	**YR'000**	**YR'000**
Cash in foreign currencies	**9,136,095**	-	-	**9,136,095**
Financial assets at FVTPL	**224,601,492**	-	-	**224,601,492**
Other financial assets	**161,685,352**	**(930,557)**	**(106,951)**	**160,647,844**
Balances with banks and FSI	**854,192,080**	-	-	**854,192,080**
Local treasury bills	**373,612**	-	-	**373,612**
Treasury bills purchased from the Government	**64,999,975**	-	-	**64,999,975**
Government's general account	**678,986,703**	-	-	**678,986,703**
Loans and advances	**259,492,040**	-	**(620,716)**	**258,871,324**
Other assets	**11,247,038**	-	**(50,407)**	**11,196,631**
	2,264,714,387	**(930,557)**	**(778,074)**	**2,263,005,756**

	2011			
	Neither passed due nor impaired	Past due but not impaired	Individually impaired	Total
	YR'000	YR'000	YR'000	YR'000
Cash in foreign currencies	8,390,247	-	-	8,390,247
Financial assets at FVTPL	222,536,566	-	-	222,536,566
Other financial assets	156,929,178	(1,349,092)	(106,408)	155,473,678
Balances with banks and FSI	508,767,848	-	-	508,767,848
Local treasury bills	10,123,252	-	-	10,123,252
Treasury bills purchased from the Government	64,999,969	-	-	64,999,969
Government's general account	691,603,504	-	-	691,603,504
Loans and advances	157,164,522	-	(620,716)	156,543,806
Other assets	12,349,346	-	(1,453,887)	10,895,459
	1,832,864,432	(1,349,092)	(2,181,011)	1,829,334,329

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Liquidity risk

Liquidity risk is the risk that the Bank though solvent, either does not have sufficient resources available to meet its obligations when they fall due, or can secure them only by converting assets to cash at a price lower than their fair value.

The Bank monitors its liquidity risk through internally generated maturities of assets and liabilities report which classifies the maturity of assets and liabilities into various pre-set time buckets ranging up to one year and more. The treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and makes optimum use of its funds.

The table below shows analysis of assets and liabilities according to when they expect to be recovered or settled at 31 December 2012:

	During 3 months	From 3 to 6 months	From 6 to a year	More than a year	Total
Assets	YR million	YR million	YR million	YR million	YR million
Cash in foreign currencies	9,136	-	-	-	9,136
Gold and silver	19,045	-	-	-	19,045
Financial assets at fair value through profit or loss	224,601	-	-	-	224,601
Other financial assets	160,648	-	-	-	160,648
Balances with banks and financial institutions	713,003	46,787	71,103	23,299	854,192
IMF related assets	54,548	-	-	-	54,548
Local treasury bills	374	-	-	-	374
Treasury bills purchased from the Government	65,000	-	-	-	65,000
Government's general account	-	-	-	678,987	678,987
Loans and advances	-	-	-	258,871	258,871
Property and equipment	-	-	-	3,669	3,669
Other assets	11,197	-	-	-	11,197
Total assets	1,257,552	46,787	71,103	964,826	2,340,268
Liabilities					
Cash in circulation	832,726	-	-	-	832,726
Local banks' accounts	244,815	-	-	-	244,815
Ministries and governmental corporations accounts	280,129	-	-	-	280,129
Treasury bills under repurchase scheme	64,803	-	-	-	64,803
Certificates of deposit	91,890	-	-	-	91,890
Foreign governments' and international associations' accounts	-	-	-	255,356	255,356
IMF related liabilities	-	-	-	88,840	88,840
Other liabilities	155,506	-	-	-	155,506
Deferred tax liability	-	-	-	1,596	1,596
Total Liabilities	1,669,869	-	-	345,792	2,015,661
Total capital, reserves and Government's profits	-	-	-	324,607	324,607
Total liabilities, capital, reserves and Government's profits	1,669,869	-	-	670,399	2,340,268

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Liquidity risk (continued)

The table below shows analysis of assets and liabilities according to when they expect to be recovered or settled at 31 December 2011:

