CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
AND INDEPENDENT AUDITOR'S REPORT

CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENTS **Page**

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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 2013, and the statement of profit or loss and statement of profit or loss and other 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 from 9 to 58.

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. 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Central Bank of Yemen as at 31 December 2013, and 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 2013 were amounting to YR 666,127,191 thousand (2012: YR 678,986,703 thousand) and emergency loans and advances provided to the Public Sector Corporations were amounting to YR 265,674,964 thousand (2012: YR 259,492,040 thousand) with a total financing to the Government amounting to YR 931,181,439 thousand (2012: YR 938,478,743 thousand), has exceeded the authorized limit of 25% of the annual average ordinary revenue of the previous three financial years amounting to approximately YR 609,525,000 thousand (exceeded limit by YR 321,656,439 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 265,674,964 thousand (Note 13), were denominated and made payable in United States Dollars.

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

Deloitte & Touche (M.E.) with Dr. Hajar
Sana'a, Republic of Yemen
21 April 2014

ديلويت آند توش (الشرق الأوسط) مع الدكتور هاجر
رقم الترخيص ٦٦٨
صندوق بريد الصافية ١٥٦٥٥
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CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 YR'000	2012 YR'000
ASSETS			
Cash in foreign currencies	5	**6,892,028**	9,136,095
Gold and silver	6	**13,714,007**	19,044,679
Balances with banks and financial institutions	7	**684,367,279**	854,192,080
Financial assets at fair value through profit or loss	8	**225,165,232**	224,601,492
Available-for-sale financial assets	9	**164,427,225**	160,647,844
International Monetary Fund related assets	10	**53,849,401**	54,548,028
Local treasury bills		**893,875**	373,612
Treasury bills purchased from the Government	11	**64,999,975**	64,999,975
Government's general account	12	**666,127,191**	678,986,703
Loans and advances	13	**265,054,248**	258,871,324
Property and equipment	14	**3,866,933**	3,669,439
Other assets	15	**9,353,310**	11,196,631
Total assets		**2,158,710,704**	2,340,267,902
LIABILITIES, CAPITAL, RESERVES AND GOVERNMENT'S PROFITS			
Liabilities			
Cash in circulation	16	**821,554,010**	832,726,449
Local banks' accounts	17	**276,072,678**	244,814,513
Ministries' and governmental corporations' accounts	18	**196,010,435**	280,128,576
Certificates of deposit	19	-	91,890,000
Treasury bills under repurchase scheme sold to banks	11	**50,642,815**	64,802,697
Foreign governments' and international associations' accounts	20	**256,403,505**	255,356,480
International Monetary Fund related liabilities	10	**89,049,789**	88,839,618
Other liabilities	21	**136,588,695**	155,506,047
Deferred tax liability	22	**1,760,015**	1,596,546
Total liabilities		**1,828,081,942**	2,015,660,926
Capital, reserves and Government's profits			
Paid-up share capital	23	**6,000,000**	6,000,000
Reserves	24	**37,800,060**	37,770,295
Net Government's profits		**20,354,725**	24,543,888
		64,154,785	68,314,183
Revaluation reserve	25	**266,473,977**	256,292,793
Total capital, reserves and Government's profits		**330,628,762**	324,606,976
Total liabilities, capital, reserves and Government's profits		**2,158,710,704**	2,340,267,902

The financial statements were approved by the Bank's Board of Directors and authorized for issue on 21 April 2014; they were signed on its behalf by:

Ali Ibrahim Al-Syani **Acting General Manager of Central Accounts**	Abdulkarim Ali Al-Magharem **Acting Deputy Governor of Accounts and IT**	Mohammed Awdh Binhamam **Governor**

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

CENTRAL BANK OF YEMEN
SANA'A, REPUBLIC OF YEMEN

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 YR'000	2012 YR'000
Interest income	26	**147,915,412**	173,652,157
Interest expense	27	**(19,109,491)**	(17,829,716)
Net interest income		**128,805,921**	155,822,441
Commission income		**463,451**	586,941
Other fees and commission expenses		**(361,300)**	(372,751)
		102,151	214,190
Investments and other income	28	**42,491,860**	33,689,373
Operating income		**171,399,932**	189,726,004
Currency printing and destruction expenses		**(341,501)**	(1,586,956)
Staff costs	30	**(11,400,648)**	(6,282,939)
General and administrative expenses		**(1,625,428)**	(1,439,158)
Depreciation of property and equipment	14	**(186,658)**	(203,280)
Operating expenses		**(13,554,235)**	(9,512,333)
Operating profit		**157,845,697**	180,213,671
Impairment losses on available-for-sale financial assets		-	(68,060)
Reversal of impairment losses on available-for-sale financial assets		**96,378**	493,471
Cumulative gain reclassified from investments' fair value reserve on disposal of available-for-sale investments		-	6,548,110
Change in fair value on financial assets designated as at FVTPL	8	**720,969**	1,138,044
Loss on disposal of property and equipment		**(7,521)**	(105,236)
Other losses		-	(1,953,055)
Zakat expenses		**(412,828)**	(417,765)
Profit for the year before tax on commercial and industrial profits		**158,242,695**	185,849,180
Tax expense on commercial and industrial profits	22	**(31,648,539)**	(37,169,836)
Profit for the year (according to Central Bank of Yemen Law)		**126,594,156**	148,679,344
<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)		**126,594,156**	148,679,344
Gains on revaluation of assets and liabilities in gold and foreign currencies	25	**10,181,184**	14,594,238
Profit for the year (according to International Financial Reporting Standards)		**136,775,340**	163,273,582

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

CENTRAL BANK OF YEMEN

SANA'A, REPUBLIC OF YEMEN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 YR'000	2012 YR'000
Profit for the year (according to International Financial Reporting Standards)		**136,775,340**	163,273,582
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available-for sale financial assets			
Change in fair value of available-for-sale financial assets during the year	24-2	**29,765**	3,914,553
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	24-2	**-**	(6,548,110)
Other comprehensive income for the year		**29,765**	(2,633,557)
Total comprehensive income for the year (according to International Financial Reporting Standards)		**136,805,105**	160,640,025

