Consolidated financial statements and independent auditor's report

Cooperative and Agricultural Credit Bank

(Yemeni Joint Stock Company)

December 31, 2016

Contents

Page

Grant Thornton
An instinct for growth™

Independent Auditor's Report

Audit .Tax . Advisory
Grant Thornton Yemen
Algeria St.
Sana'a - Republic of Yemen
P.O. Box: 18045
Tel. + 967 1 465 024 / 5
Fax. + 967 1 465 026
www.gtyemen.com

To: **The Shareholders' of**
Cooperative and Agricultural Credit Bank
(Yemeni Joint Stock Company)
Sana'a - Republic of Yemen

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **Cooperative and Agricultural Credit Bank** (Yemeni Joint Stock Company) and its subsidiary unit (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (1-52).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the "Group" as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and instructions of CBY and in according with the current Yemeni Laws and regulations.

Basis for Opinion

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

Emphasis of Matters

- We draw attention to Note (51) to the consolidated financial statements related to the political crisis, economic situation and current security events in the Republic of Yemen, which indicate to the existence of an uncertainty about the improvement of the political situation that may cast significant doubts about the Group's ability to continue as a going concern in case of the continuation of these circumstances. Our opinion is not modified in respect of this matter.
- We draw attention to Note (5.2/h) to the consolidated financial statements related to the Group's exposure to foreign currencies exchange rate risk and its impacts on the significant foreign currencies position. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and instructions of CBY and in according with the current Yemeni Laws and regulations, and for such internal control as management determines which is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that any reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Group keeps proper books of account, and the accompanying consolidated financial statements are in agreement with these books. Furthermore, we are not aware of any violations of Yemen Commercial Companies Law No. (22) for 1997 and its amendments, or CAC Bank establishment Law No. (39) of 1982 or Banking Law No. 38 of 1998 occurred during the year in which might have a material impact to the Group's business or its consolidated financial position, except for the violation of CBY circular No. (6) of 1998 related to the major foreign currencies position which described in Note No. (44) of the accompanying notes to the consolidated financial statements.

Grant Thornton Yemen

Ramzi Al-Ariqi

Sana'a - Republic of Yemen
April 29, 2017

Consolidated Statement of Financial Position

	Notes	Dec. 31, 2016 YR 000s	Dec. 31, 2015 YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	7	41,165,652	29,999,735
Due from banks	8	49,396,830	17,945,773
Loans, advances and financing activities, net	9	34,957,302	38,138,851
Investments securities	12	243,830,524	250,224,334
Investments in Islamic Sukuk	16	8,834,000	14,667,000
Investments in associates	17	633,657	632,988
Debit balances and other assets, net	18	2,618,741	4,353,952
Property and equipment, net	20	2,927,891	3,200,865
Total assets		**384,364,597**	**359,163,498**
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	21	17,114,359	14,081,808
Customers' deposits	22	333,089,889	309,577,769
Long-term loans	23	3,193,540	2,756,188
Credit balances and other liabilities	24	7,128,867	8,844,736
Other provisions	25	526,823	1,968,168
Total liabilities		**361,053,478**	**337,228,669**
Equity	26		
Share capital	26.1	19,000,000	17,000,000
Statutory reserve	26.2	3,093,504	2,887,060
General reserve		253,803	47,151
Retained earnings		963,812	2,000,618
Total equity attributable to equity holders of the bank		**23,311,119**	**21,934,829**
Non-controlling interests		-	-
Total equity		**23,311,119**	**21,934,829**
Total liabilities and equity		**384,364,597**	**359,163,498**
Contingent liabilities and commitments, net	27	**34,310,942**	**36,061,444**

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed K. Al-Maqtari	Mr. Abdullah A. Al-Daylami	Mr. Salah S. Basha	Mr. Mohammed S. Allai