	Maturity				
	During 3 months	From 3 to 6 months	From 6 to a year	More than a year	Total
Assets	YR million	YR million	YR million	YR million	YR million
Cash in foreign currencies	8,390	-	-	-	8,390
Gold and silver	17,839	-	-	-	17,839
Financial assets at fair value through profit or loss	222,537	-	-	-	222,537
Other financial assets	155,474	-	-	-	155,474
Balances with banks and financial institutions	508,767	-	-	-	508,767
IMF related assets	54,291	-	-	-	54,291
Local treasury bills	10,123	-	-	-	10,123
Treasury bills purchased from the Government	65,000	-	-	-	65,000
Government's general account	-	-	-	691,604	691,604
Loans and advances	-	-	-	156,544	156,544
Property and equipment	-	-	-	3,871	3,871
Other assets	10,895	-	-	-	10,895
Total assets	1,053,316	-	-	852,019	1,905,335
Liabilities					
Cash in circulation	800,254	-	-	-	800,254
Local banks' accounts	154,223	-	-	-	154,223
Ministries and governmental corporations accounts	362,795	-	-	-	362,795
Treasury bills under repurchase scheme	64,119	-	-	-	64,119
Certificates of deposit	-	-	-	-	-
Foreign governments' and international associations' accounts	-	-	-	39,087	39,087
IMF related liabilities	-	-	-	88,295	88,295
Other liabilities	93,642	-	-	-	93,642
Deferred tax liability	-	-	-	1,284	1,284
Total Liabilities	1,475,033	-	-	128,666	1,603,699
Total capital, reserves and Government's profits	-	-	-	301,636	301,636
Total liabilities, capital, reserves and Government's profits	1,475,033	-	-	430,302	1,905,335

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to Government through the optimisation of the capital, reserves and government profits. The Bank's overall strategy remains unchanged from prior year. The capital of the Bank consists of share capital, reserves and government's profits.

32. RISK MANAGEMENT (CONTINUED)

Market risks

Market risk includes risk due to changes in interest rates and foreign currency risk.

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in different amounts.

Risk management activities are aimed to optimise net interest income provided that market interest rate levels are consistent with Bank's business strategies.

Interest rates fluctuations have an effect on the financial instruments. The Bank is exposed to the risk of fluctuations in interest rates on loans and advances given to public entities and the foreign government's accounts through the change in LIBOR rates. Other investments obtained by the Bank and liabilities due are based on fixed interest rates.

Sensitivity analysis

Since the interest rates during the year have changed and have affected the Bank's reported earnings, the interest rate sensitivity has been determined based on the exposure to interest rates on the loans and advances portfolio and the dues to the foreign governments' accounts.

The sensitivity analysis have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk.

The following table shows the average interest rates applied on assets and liabilities of the Bank during the year ended 31 December 2012 are as follows:

	YR	USD	EURO	GBP
	%	%	%	%
Assets				
Local treasury bills	21.76	-	-	-
Treasury bills purchased from government	21.95	-	-	-
Loans and advances	-	1.21	-	-
Balance of overdraft account of the Government	24.7	-	-	-
Balances with banks and financial institutions – current accounts	-	-	-	-
Balances with banks and financial institutions – demand deposits	-	0.03	-	-
Balances with banks and financial institutions – term deposits	-	0.24	0.25	0.6
Investments held-to-maturity	-	-	-	7.75
Liabilities				
Accounts of local banks – statuary reserves	-	-	-	-
Certificates of deposit	19,6	-	-	-
Foreign governments' accounts	-	3,5	-	-
Treasury bills under repurchase scheme sold to banks	22,43	-	-	-

32. RISK MANAGEMENT (CONTINUED)

Market risks (continued)

Interest rate risk (continued)

Average interest rates applied on assets and liabilities (continued)

The following table shows the average interest rates applied on assets and liabilities of the Bank during the year ended 31 December 2011 are as follows:

	YR	USD	EURO	GBP
	%	%	%	%
Assets				
Local treasury bills	21.7	-	-	-
Treasury bills purchased from the government	18.99	-	-	-
Loans and advances	-	0.23	-	-
Balance of overdraft account of the Government	-	-	-	-
Balances with banks and financial institutions – current accounts	-	-	-	-
Balances with banks and financial institutions – demand deposits	-	0.1	-	-
Balances with banks and financial institutions – term deposits	-	0.27	1.12	0.76
Investments held-to-maturity	-	-	-	7.75
Liabilities				
Accounts of local banks - statuary reserves	-	-	-	-
Certificates of deposit	-	-	-	-
Foreign governments' accounts	-	3.5	-	-
Treasury bills sold to banks under repurchase scheme	22.77	-	-	-

Foreign currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies (especially transactions in U.S. Dollar). Since the currency in which the Bank presents its financial statements is Yemeni Rials. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the "Revaluation reserve account" which is included in Government's equity in the Bank's statement of financial position in compliance with Central Bank Law, Article no. (8-4-A).