STATEMENT OF CHANGES IN EQUITY, RESERVES AND GOVERNMENT'S PROFITS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Paid-up capital	General reserve	Voluntary reserve	Investments fair value reserve	Revaluation reserve	Net Government's profits	Total
2013	**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**	**23,390,253**	**256,292,793**	**24,543,888**	**324,606,976**
Profit for the year (according to Central Bank of Yemen Law)	-	-	-	-	-	**126,594,156**	**126,594,156**
Net gain on revaluation of assets and liabilities in gold and foreign currencies	-	-	-	-	**10,181,184**	-	**10,181,184**
Other comprehensive income for the year, net of income tax	-	-	-	**29,765**	-	-	**29,765**
Transfers to the Government	-	-	-	-	-	**(130,783,319)**	**(130,783,319)**
Balance at 31 December	**6,000,000**	**12,000,000**	**2,380,042**	**23,420,018**	**266,473,977**	**20,345,725**	**330,628,762**
2012							
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
Net gain on revaluation of assets and liabilities in gold and foreign currencies	-	-	-	-	14,594,238	-	14,594,238
Other comprehensive income for the year, net of income tax	-	-	-	(2,633,557)	-	-	(2,633,557)
Transfers 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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 YR'000	2012 YR'000
Cash flows from operating activities		
Profit for the year (according to Central Bank of Yemen Law)	**126,594,156**	148,679,344
Adjustments for:		
Depreciation of property and equipment	**186,658**	203,280
Tax expense on commercial and industrial profits recognised in statement of comprehensive income	**31,648,539**	37,169,836
Zakat expense recognised in statement of comprehensive income	**412,828**	417,765
Loss on disposals of property and equipment	**7,521**	105,236
Adjustments on property and equipment	**-**	(424)
Impairment loss on available-for-sale financial assets	**-**	68,060
Reversal of impairment loss on available-for-sale financial assets	**(96,378)**	(493,471)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	**-**	(6,548,110)
Change in fair value of financial assets at fair value through profit or loss	**(720,969)**	(1,138,044)
Management fees and commissions for the International Bank for Reconstruction and Development	**157,267**	209,781
Interest income earned from Arab Monetary Fund	**(20,214)**	(47,088)
Management fees and commissions for Arab Monetary Fund	**890**	1,952
Operating profit before changes in working capital	**158,170,298**	178,628,117
Net change in assets		
Increase in balances with banks and financial institutions	**(112,027,093)**	(141,188,202)
Increase in loans and advances	**(6,182,924)**	(102,127,518)
Decrease in the Government's general account	**12,859,512**	12,616,801
Decrease in other assets	**1,843,321**	2,305,788
	(103,507,184)	(228,393,131)
Net change in liabilities		
Increase in local banks' accounts	**31,258,165**	90,591,233
Decrease in ministries' and governmental corporations' accounts	**(84,118,141)**	(82,666,505)
Increase in foreign governments' and international associations accounts	**1,047,025**	216,269,151
Increase in IMF related liabilities	**210,171**	544,495
(Decrease)/increase in treasury bills under repurchase scheme sold to banks	**(14,159,882)**	683,938
(Decrease)/increase in certificates of deposit	**(91,890,000)**	91,890,000
(Decrease)/increase in other liabilities	**(18,068,942)**	63,863,398
	(175,721,604)	381,175,710
Cash (used in)/generated from operations	**(121,058,490)**	331,410,696
Zakat paid	**(417,765)**	(418,000)
Tax paid on commercial and industrial profits	**(32,328,543)**	(34,857,875)
Net cash (used in)/generated by operating activities	**(153,804,798)**	296,134,821

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

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	YR'000	YR'000
Cash flows from investing activities		
Proceeds on sale of available-for-sale financial assets	1,160,675	30,173,868
Proceeds on sale of held-to-maturity investments	-	99,612
Payments for purchase of available-for-sale financial assets	(196,624)	(28,322,963)
Payments for acquiring property and equipment	(391,673)	(106,805)
Proceeds from disposal of property and equipment	-	15
Net cash generated by investing activities	572,378	1,843,727
Cash flows from financing activities		
Net change in cash in circulation	(11,172,439)	32,472,458
Amounts transferred to the Government	(130,783,319)	(137,669,160)
Net cash used in financing activities	(141,955,758)	(105,196,702)
Revaluation reserve account		
Increase in revaluation reserve account	10,913,853	2,707,410
Increase in reserve revaluation account	10,913,853	2,707,410
Net change in cash and cash equivalents during the year	(284,274,325)	195,489,256
Cash and cash equivalents at the beginning of the year	842,061,604	646,572,348
Cash and cash equivalents at the end of the year	557,787,279	842,061,604

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

	2013	2012
Cash in foreign currencies	6,892,028	9,136,095
Local treasury bills	893,875	373,612
Treasury bills purchased from the Government	64,999,975	64,999,975
Balances with banks and financial institutions	431,152,000	713,003,894
SDRs holdings with International Monetary Fund	53,849,401	54,548,028
	557,787,279	842,061,604

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 Central Bank of Yemen Law no. (14) issued on 25 June 2000, that was approved by the Parliament and ratified by the President, "*The bank has the status of a legal entity, financial and administrative autonomy and a special seal .It shall carry out its duties in accordance with the provisions of this law, entirely 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 the Government's economic policies framework. In order to achieve this objective, the Bank could participate on the following duties and specialties:

- Designing and adopting monetary policies that meet its main objective in stabling the prices and also maintaining such stability;
- Defining foreign currencies exchange system in consultation with the Government, then design, adopt and execute foreign currencies prices;
- Issuing licenses for banks and financial institutions and monitoring their activities;
- Holding and managing the Bank's official foreign reserves;
- Encouraging and simplifying the procedures of payment systems; and
- Working as a bank, consultant and financial agent for the Government.
- The Bank shall follow the administrative and accounting methods used by banks, and shall not be subject to the laws, rules and regulations that apply to government agencies and semi-public sectors.

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

For the year ended 31 December 2013, 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 2013.

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 – Offsetting Financial Assets and Financial Liabilities*	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

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

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

IFRS 10: *Consolidated Financial Statements*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee.

Previously, control was defined as the power to govern financial and operating policies of the entity so as to obtain benefits from its activities.

IFRS 11: *Joint arrangements*

IFRS 11 replaces IAS 31 Interest in Joint Ventures and guidance contained in related interpretations. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and account for. Under IFRS 11 investments in joint arrangements are classified either as joint operations or joint ventures, based on rights and obligation of parties to the arrangements by considering the structure, the legal form of the arrangement, the contractual terms agreed by the parties to the arrangement, and when relevant, other facts and circumstances.

IFRS 13: *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirement of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

3. 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 1: *Presentation of Items of Other Profit or loss*

The amendments introduce new terminology, whose use is not mandatory, for the statement of profit or loss and other comprehensive income statement. Under the amendments to IAS 1, the 'statement of profit or loss' is renamed as the 'statement of profit or loss and other profit or loss' [and the 'income statement' is renamed as the 'statement of profit or loss'].