الإدارة العامة

Consolidated Statement of Comprehensive Income

For the year ended December 31,

	Notes	2016 YR 000s	2015 YR 000s
Interests income	28	44,387,848	48,554,863
Less: interests expense	29	(21,103,363)	(25,994,837)
Net interests income		23,284,485	22,560,026
Islamic financing and investments activities income	30	1,278,487	1,301,152
Less: Return of unrestricted investment and saving accounts holders	31	(333,255)	(317,125)
Net income from Islamic financing and investment activities		945,232	984,027
Net income from interests and Islamic financing and investment activities		24,229,717	23,544,053
Fee and commissions income	32	2,335,587	1,872,153
Loss from foreign currency transactions	33	(10,358,672)	(102,921)
Income from investments securities	34	669	17,094
Other operating income	35	1,121,219	384,002
Net operating income		17,328,520	25,714,381
Less: Impairment loss on investments securities	1.15	-	(1,177,802)
Less: Provisions	36	(1,403,845)	(6,170,978)
Less: Staff cost	37	(8,740,465)	(9,348,388)
Less: Depreciation of property and equipment	20	(704,976)	(724,972)
Less: Other expenses	38	(4,104,717)	(4,768,705)
Net profit for the year before taxes		2,374,517	3,523,536
Less: Income tax for the year	1.24	(201,133)	(1,172,117)
Net profit for the year after taxes		2,173,384	2,351,419
Other comprehensive income		-	-
Total comprehensive income for the year		2,173,384	2,351,419
Attributable to:			
Equity holders of the bank		2,173,384	2,351,419
Non-controlling interest		-	-
		2,173,384	2,351,419
Earnings per share	39	114 YR	138 YR

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed K. Al-Maqtari	Mr. Abdullah A. Al-Daylami	Mr. Salah S. Basha	Mr. Mohammed S. Allai

بنك التسليف التعاوني والزراعي
الإدارة العامة

Consolidated Statement of Changes in Equity

For the year ended December 31,

2016	Share Capital YR 000s	Statutory reserve YR 000s	General reserve YR 000s	Retained earning YR 000s	Total Equity Attributable to equity holders of the Bank YR 000s	Non-controlling Interests YR 000s	Total YR 000s
Balance at January 1, 2016	**17,000,000**	**2,887,060**	**47,151**	**2,000,618**	**21,934,829**	-	**21,934,829**
Net profit for the year after taxes	-	-	-	2,173,384	2,173,384	-	2,173,384
Other comprehensive income	-	-	-	-	-	-	-
Taxes for previous years	-	-	-	(797,094)	(797,094)	-	(797,094)
	17,000,000	**2,887,060**	**47,151**	**3,376,908**	**23,311,119**	-	**23,311,119**
Changes in equity holders, recorded directly in equity							
Transfer to capital	2,000,000	-	-	(2,000,000)	-	-	-
Dividends paid	-	-	-	-	-	-	-
Transfer to general reserve	-	-	206,652	(206,652)	-	-	-
Transfer to statutory reserve	-	206,444	-	(206,444)	-	-	-
	2,000,000	**206,444**	**206,652**	**(2,413,096)**	-	-	-
Balance at December 31, 2016	**19,000,000**	**3,093,504**	**253,803**	**963,812**	**23,311,119**	-	**23,311,119**

Consolidated Statement of Changes in Equity (Continued)

For the year ended December 31,

2015	Share Capital YR 000s	Statutory reserve YR 000s	General reserve YR 000s	Retained earning YR 000s	Total Equity Attributable to equity holders of the Bank YR 000s	Non-controlling Interests YR 000s	Total YR 000s
Balance at January 1, 2015	**14,900,000**	**2,534,347**	**82,823**	**2,066,240**	**19,583,410**	-	**19,583,410**
Net profit for the year after taxes	-	-	-	2,351,419	2,351,419	-	2,351,419
Other comprehensive income	-	-	-	-	-	-	-
	14,900,000	**2,534,347**	**82,823**	**4,417,659**	**21,934,829**	-	**21,934,829**
Changes in equity holders, recorded directly in equity							
Transfer to capital	2,100,000	-	(35,672)	(2,064,328)	-	-	-
Dividends paid	-	-	-	-	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-
Transfer to statutory reserve	-	352,713	-	(352,713)	-	-	-
	2,100,000	**352,713**	**(35,672)**	**(2,417,041)**	-	-	-
Balance at December 31, 2015	**17,000,000**	**2,887,060**	**47,151**	**2,000,618**	**21,934,829**	-	**21,934,829**