The Bank has monetary Assets and liabilities denominated in foreign currencies which consists mainly of pound sterling, US Dollar, SAR, Euro, KDW and SDRs.

32. RISK MANAGEMENT (CONTINUED)

Market risks (continued)

Foreign currency risk (continued)

The following schedule reflects the Bank's significant foreign currencies positions as at 31 December 2012:

	USD	EURO	GBP	SAR	SDR	KWD	Others	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
FOREIGN CURRENCIES ASSETS								
Cash in foreign currencies	7,498,842	666,358	8,528	791,285	-	-	171,082	9,136,095
Gold and silver	-	-	-	-	-	-	19,044,679	19,044,679
Financial assets at fair value through profit or loss	224,601,492	-	-	-	-	-	-	224,601,492
Other financial assets	57,868,424	102,779,420	-	-	-	-	-	160,647,844
Balances with banks and financial institutions	501,449,434	206,315,425	139,484,998	2,048,952	-	3,219,364	1,673,907	854,192,080
IMF related assets	-	-	-	-	54,548,028	-	-	54,548,028
Loans and advances	258,871,324	-	-	-	-	-	-	258,871,324
Total foreign currencies assets	1,050,289,516	309,761,203	139,493,526	2,840,237	54,548,028	3,219,364	20,889,668	1,581,041,542
Proportion	66.43%	19.56%	8.82%	0.18%	3.45%	0.20%	1.32%	100%
FOREIGN CURRENCIES LIABILITIES								
Local banks' accounts	85,403,557	-	-	-	-	-	-	85,403,557
Ministries' and governmental corporations' accounts	114,251,820	-	-	-	-	-	-	114,251,820
Foreign governments' and international associations' accounts	214,890,000	-	-	-	-	40,466,480	-	255,356,480
IMF related liabilities	-	-	-	-	88,839,618	-	-	88,839,618
Total foreign currencies liabilities	414,545,377	-	-	-	88,839,618	40,466,480	-	543,851,475
Proportion	76.22%	-	-	-	16.39%	7.44%	-	100%
Net foreign currencies exposure	635,744,139	309,761,203	139,493,526	2,840,237	(34,291,590)	(37,247,116)	20,889,668	1,037,190,067

32. RISK MANAGEMENT (CONTINUED)

Market risks (continued)

Foreign currency risk (continued)

The following schedule reflects the Bank's significant foreign currencies positions as at 31 December 2011:

	USD	EURO	GBP	SAR	SDR	KWD	Others	Total
	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000	YR'000
ASSETS IN FOREIGN CURRENCIES								
Cash in foreign currencies	6,416,240	671,912	8,154	1,147,033	-	-	146,908	8,390,247
Gold and silver	-	-	-	-	-	-	17,839,112	17,839,112
Financial assets at fair value through profit or loss	222,536,566	-	-	-	-	-	-	222,536,566
Other financial assets	58,805,810	96,667,868	-	-	-	-	-	155,473,678
Balances with banks and financial institutions	158,217,481	209,127,962	133,189,707	1,910,708	-	3,834,744	2,487,246	508,767,848
IMF related assets	-	-	-	-	54,291,032	-	-	54,291,032
Loans and advances	156,543,806	-	-	-	-	-	-	156,543,806
Total assets in foreign currencies	602,420,291	306,467,742	133,197,861	3,057,741	54,291,032	3,834,744	20,473,266	1,123,842,289
Proportion	53.60%	27.27%	11.86%	0.27%	4.83%	0.34%	1.82%	100%
LIABILITIES IN FOREIGN CURRENCIES								
Local banks' accounts	76,516,758	-	-	-	-	-	-	76,516,758
Ministries' and governmental corporations' accounts	232,168,565	-	-	-	-	-	-	232,168,565
Foreign governments' and international associations' accounts	-	-	-	-	-	39,087,329	-	39,087,329
IMF related liabilities	-	-	-	-	88,295,123	-	-	88,295,123
Total liabilities in foreign currencies	308,685,323	-	-	-	88,295,123	39,087,329	-	436,067,775
Proportion	70.79%	-	-	-	20.25%	8.96%	-	100%
Net foreign currencies exposure	293,734,968	306,467,742	133,197,861	3,057,741	(34,004,091)	(35,252,585)	20,473,266	531,230,708