The amendments to IAS 1 retain the option to present profit or loss and other profit or loss in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other profit or loss to be grouped into two categories in the other profit or loss section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other profit or loss is required to be allocated on the same basis - the amendments do not change the option to present items of other profit or loss either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other profit or loss has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other profit or loss and total profit or loss.

Annual Improvements 2009- 2011 Cycle

Makes amendments to the following standards:

IAS 1 - Clarification of the requirements for comparative information

IAS 16 - Classification of servicing equipment IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes

IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

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

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

IAS 19: *Employee Benefits (as revised in 2011)*	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other profit or loss in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other profit or loss in prior years. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

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*, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition requirements.	January 2015

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

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

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

	Effective for annual periods beginning on or after
New IFRS and relevant amendments (continued) **Financial Instruments (continued)**	

Key requirements of IFRS 9 (continued):

- In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Consolidation, Joint Arrangements, Associates and Disclosures	
Amendment to IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities and* IAS 27 *Separate Financial Statements, to* provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement.*	January 2014
Amended IFRSs	
IAS 32: *Financial instruments: presentation,* Offsetting Financial Assets and Financial Liabilities: to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main area (a) the meaning of 'currently has a legally enforceable right of set-off (b) the application of simultaneous realization and settlement (c) the offsetting of collateral amounts (d) the unit of account for applying the offsetting requirements	January 2014

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

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

	Effective for annual periods beginning on or after
New IFRS and relevant amendments (continued)	
Amended IFRSs	
IAS 36: *impairment of assets,* Recoverable Amount Disclosures for Non-Financial Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.	January 2014
IAS 39: *Financial Instruments: Recognition and Measurement,* Novation of Derivatives and Continuation of Hedge Accounting' makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is notated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative gaffe that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.	January 2014

The management of the Bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets (e.g. the Bank's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Management anticipates that the adoption of other 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 the requirements of Central Bank of Yemen Law no. (14) of 2000.

The only deviation between IFRS and Central Bank of Yemen Law no. (14) of 2000 is on the accounting treatment of the change in the evaluation of assets and liabilities recorded in the statement of financial position date (including gold, special drawing rights and foreign currencies).

According to Article (8-4-A) of the Central Bank of Yemen 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 statement of financial position 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" in the statement of financial position of the Bank*".

Whereas paragraph (23) of IAS 21 – *the Effects of Changes in Foreign Exchange Rates* requires at the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

However, in order to prepare the financial statements in accordance with IFRS and the requirements of the Central Bank of Yemen Law no. (14) of 2000, the management presented the statement of profit and loss reaching to the profit for the year according to Central Bank of Yemen Law, then adjusted the CBY profit with the effect of the exchange differences on monetary items to reach to the profit for the year according to International Financial Reporting Standards.

With the fact that the net profit for the year (with or without the exchange difference on monetary items) is closed in the Government's profit for the year that is a component of the statement of changes in equity and since the revaluation reserve account is also a component of the statement of changes in equity, management has concluded that the financial statements have presented fairly the Bank's financial position, financial performance and cash flows and it has complied with applicable IFRS and requirements of Central Bank of Yemen Law no. (14) of 2000.

As of 31 December 2013, the net gain on revaluation of assets and liabilities in gold and foreign currencies recorded in the statement of changes equity, directly through the revaluation reserve account, without being recognized through the net profit for the year was amounting to YR 10,181,184 thousand (2012: YR 14,594,238 thousand).

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 at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Presentation of the 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.

Foreign currency conversion

The Bank's functional and presentation currency is Yemeni Rials ("YR"). Transactions in foreign currencies are initially recorded in the functional currency exchange rate prevailing at the date of transaction. According to Article (8-4-A) of the Central Bank of Yemen 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 statement of financial position 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" in the statement of financial position of the Bank*".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency conversion (continued)

Exchange rates differences resulting from transactions in foreign currencies are recognized in profit or loss. For the purposes of retranslation, the following Yemeni Rial exchange rates for major currencies were used:

Currency	2013 YR	2012 YR
1 United States Dollar	**214.89**	214.89
1 Euro	**295.09**	283.67
1 Sterling Pound	**353.94**	347.24
1 Saudi Arabia Riyal	**57.15**	57.15
1 Special Drawing Rights (SDR)	**329.90**	330.27
1 Kuwaiti Dinars	**760.98**	764.14

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.

Effective interest method

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 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 FVTPL in foreign currencies are recorded in the "Revaluation Reserve Account" in compliance with Central Bank of Yemen 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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 of Yemen Law, are determined based on the amortised cost of the monetary asset.

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.

Loans and receivables

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.

For all financial assets available for sale, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

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 national or local 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition of financial assets (continued)

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 change in fair value 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 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.

Treasury bills under repurchase scheme

Treasury bills sold with a commitment to repurchase in a future date are presented in the statement of financial position at their amortized cost. Difference between selling price and repurchase price is accounted for either as income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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, using the exchange rates 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

Cash and cash equivalents comprise cash at foreign banks and financial institutions and short-term deposits.

As the sole statutory authority, the Bank issues currency to the public. Currency issued by the Bank represents a claim on the Bank in favor of the holder. This is a liability on the part of the Bank while it is an item of cash in the hands of the holder. Movement in circulation currency is included as part of financing activities in line with prevailing industry practice among those central banks which present cash flow statements.

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 financial liabilities

The Bank offsets the financial assets and liabilities when there is an enforceable master netting agreement or similar arrangement 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 for use in the production or supply of services, or for administrative purposes, 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 of services or for 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 (if any) 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 profit or loss.

Impairment of tangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Consigned assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash in circulation

Cash in circulation balance in Yemeni Rials represents a bank liability to the holders. Cash in circulation balance appears in the face of the statement of financial position after deducting non-circulated 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 the Government's general budget accounts. 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).

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 Central Bank of Yemen Law no. (14) of 2000, 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Dividends and interest income (continued)

Interest income from a financial asset is recognised when 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 income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received. However, the Bank continue accruing for interest income on non-performing loans if such loans are guaranteed by the Government.

Profits from "available-for-sale financial assets" are recognized in the statement of profit or loss and other 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 profit or loss and other 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.

Leasing

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.

Cost of printing and destruction of cash

Notes printing and coins minting expenses, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax on commercial and industrial profits (continued)

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.

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 has reviewed the Bank's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity.

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

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.

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.

Fair value measurement and valuation processes

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.