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed K. Al-Maqtari	Mr. Abdullah A. Al-Daylami	Mr. Salah S. Basha	Mr. Mohammed S. Allai

الإدارة العامة

Consolidated Statement of Cash Flows

For the year ended December 31,

	Notes	2016 YR 000s	2015 YR 000s
Cash flows from operating activities			
Net profit for the year before taxes		**2,374,517**	3,523,536
Adjustments for:			
Depreciation of property and equipment	20	**704,976**	724,972
Provisions provided during the year	36	**1,403,845**	6,170,978
Provisions used during the year		**(1,462,314)**	(2,317,816)
Retranslation differences of provisions in foreign currencies		**1,263,409**	(3,222)
Taxes for previous years		**(797,094)**	-
Decrease in available for sale investment		**-**	1,177,802
Provisions reversed	35	**(1,104,965)**	(354,512)
Net share in profit of investments in associates		**(669)**	(14,039)
(Gain) loss on sale of property and equipment		**(9,276)**	8,299
Operating profit before changes in assets and liabilities used in operating activities		**2,372,429**	**8,915,998**
Changes in:			
(Increase) decrease in Reserve balances with Central Bank of Yemen		**(2,622,934)**	7,292,743
Treasury bills due after 3 months		**70,311,761**	61,599,834
Decrease in loans, advances and financing activities		**2,094,820**	21,472,913
Decrease (increase) in debit balances and other assets		**1,280,620**	(819,004)
Increase (decrease) in due to banks and financial institutions		**3,032,551**	(7,292,503)
Increase (decrease) in customers' deposits		**23,512,120**	(114,831,270)
Decrease in credit balances and other liabilities		**(743,936)**	(319,484)
Income tax paid		**(1,173,066)**	(1,310,944)
Net cash from (used in) operating activities		**98,064,365**	**(25,291,717)**
Cash flows from investing activities			
Acquisition of property and equipment		**(434,507)**	(876,893)
Proceeds from sale of property and equipment		**11,781**	13,058
Increase in investments in Islamic Sukuk		**5,833,000**	(2,667,000)
Net cash from (used in) investing activities		**5,410,274**	**(3,530,835)**
Cash flows from financing activities			
Increase (decrease) in long term loans		**437,352**	(33,594)
Net cash from (used in) financing activities		**437,352**	**(33,594)**
Net change in cash and cash equivalents during the year		**103,911,991**	(28,856,146)
Cash and cash equivalents at the beginning of the year		**197,580,785**	226,436,931
Cash and cash equivalents at the end of the year		**301,492,776**	**197,580,785**

Consolidated Statement of Cash Flows (Continued)

For the year ended December 31,

	Notes	2016 YR 000s	2015 YR 000s
Cash and cash equivalents at the end of the year consist of:			
Cash on hand and reserve balances with Central Bank of Yemen	7	**41,165,652**	29,999,735
Due from banks	8	**49,396,830**	17,945,773
Treasury bills, net	13	**238,625,287**	245,019,097
		329,187,769	**292,964,605**
Less: Reserve balances with Central Bank of Yemen		**(25,811,842)**	(23,188,908)
Less: Treasury bills due after 3 months, net		**(1,883,151)**	(72,194,912)
		301,492,776	**197,580,785**

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed K. Al-Maqtari	Mr. Abdullah A. Al-Daylami	Mr. Salah S. Basha	Mr. Mohammed S. Allai

بنك التسليف التعاوني والزراعي
الإدارة العامة

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Background Information

The Cooperative and Agricultural Credit Bank (the Bank) was established in Sana'a in accordance with law no. 39 of 1982, as a result of merging the Agricultural Credit Bank (ACB) (which was established in 1975) and the National Co-operation Development Bank (NCDB), (which was established in 1979). The Bank is registered with the Ministry of Industry and Trade under commercial registration no. 5391.

The Bank provides Islamic banking services through its Islamic branch in conformity with the Islamic Sharia' and under the supervision of Sharia' Board. On March 29, 2010, the Bank obtained the initial approval from Central Bank of Yemen (CBY) and obtained the final approval on April 16, 2011.