32. RISK MANAGEMENT (CONTINUED)

Market risks (continued)

Foreign currency risk (continued)

The following schedule reflects the statement of financial position of the Bank according to foreign and domestic locations as at 31 December:

	2012	2011
	YR'000	YR'000
Foreign assets		
Cash in foreign currencies	9,136,095	8,390,247
Gold and silver	19,044,679	17,839,112
Financial assets at fair value through profit or loss	224,601,492	222,536,566
Other financial assets	160,647,844	155,473,678
Balances with banks and financial institutions	854,192,080	508,767,848
IMF related assets	54,548,028	54,291,032
Total foreign assets	1,322,170,218	967,298,483
Domestic assets		
Local treasury bills	373,612	10,123,252
Treasury bills purchased from the Government	64,999,975	64,999,969
Government's general account	678,986,703	691,603,504
Loans and advances	258,871,324	156,543,806
Property and equipment	3,669,439	3,870,740
Other assets	11,196,631	10,895,459
Total domestic assets	1,018,097,684	938,036,730
Total assets	2,340,267,902	1,905,335,213
Liabilities, capital, reserves and government's profits		
Foreign liabilities		
Foreign governments' and international associations' accounts	255,356,480	39,087,329
IMF related liabilities	88,839,618	88,295,123
Total foreign liabilities	344,196,098	127,382,452
Domestic liabilities		
Cash in circulation	832,726,449	800,253,991
Local banks' accounts	244,814,513	154,223,280
Ministries' and governmental corporations' accounts	280,128,576	362,795,081
Certificates of deposit	91,890,000	-
Treasury bills under repurchase scheme sold to banks	64,802,697	64,118,759
Other liabilities	155,506,047	93,641,684
Deferred tax liability	1,596,546	1,283,855
Total domestic liabilities	1,671,464,828	1,476,316,650
Total liabilities	2,015,660,926	1,603,699,102
Total capital, reserves and Government's profits	324,606,976	301,636,111
Total liabilities, capital, reserves and government's profits	2,340,267,902	1,905,335,213

33. CONTINGENT LIABILITIES

Contingent guarantees

	2012 YR'000	2011 YR'000
Letters of credit – Import	**67,948,367**	58,254,134
Letters of guarantee – External	**5,725,136**	6,039,281
Letters of guarantee – Local	**188,081**	188,080
	73,861,584	64,481,495
Letters of credit and letters of guarantee margins	**(63,382,553)**	(46,080,657)
	10,479,031	18,400,838

Legal claims

Certain legal cases have been filed against the Bank amounting to approximately YR 594 million (2011: approximately YR 537 million). No provision has been made, as the directors, based on a legal advice from the Legal Department, believe that the results of these cases will not affect the Bank's operations.

34. NON-CASH TRANSACTIONS

The table below includes the non-cash transactions during the year that affected the reserves accounts:

	2012 YR'000	2011 YR'000
Revaluation of gold and silver	**(1,205,567)**	(1,684,355)
Revaluation of available-for-sale financial assets	**(2,707,409)**	2,229,449
	(3,912,976)	545,094

35. COMMITMENTS FOR CAPITAL EXPENDITURES

Commitments for capital expenditures as of 31 December are as follows:

	2012 YR'000	2011 YR'000
Constructing a building for Taiz branch	**800,000**	466,000
Constructing a building for Ammran branch	**85,000**	65,500
Constructing a building for Raimah branch	**80,000**	70,000
Project of Bank system (internal controls improvements)	**260,000**	97,000

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Measurements of fair value included in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market 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).

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	YR'000	**YR'000**	**YR'000**	**YR'000**
Available-for-sale financial assets	**160,255,758**	**-**	**392,086**	**160,647,844**
Financial assets 'at fair value through profit or loss' (FVTPL)	**224,601,492**	**-**	**-**	**224,601,492**
	384,857,250	**-**	**392,086**	**385,249,336**

	2011			
	Level 1	Level 2	Level 3	Total
	YR'000	YR'000	YR'000	YR'000
Available-for-sale financial assets	154,981,980	-	392,086	155,374,066
Financial assets 'at fair value through profit or loss' (FVTPL)	222,536,566	-	-	222,536,566
	377,518,546	-	392,086	377,910,632

There were no transfers between levels during the year 2011 and 2012.

37. COMPARATIVE FIGURES

Certain of prior year figures were reclassified to conform to the current year presentation.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 7 May 2013.