5. CASH IN FOREIGN CURRENCIES

	2013	2012
	YR'000	YR'000
Cash in foreign currencies:		
USD	**5,189,543**	7,498,842
EURO	**108,591**	666,358
GBP	**326**	8,528
SAR	**1,554,625**	791,285
Others	**38,943**	171,082
	6,892,028	9,136,095

6. GOLD AND SILVER

	2013 YR'000	2012 YR'000
Gold	**13,466,985**	18,797,656
Silver	**247,022**	247,023
	13,714,007	19,044,679

Gold was evaluated according to the international market price as of 31 December 2013 at YR 257,546 – equivalent to USD 1,198.50 per ounce (2012: YR 357,168 – equivalent to USD 1,662.10 per ounce). Silver was evaluated according to the international market price as of 31 December 2013 at YR 4,188.21– equivalent to USD 19.49 per ounce (2012: YR 6,487.53 equivalent to USD 30.19 per ounce).

7. BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2013 YR'000	2012 YR'000
Current accounts	**30,763,190**	118,183,879
Demand deposits	**4,096,014**	3,742,017
Time deposits	**649,508,436**	732,266,538
	684,367,640	854,192,434
Provision for balances with banks and financial institutions	**(361)**	(354)
	684,367,279	854,192,080

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).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year 2009, the Bank invested USD 1,000 million (equivalent to YR 200,340,000 thousand) 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:

	2013		2012	
	USD'000	**YR'000**	USD'000	YR'000
Fair value at 1 January	**1,045,193**	**224,601,492**	1,040,863	222,536,566
Change in fair value of financial assets designated at FVTPL	**3,355**	**720,969**	5,298	1,138,044
Fees and commissions for managing the investments during the year	**(731)**	**(157,267)**	(968)	(209,781)
Change in exchange rate	**-**	**38**	-	1,136,663
Fair value at 31 December	**1,047,817**	**225,165,232**	1,045,193	224,601,492

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2012
	YR'000	YR'000
Available-for-sale financial assets at fair value (Note 9-1)	**163,838,515**	160,255,758
Available-for-sale financial assets at cost (Note 9-2)	**588,710**	392,086
	164,427,225	160,647,844

Available-for-sale financial assets

	2013			2012		
	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 9-1-1)	**163,834,354**	-	**163,834,354**	159,206,624	-	159,206,624
Managed by the Arab Monetary Fund (Note 9-1-2)	**838,340**	**(834,179)**	**4,161**	1,979,691	(930,557)	1,049,134
Shares of UBAC Group – Krakow (Note 9-1-3)	**106,951**	**(106,951)**	-	106,951	(106,951)	-
	164,779,645	**(941,130)**	**163,838,515**	161,293,266	(1,037,508)	160,255,758
AFS financial assets at cost						
Contribution in the Arab Trading Finance Programme (Note 9-2)	**588,710**	-	**588,710**	392,086	-	392,086
	165,368,355	**(941,130)**	**164,427,225**	161,685,352	(1,037,508)	160,647,844

9. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

9-1 Available-for-sale financial assets at fair value

9-1-1 Investments managed by the Bank for International Settlements

As of 31 December 2013, the Bank owns 1,968,380 investment units of category (a) which includes amounts of USD 263.6 and 2,575,169 investment units of category (d) amounting to EURO 361.6 million. These investments are managed by the Bank for International Settlements.

The following is a statement of changes in fair value during the year ended 31 December 2013:

	Category (a)		Category (c)		Category (d)		Total
	USD'000	**YR'000**	**USD'000**	**YR'000**	**Euro'000**	**YR'000**	**YR'000**
Fair value at 1 January	**262,586**	**56,427,204**	-	-	**362,321**	**102,779,420**	**159,206,624**
Additions during the year	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-
Change in exchange rate	-	**19**	-	-	-	**4,597,946**	**4,597,965**
Change in fair value of AFS financial assets	**1,015**	**218,164**	-	-	**(684)**	**(188,399)**	**29,765**
Fair value at 31 December	**263,601**	**56,645,387**	-	-	**361,637**	**107,188,967**	**163,834,354**

The following is a statement of changes in fair value during the year ended 31 December 2012:

	Category (a)		Category (c)		Category (d)		Total
	USD'000	YR'000	USD'000	YR'000	Euro'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 during the year	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 change in fair value of 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

9. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

9-1 Available-for-sale financial assets at fair value (continued)

9-1-2 Investments managed by the Arab Monetary Fund

The following is a statement of changes in fair value of investment portfolio managed by Arab Monetary Fund during the year ended 31 December 2013:

	2013	
	USD'000	**YR'000**
Balance at 1 January	**9,213**	**1,979,691**
Interest income earned during the year (Note 28)	**94**	**20,214**
Gain on disposal of available-for-sale financial assets	**-**	**-**
Fees and commissions for managing the investments during the year	**(4)**	**(890)**
Change in exchange rate	**-**	**-**
Disposals	**(5,401)**	**(1,160,675)**
	3,902	**838,340**
Impairment loss on available-for-sale financial assets	**(3,882)**	**(834,179)**
Fair value at 31 December	**20**	**4,161**

The following is a statement of changes in fair value 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

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

	2013	2012
	YR'000	YR'000
Balance at 1 January	**930,557**	1,349,092
Impairment loss on available-for-sale financial assets	**-**	68,060
Recovered impairment loss on available-for-sale financial assets	**(96,378)**	(493,471)
Change in exchange rate	**-**	6,876
Balance at 31 December	**834,179**	930,557

9. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

9-1 Available-for-sale financial assets at fair value (continued)

9-1-3 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, so impairment loss has been recognized in profit or loss for the total investments as the present value of the expected cash flow equals zero.

9-2 Available-for-sale financial assets at cost

9-2-1 Contribution in the Arab Trading Finance Program, at cost

The Bank's investment in the Arab Trading Finance Programme represents a share in the capital of the programme being 483 shares including 183shares purchased in 26 September 2013 with USD 5,000 nominal value per share.

	2013		2012	
	USD'000	YR'000	USD'000	YR'000
Share in capital of the program	**2,925**	**588,710**	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.

10. BALANCES RELATED TO INTERNATIONAL MONETARY FUND

	2013		2012	
	SDR'000	YR'000	SDR'000	YR'000
IMF related assets				
Holdings in SDRs	**163,229**	**53,849,401**	165,162	54,548,028
IMF related Liabilities				
Interest bearing loan – Non-current (Note 10-1)	**34,790**	**11,477,221**	34,790	11,490,093
Allocation of SDRs (Note 10-2)	**232,251**	**76,619,705**	232,251	76,705,638
Other liabilities due to IMF - A/Cs (1 & 2) (Note 10-3)	**1,986**	**952,863**	1,942	643,887
Total IMF related liabilities	**269,027**	**89,049,789**	268,983	88,839,618

10-1 Interest bearing loan

This represents a long-term financing loan to reduce poverty and promote high growth. The loan is 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 periods given for such loans by IMF is over a maximum period of 10 years.