The Bank operates through its head office in Sana'a and 41 branches (49 branches in 2015) spread all over the governorates of the Republic of Yemen, in addition to its subsidiary unit in the Republic of Yemen (together referred as the "Group") as follows:

Subsidiary Unit Name	Main Operating Activity	Share Capital YR 000's	Year of Incorporation	Ownership % 2016	Ownership % 2015
CAC Services for Security and Maintenance (Sana'a, Republic of Yemen)	Security and cleaning	10,000	2011	100%	100%

2. Preparation Basis of the Consolidated Financial Statements

2. 1 Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and instructions issued by the Central Bank of Yemen (CBY).

In deviation from International Financial Reporting Standards, and to apply the provisions of local laws and regulations, the followings are treated as follows:

a. The adoption of minimum fixed percentages for loan provisions in accordance with Central Bank of Yemen circular No. 6 of 1996, No. 5 of 1998 and No. 8 of 2015.
b. The recording of provision for general risks calculated on performing loans under "loans provision" and not under equity,
c. The recording of provision for contingent liabilities under "other provisions" and not under equity.

The effect of these deviations is immaterial on the consolidated financial statements of the Group as at December 31, 2016.

- The subsidiary financial statements are prepared and presented in accordance with International Financial Reporting Standards (IFRS).
- The consolidated financial statements were approved by the Board of Directors on April 27, 2017.

2. 2 Basis of measurements

The consolidated financial statements have been prepared on the historical cost basis except for non-trading investments classified as available - for - sale investments are measured at fair value.

2. 3 Functional and presentation currency

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

2. 4 Significant accounting judgments and estimates

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 3.5, 3.9, 3.10, 3.11, 5, 10, 12, 19, 20, 24 and 25.

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

a. Critical accounting judgments in applying the Group's accounting policies include:

- **Financial asset and liability classification**

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

In classifying financial assets, "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in accounting policy No (3.3).

- **Determination of fair value hierarchy of financial instruments**

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

b. Key sources of estimation uncertainty

- **Provision for impairment of assets**

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

- **Provision for impairment of investments available-for-sale**

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

- **Useful lives of property and equipment**

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

- **Contingent liability arising from litigations**

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. 1 Basis of consolidation

3. 1. 1 IFRS 10 establishes a single control of model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- The investor has power over an investee.
- the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

3. 1. 2 The consolidated financial statements include both the separate financial statements of Cooperative and Agricultural Bank comprising all balances of assets, liabilities and results of operations of Cooperative and Agricultural Credit Bank – Islamic Branch and its subsidiary unit after eliminating all balances and transactions and the statement of comprehensive income items resulting from intra - transactions.

a. Subsidiary Company

Subsidiary company is investee that controlled by the Group. The Group control the investee if it meet the control criteria discussed in note (3.1). The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

b. Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the statement of comprehensive income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

c. Non-controlling interest and transactions therewith

Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of comprehensive income and under equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

d. Transactions eliminated on consolidated financial statements

The carrying amounts of the Bank's investment in subsidiary and the equity of subsidiary is eliminated an consolidation. The intra-group balances, also income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

3. 2 Foreign currency transactions

The Group (the Bank and its subsidiary unit) maintains its book of account in Yemeni Rial, which the Group's functional currency. Transactions in other currencies are translated to the respective functional currency during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the statement of comprehensive income.

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

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

The Group does not deal in forward or options contracts, except to the extent to cover the Group needs or the customers' transactions with the Group in foreign currencies, which are settled in short term periods.

3. 3 Financial assets and financial liabilities

a. <u>Recognition and Initial Measurement</u>

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

b. <u>Classification</u>

- **Financial assets**

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

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

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

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

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

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

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

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

- **Financial liabilities**

The Group has classified and measured its financial liabilities at amortized cost.

c. <u>Derecognition</u>

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

d. Offsetting financial assets and liabilities

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

e. Measurement principles

Financial assets are measured by amortized cost or fair value.

- **Amortized cost measurement:** the amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.
- **Fair value measurement:** fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

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

f. Identification and measurement of impairment

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

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

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

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

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

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

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

3. 4 Revenue recognition

- Interest income and expenses for all interest bearing financial instruments are recognized in the statement of comprehensive income using the effective interest rate method except for interest on non-performing credit facilities, in order to comply with the requirements of CBY circular No. 6 of 1996, the Group does not accrue interest on non-performing loans and advances. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest.