10. BALANCES RELATED TO INTERNATIONAL MONETARY FUND (CONTINUED)

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 the Government of Yemen. The Bank being a fiscal agent for the Government, such accounts are not accounted for in the financial statements of the Bank.

11. TREASURY BILLS PURCHASED AND SOLD

Based on the decision of the Government's 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 (2012: 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:

	2013	2012
	YR'000	YR'000
Treasury bills purchased from the government	**64,999,975**	64,999,975

Interest rates on treasury bills purchased from the Government were between 16.12% and 19.49% (2012: 22.56% and 22.24%).

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

	2013	2012
	YR'000	YR'000
Treasury bills sold to local banks under the repurchase scheme	**50,642,815**	64,802,697

Interest rates on treasury bills sold to banks under the repurchase scheme were between 16.9% and 22.9% (2012: 22.2% and 22.9%).

12. GOVERNMENT'S GENERAL ACCOUNT

	2013 YR'000	2012 YR'000
Government's general account	**666,127,191**	678,986,703

As at 31 December 2013, the overall position of the Government's general account of the Republic of Yemen closed 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. These 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 132,799,297 thousand was charged in 2013 (2012: YR 155,442,312 thousand) 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

	2013 YR'000	2012 YR'000
Loans and advances to Public Sector Corporations:		
A. Yemen Economic Corporation	**8,505,580**	8,490,378
B. Aden Refinery Company	**83,717,789**	82,782,978
C. Yemen Petroleum Company	**168,897,723**	153,333,889
D. Yemen Gas Company	**4,553,872**	14,884,795
	265,674,964	259,492,040
Provision for loans and advances (Note 13-1)	**(620,716)**	(620,716)
	265,054,248	258,871,324

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. As a result of the Ministry of Finance memorandum letter no. (1349-220) dated 3 August 2013, the loan facility has further been extended until the end of January 2014.

It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. As at 31 December 2013, the loan facility balance was amounting to USD 36.69 million - equivalent to YR 7.9 Billion (2012: USD 36.6 million - equivalent to YR 7.8 Billion).

13. LOANS AND ADVANCES (CONTINUED)

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. As a result of the Ministry of Finance memorandum letter no. (5571-149) dated 22 June 2013, the loan facility has been extended until the end of June 2013 and as a result of Ministry of Finance memorandum letter no. (7716-140) dated 19 September 2013 the facility has been extended until the end of December 2013. The loan facility has further been extended until 31 March 2014 based on Finance Memorandum no. (60005-140) dated 22 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 2013, the loan facility balance was amounting to USD 390 million - equivalent to YR 83.7 Billion (2012: USD 385 million - equivalent to YR 82.8 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.

Later on, and as a result of the Ministry of Finance memorandum letter no. (110-1) dated 1 January 2014, the loan facility has been extended until the end of December 2014. As at 31 December 2013, the loan facility balance was amounting to USD 786 million - equivalent to YR 169 Billion (2012: USD 713.5 million - equivalent to YR 153.3 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. As a result of the Ministry of Finance memorandum letter no. (10261-141) dated 31 December 2013 the loan facility has been extended until the end of December 2014.

It has been agreed that the loan facility balance will carry an interest rate of a one month LIBOR. As at 31 December 2013, the loan facility balance was amounting to USD 21 million - equivalent to YR 4.6 Billion (2012: USD 69.2 million - equivalent to YR 14.8 Billion).

13-1 Past due and impaired loans and advances

	2013		2012	
	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 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 1 January 2013	**612,432**	**2,571,748**	**1,998,123**	**596,449**	**677,144**	**6,455,896**
Additions during the year	-	**338**	**95,635**	**23,184**	**272,516**	**391,673**
Transfers during the year	-	-	**22,137**	-	**(22,137)**	-
Disposals during the year	-	-	**(21,648)**	**(22,612)**	-	**(44,260)**
Balance at 31 December 2013	**612,432**	**2,572,086**	**2,094,247**	**597,021**	**927,523**	**6,803,309**
Accumulated depreciation						
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 1 January 2013	-	**575,433**	**1,713,605**	**497,419**	-	**2,786,457**
Depreciation during the year	-	**50,458**	**101,591**	**34,609**	-	**186,658**
Disposals during the year	-	-	**(20,619)**	**(16,120)**	-	**(36,739)**
Adjustments	-	-	-	-	-	-
Balance at 31 December 2013	-	**625,891**	**1,794,577**	**515,908**	-	**2,936,376**
Net carrying amount						
As of 31 December 2013	**612,432**	**1,946,195**	**299,670**	**81,113**	**927,523**	**3,866,933**
As of 31 December 2012	612,432	1,996,315	284,518	99,030	677,144	3,669,439
Used depreciation rates	-	2 %	10%- 15%	20 %		

15. OTHER ASSETS

	2013 YR'000	2012 YR'000
Accrued interest	**7,714,609**	9,847,503
Prepaid expenses	**624,699**	460,919
Other receivables	**1,064,433**	938,616
	9,403,741	11,247,038
Provision for other receivables (Note 15.1)	**(50,431)**	(50,407)
	9,353,310	11,196,631

15-1 Provision for other receivables

	2013 YR'000	2012 YR'000
Balance at 1 January	**50,407**	1,453,887
Reversal of provision		(644,670)
Written off during the year	-	(762,091)
Exchange rate differences	**24**	3,281
Balance at 31 December	**50,431**	50,407

16. CASH IN CIRCULATION

	2013 YR'000	2012 YR'000
Balance at 1 January	**832,726,449**	800,253,991
New issued cash for circulation	**68,850,100**	146,005,000
Net movement in cash available for circulation in vault	**(45,442,975)**	(101,070,520)
Net movement in cash destroyed during the year	**(25,765,130)**	(11,252,500)
Net movement in damaged cash in vault	**(8,814,434)**	(1,209,522)
Balance at 31 December	**821,554,010**	832,726,449

17. LOCAL BANKS' ACCOUNTS

	2013 YR'000	2012 YR'000
Local currency		
Current accounts	**82,477,143**	87,563,449
Statutory reserves	**92,095,282**	71,847,507
	174,572,425	159,410,956
Foreign currencies		
Current accounts	**21,053,074**	20,346,445
Statutory reserves	**80,447,179**	65,057,112
	101,500,253	85,403,557
	276,072,678	244,814,513

18. MINISTRIES' AND GOVERNMENTAL CORPORATIONS' ACCOUNTS

	2013	2012
	YR'000	YR'000
Ministries' and projects' accounts		
Local currency	**81,394,118**	79,240,752
Foreign currency	**19,713,834**	47,373,098
	101,107,952	126,613,850
Governmental corporations' and organizations' accounts		
Local currency	**78,657,258**	86,636,004
Foreign currency	**16,245,225**	66,878,722
	94,902,483	153,514,726
	196,010,435	280,128,576

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% the bank did not issue certificates of deposit during the year 2013.

20. FOREIGN GOVERNMENTS' AND INTERNATIONAL ASSOCIATIONS' ACCOUNTS

	2013	2012
	YR'000	YR'000
Saudi Fund for Development ("SFD") deposit (*)	**214,890,000**	214,890,000
Others	**41,513,505**	40,466,480
	256,403,505	255,356,480

(*) 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 a 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 period of four years from the 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 starting from the date of deposit. The outstanding balance of SFD deposit as at 31 December 2013 was amounting to USD 1,000 million (2012: USD 1,000 million).

21. OTHER LIABILITIES

	2013	2012
	YR'000	YR'000
Interest payable	**1,585,276**	4,079,563
Letters of credit margins	**62,823,876**	63,382,553
Provision for tax on commercial and industrial profits (Note 22)	**4,925,212**	5,768,684
Other liabilities	**67,254,331**	82,275,247
	136,588,695	155,506,047

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:

	2013			2012		
	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 AFS financial assets	226,780	-	226,780	213,168	13,612	226,780
Tax effect of reversal in AFS financial assets impairment	(98,694)	(19,276)	(117,970)	-	(98,694)	(98,694)
Liability						
Tax effect of financial assets at FVTPL	(1,724,631)	(144,194)	(1,868,825)	(1,497,023)	(227,609)	(1,724,632)
	(1,596,545)	(163,470)	(1,760,015)	(1,283,855)	(312,691)	(1,596,546)

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:

	2013	2012
	YR'000	YR'000
Current taxation		
Current tax for the year	31,485,069	36,857,145
Deferred taxation		
Deferred tax liability	163,470	312,691
	31,648,539	37,169,836

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:

	2013	2012
	YR'000	YR'000
Net profit for the year before tax (according to the Central Bank of Yemen Law)	158,242,697	185,849,180
Tax on accounting profit at 20%	31,648,539	37,169,836
Add/(less) tax effect of:		
Deferred tax of impairment in AFS financial assets	-	13,612
Deferred tax of reversal in impairment in AFS financial assets	(19,276)	(98,694)
Deferred tax of financial assets at fair value through profit or loss	(144,194)	(227,609)
	31,485,069	36,857,145

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 (2012: 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)	Total
	YR'000	YR'000	YR'000	YR'000
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 1 January 2013	**6,071,574**	-	**17,318,679**	**23,390,253**
Net change in fair value during the year	**218,164**	-	**(188,399)**	**29,765**
Less: cumulative gains reclassified to profit or loss on sale of available-for-sale financial assets	-	-	-	-
Balance at 31 December 2013	**6,289,738**	-	**17,130,280**	**23,420,018**

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 2013, resulted in gains amounting to YR 10,181,184 thousand (2012: gains of YR 14,594,238 thousand).

26. INTEREST INCOME

	2013 YR'000	2012 YR'000
Interests on balances at banks and financial institutions	**1,836,420**	2,321,811
Interests on treasury bills purchased from the Government	**12,382,099**	14,735,726
Interests on local banks' overdraft accounts	**239,636**	376,279
Interests on the loans and advances	**657,960**	776,029
Interests on the Government's general account (*)	**132,799,297**	155,442,312
	147,915,412	173,652,157

(*) The Bank's Board of Directors on their 5th meeting on 7 May 2013, had decided to charge interest rate on the Government's general account (overdraft) at an interest rate equals to rediscount rate for the previous month. 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.

27. INTEREST EXPENSE

	2013 YR'000	2012 YR'000
Interest on treasury bills sold to banks under repurchase scheme	**10,744,669**	14,232,108
Interests on local banks' balances	**61,667**	82,914
Interests on foreign governments' and international associations	**2,026,776**	1,637,507
Interests on certificates of deposit	**6,276,379**	1,877,187
	19,109,491	17,829,716

28. INVESTMENTS AND OTHER INCOME

	2013 YR'000	2012 YR'000
Income fee from the issuance of treasury bills (Note 29)	**41,691,979**	32,180,552
Income from available-for-sale financial assets (Note 9-1-2)	**20,214**	47,088
Income from transactions in foreign currencies	**138,320**	308,003
Income form held-to-maturity investments	**-**	7,898
Other income	**641,347**	1,145,832
	42,491,860	33,689,373

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

	2013 YR'000	2012 YR'000
Salaries, allowances and bonuses	**11,387,640**	6,274,809
Other costs	**13,008**	8,130
	11,400,648	6,282,939

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 reporting date:

	2013	2012
	YR'000	YR'000
Due from the Government		
Local treasury bills	**893,875**	373,612
Treasury bills purchased from the Government	**64,999,975**	64,999,975
Loans and advances	**265,054,248**	258,871,324
Government's general account	**666,127,191**	678,986,703
	997,075,289	1,003,231,614

Due to related parties

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

	2013	2012
	YR'000	YR'000
Various ministries' and governmental corporations' accounts	**196,010,435**	280,128,576

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

	2013	2012
	YR'000	YR'000
Interest on treasury bills purchased from the Government	**12,382,099**	14,735,726
Interest on overdraft accounts of the Government	**132,799,297**	155,442,312
Interests on the loans and advances	**657,960**	776,029
Income fees from the issuance of treasury bills	**41,691,979**	32,180,552

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.

	2013	2012
	YR'000	YR'000
Salaries and remuneration of key management personal	**422,439**	231,000

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 on 25 September 2013, through the Investment Committee.

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. It also makes 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 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, drives 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.

32. RISK MANAGEMENT (CONTINUED)

Risk measurement and reporting systems (continued)

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.

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.

Financial risks

<u>Credit risk</u>

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.

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

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 A- according to two credit rating agencies 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 'AA-' 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.

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". Public debt existing at the time this law is issued shall be exempted from this limit and shall be handled through an agreement between the Bank and the Ministry of Finance.*

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*".

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

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

	2013	2012
Statement of financial position items	**YR'000**	YR'000
Balances with banks and financial institutions	**684,367,279**	854,192,080
Available for sale financial assets	**164,427,225**	160,647,844
IMF related assets	**53,849,401**	54,548,028
Loans and advances	**265,054,248**	258,871,324
Other assets	**8,728,611**	10,735,712
Off statement of financial position items	**10,743,859**	10,479,031

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.

	2013			
	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	**6,892,028**	-	-	**6,892,028**
Balances with banks and FSI	**684,367,279**	-	-	**684,367,279**
Financial assets at FVTPL	**225,165,232**	-	-	**225,165,232**
AFS financial assets	**165,368,355**	**(834,179)**	**(106,951)**	**164,427,225**
Local treasury bills	**893,875**	-	-	**893,875**
Treasury bills purchased from the Government	**64,999,975**	-	-	**64,999,975**
Government's general account	**666,127,191**	-	-	**666,127,191**
Loans and advances	-	**265,674,965**	**(620,717)**	**265,054,248**
Other assets	**9,403,741**	-	**(50,431)**	**9,353,310**
	1,823,217,676	**264,840,786**	**(778,099)**	**2,087,280,363**

	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
Balances with banks and FSI	854,192,080	-	-	854,192,080
Financial assets at FVTPL	224,601,492	-	-	224,601,492
AFS financial assets	161,685,352	-	(1,037,508)	160,647,844
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
	2,005,222,347	259,492,040	(1,708,631)	2,263,005,756

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

The distribution of assets and liabilities of the statement of financial position items by geographic region at 31 December 2013 is as follows:

	Yemen	Asia	America	Europe	Total
	YR million	YR million	YR million	YR million	YR million
Assets					
Cash in foreign currencies	6,892	-	-	-	6,892
Gold and silver	910	-	11,470	1,334	13,714
Balances with banks and FSI	-	123,000	79,367	482,000	684,367
Financial assets at FVTPL	-	-	100,048	125,117	225,165
AFS financial assets	-	1,210	163,217		164,427
IMF related assets	-	-	53,849	-	53,849
Local treasury bills	895	-	-	-	895
Treasury bills purchased from the Government	65,000	-	-	-	65,000
Government's general account	666,127	-	-	-	666,127
Loans and advances	265,054	-	-	-	265,054
Property and equipment	3,867	-	-	-	3,867
Other assets	9,353	-	-	-	9,353
Total assets	1,018,098	124,210	407,951	608,451	2,158,710
Liabilities					
Cash in circulation	821,554	-	-	-	821,554
Local banks' accounts	276,073	-	-	-	276,073
Ministries' and governmental' corporations	196,010	-	-	-	196,010
Certificates of deposit	-	-	-	-	-
Treasury bills under repurchase scheme sold to banks	50,642	-	-	-	50,642
Foreign governments' and international associations' accounts	-	256,404	-	-	256,404
IMF related liabilities	-	-	89,050	-	89,050
Other liabilities	136,589	-	-	-	136,589
Deferred tax liability	1,760	-	-	-	1,760
Total liabilities	1,482,628	256,404	89,050	-	1,828,082
Total capital, reserves and Government's profits	330,628	-	-	-	330,628
Total liabilities, capital, reserves and Government's profits	1,813,256	256,404	89,050	-	2,158,710

32. RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Credit risk (continued)

The distribution of assets and liabilities of the 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
Balances with banks and FSI	-	466,098	110,136	277,958	854,192
Financial assets at FVTPL	-	-	224,601	-	224,601
AFS financial assets	-	1,441	-	159,207	160,648
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	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)

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 2013:

	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	6,892	-	-	-	6,892
Gold and silver	13,714	-	-	-	13,714
Balances with banks and FSI	431,152	136,873	116,342	-	684,367
Financial assets at FVTPL	225,165	-	-	-	225,165
AFS financial assets	-	-	-	164,428	164,428
IMF related assets	53,849	-	-	-	53,849
Local treasury bills	565	204	125	-	894
Treasury bills purchased from the Government	21,000	25,000	19,000	-	65,000
Government's general account	-	-	-	666,127	666,127
Loans and advances	-	-	-	265,054	265,054
Property and equipment	-	-	-	3,867	3,867
Other assets	9,353	-	-	-	9,353
Total assets	761,690	162,077	135,467	1,099,476	2,158,710
Liabilities					
Cash in circulation	821,554	-	-	-	821,554
Local banks' accounts	276,073	-	-	-	276,073
Ministries and governmental corporations	196,010	-	-	-	196,010
Treasury bills under repurchase scheme	15,492	22,350	12,800	-	50,642
Foreign governments' and international associations' accounts	-	-	-	256,404	256,404
IMF related liabilities	-	-	-	89,050	89,050
Other liabilities	-	-	136,589	-	136,589
Deferred tax liability	-	-	-	1,760	1,760
Total Liabilities	1,309,129	22,350	149,389	347,214	1,828,082
Total capital, reserves and Government's profits	-	-	-	330,628	330,628
Total liabilities, capital, reserves and Government's profits	1,309,129	22,350	149,389	677,842	2,158,710

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 2012:

	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	9,136	-	-	-	9,136
Gold and silver	19,045	-	-	-	19,045
Balances with banks and FSI	713,003	46,787	71,103	23,299	854,192
Financial assets at FVTPL	224,601	-	-	-	224,601
AFS financial assets	160,648	-	-	-	160,648
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	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

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's 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

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives instruments at the end of the reporting period. No floating rate liabilities were identified to be included in the below analysis. A 500 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 500 basis points higher/lower and all other variables were held constant, the Bank's:

- Profit for the year ended 31 December 2013 would decrease/increase by YR22,591million (2012: decrease/increase by YR38,590 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate lending activities; and
- Other comprehensive income for the year ended 31 December 2013 doesn't contain any components with floating rates, therefore, wouldn't have changed materially.

Average interest rates applied on assets and liabilities

The following table shows the average interest rates applied on assets and liabilities of the Bank during the year ended 31 December 2013 are as follows:

	YR	USD	EURO	GBP
Assets	%	%	%	%
Local treasury bills	16.30	-	-	-
Treasury bills purchased from the government	17.30	-	-	-
Loans and advances	-	1.21	-	-
Balance of overdraft account of the Government	18.8	-	-	-
Balances with banks and FSI – current accounts	-	-	-	-
Balances with banks and FSI – demand deposits	-	0.02	-	-
Balances with banks and FSI – term deposits	-	0.22	0.23	0.47
Investments held-to-maturity	-	-	-	-
Liabilities				
Accounts of local banks - statuary reserves	-	-	-	-
Certificates of deposit	19.6	-	-	-
Foreign governments' accounts	-	3.5	-	-
Treasury bills sold to banks under repurchase scheme	16.30	-	-	-

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 2012 are as follows:

	YR	USD	EURO	GBP
	%	%	%	%
Assets				
Local treasury bills	21.76	-	-	-
Treasury bills purchased from the government	21.95	-	-	-
Loans and advances	-	1.21	-	-
Balance of overdraft account of the Government	24.7	-	-	-
Balances with banks and FSI – current accounts	-	-	-	-
Balances with banks and FSI – demand deposits	-	0.03	-	-
Balances with banks and FSI – 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 sold to banks under repurchase scheme	22.43	-	-	-

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, SDRs and other currencies.

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 2013:

	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	5,189,543	108,591	326	1,554,625	-	-	38,943	6,892,028
Gold and silver	-	-	-	-	-	-	13,714,007	13,714,007
Balances with banks and FSI	330,522,271	206,088,657	142,104,684	79,276	-	3,588,993	1,983,398	684,367,279
Financial assets at FVTPL	225,165,232	-	-	-	-	-	-	225,165,232
AFS financial assets	61,647,805	102,779,420	-	-	-	-	-	164,427,225
IMF related assets	-	-	-	-	53,849,401	-	-	53,849,401
Loans and advances	265,054,248	-	-	-	-	-	-	265,054,248
Total foreign currencies assets	887,579,099	308,976,668	142,105,010	1,633,901	53,849,401	3,588,993	15,736,348	1,413,469,420
Proportion	62.79%	22.86%	10.05%	0.12%	3.81%	0.25%	1.11%	100%
FOREIGN CURRENCIES LIABILITIES								
Local banks' accounts	101,500,253	-	-	-	-	-	-	101,500,253
Ministries' and governmental corporations	35,959,060	-	-	-	-	-	-	35,959,060
Foreign governments' and international associations' accounts	214,890,000	-	-	-	-	41,513,505	-	256,403,505
IMF related liabilities	-	-	-	-	89,049,789	-	-	89,049,789
Total foreign currencies liabilities	352,349,313	-	-	-	89,049,789	41,513,505	-	482,912,607
Proportion	72.96%	-	-	-	18.44%	8.60%	-	100%
Net foreign currencies exposure	535,229,786	308,976,668	142,105,010	1,633,901	(35,200,388)	(37,924,512)	15,736,348	930,556,813

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
Balances with banks and FSI	501.449.434	206.315.425	139,484,998	2,048.952	-	3.219.364	1.673.907	854.192.080
Financial assets at FVTPL	224.601.492	-	-	-	-	-	-	224.601.492
AFS financial assets	57.868.424	102.779.420	-	-	-	-	-	160,647,844
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 statement of financial position of the Bank according to foreign and domestic locations as at 31 December:

	2013	2012
	YR'000	YR'000
Foreign assets		
Cash in foreign currencies	6,892,028	9,136,095
Gold and silver	13,714,007	19,044,679
Balances with banks and financial institutions	684,367,279	854,192,080
Financial assets at fair value through profit or loss	225,165,232	224,601,492
AFS financial assets	164,427,225	160,647,844
IMF related assets	53,849,401	54,548,028
Total foreign assets	1,148,415,172	1,322,170,218
Domestic assets		
Local treasury bills	893,875	373,612
Treasury bills purchased from the Government	64,999,975	64,999,975
Government's general account	666,127,191	678,986,703
Loans and advances	265,054,248	258,871,324
Property and equipment	3,866,933	3,669,439
Other assets	9,353,310	11,196,631
Total domestic assets	1,010,295,532	1,018,097,684
Total assets	2,158,710,704	2,340,267,902
Liabilities, capital, reserves and government's profits		
Foreign liabilities		
Foreign governments' and international associations' accounts	256,403,505	255,356,480
IMF related liabilities	89,049,789	88,839,618
Total foreign liabilities	345,453,294	344,196,098
Domestic liabilities		
Cash in circulation	821,554,010	832,726,449
Local banks' accounts	276,072,678	244,814,513
Ministries' and governmental corporations' accounts	196,010,435	280,128,576
Certificates of deposit	-	91,890,000
Treasury bills under repurchase scheme sold to banks	50,642,815	64,802,697
Other liabilities	136,588,695	155,506,047
Deferred tax liability	1,760,015	1,596,546
Total domestic liabilities	1,482,628,648	1,671,464,828
Total liabilities	1,828,081,942	2,015,660,926
Total capital, reserves and Government's profits	330,628,762	324,606,976
Total liabilities, capital, reserves and government's profits	2,158,710,704	2,340,267,902

33. CONTINGENT LIABILITIES

Contingent guarantees

	2013	2012
	YR'000	YR'000
Letters of credit – Import	**65,789,466**	67,948,367
Letters of guarantee – External	**7,590,188**	5,725,136
Letters of guarantee – Local	**188,081**	188,081
	73,567,735	73,861,584
Letters of credit and letters of guarantee margins	**(62,823,876)**	(63,382,553)
	10,743,859	10,479,031

Legal claims

Certain legal cases have been filed against the Bank amounting to approximately YR 1,997 million (2012: approximately YR 594 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:

	2013	2012
	YR'000	YR'000
Revaluation of gold and silver	**(5,330,672)**	(1,205,567)
Revaluation of available-for-sale financial assets	**29,765**	(2,707,409)
	(5,300,907)	(3,912,976)

35. COMMITMENTS FOR CAPITAL EXPENDITURES

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

	2013	2012
	YR'000	YR'000
Constructing a building for Taiz branch	**510,000**	800,000
Constructing a building for Ammran branch	**108,000**	85,000
Constructing a building for Raimah branch	**82,000**	80,000
Project of Bank system (internal controls improvements)	**270,000**	260,000
Anti-fire system project (head office)	**120,000**	-
Re-constructing the building of Abyan branch	**168,000**	-

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.

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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	YR'000	**YR'000**	**YR'000**	**YR'000**
Available-for-sale financial assets	**163,834,354**	**4,161**	**588,710**	**164,427,225**
Financial assets at FVTPL	**225,165,232**	**-**	**-**	**225,165,232**
	389,003,746	**4,161**	**588,710**	**389,592,457**

	2012			
	Level 1	Level 2	Level 3	Total
	YR'000	YR'000	YR'000	YR'000
Available-for-sale financial assets	159,206,624	1,049,134	392,086	160,647,844
Financial assets FVTPL	224,601,492	-	-	224,601,492
	383,808,116	1,049,134	392,086	385,249,336

There were no transfers between levels during the year 2013 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 21 April 2014.