  The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

  The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

  The effective interest rate is a method of calculating the amortized costs of financial assets and financial liabilities and of allocating the interest income and expenses over the relevant period.

- Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contracts are recorded as deferred revenues and taken to the statement of comprehensive income depending on the finance percentage, using the straight line method over the term of the contract. In accordance with CBY instructions the Group does not accrue the profit on non- performing Murabaha and Istisna'a contracts in the statement of comprehensive income.
- Profit on Mudaraba contracts, which are initiated and terminated during the financial year, are recorded in the comprehensive income statement at the disposing date of Mudaraba contracts. Profit on Mudaraba contracts which last for more than one financial year, are recognized, based on the cash dividends received on these transactions during the year.
- Ijarah Muntahia Bittamleek revenues are recorded over the term of the lease contract.
- Revenue from investments in Islamic Sukuk is recognized in statement of comprehensive income on a time proportionate basis using the rate of return declared by the issuing institutions.
- Revenue from investments in associates is recorded based on the Group's share in the equity of these companies in accordance with the approved financial statements of these companies.

- Income from held to maturity investment securities is recognized based on the effective interest rate method.
- Dividends income is recognized when the right to receive income is established.
- In accordance with CBY instructions, the reversed provisions, no longer required provisions, are recorded in the statement of comprehensive income under "other operating income".
- Fee and commissions income are recognized when the related services are performed.

3. 5 Provision of loans, advances, Islamic financings, and contingent liabilities

In order to comply with CBY circular No. 6 of 1996, No. 5 of 1998 and No. 8 of 2015 relating to classification of assets and liabilities, provision is provided for specific loans, advances, financing activities and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, advances, financing activities and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign credit worthy banks. The provision is determined based on periodical comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is provided in accordance with the following minimum rates:

details	Average
Performing loans and advances, financing activities and contingent liabilities, including watch list accounts	1-2%
Non-performing loans and advances, financing activities and contingent liabilities:	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans, advances and financing activities are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.

Loans, advances and financing activities to customers and banks are presented on the statement of financial position net of provision and suspense interest.

3. 6 Contingent liabilities and commitments

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

3. 7 Statement of cash flows

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

3. 8 Cash and cash equivalent

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalent consist of cash on hand, due from banks other than reserve balances and treasury bills - held to maturity which are due within three months from the issuance date. Cash and cash equivalents are non-derivative financial assets stated at mortised cost in the consolidated statements of financial position.

3. 9 Property, equipment and depreciation

a. Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

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

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

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

b. Subsequent costs

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

c. Depreciation

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

Depreciation for property and equipment except land, is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives are as follows:

Details	Estimated Useful Lives
Buildings and constructions	50 years
Furniture and equipment	5 – 10 years
Points of sale and ATM	5 years
Motor vehicles	5 years
Leasehold improvements	10 years or the lease term, whichever is less

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

3. 10 Impairment of non-financial assets

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

3. 11 Other provisions

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

3. 12 Valuation of assets whose titles have been transferred to the Group as a repayment of loans

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

3. 13 Lease contracts

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

3. 14 Valuation of investments in associates

- An associate is an entity over which the Group exerts significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 to 50 percent of the voting power of the associate.
- Investments in associates are recorded at the acquisition cost. At the financial statements date, the values of these investments are adjusted according to the Group's share is the equity in the associate based on the approved financial statements of these companies. Such changes are reflected in the consolidated statement of comprehensive income.

3. 15 Islamic financing and investing contracts

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as, Murabaha, Istisna'a, Mudaraba and Ijarah. The note no (3.4) presented the revenue recognition related to these instruments.

a. <u>Murabaha and Istisna'a Financing</u>

Murabaha is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has previously purchased and acquired based on a promise to buy from the customer. The selling price comprises the cost plus an agreed profit margin.

Istisnaa's is an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
Debts related to Murabaha financing and Istisna'a transactions, whether short or long- term, are recorded at cost plus agreed-upon profits.

b. <u>Mudaraba</u>

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

c. <u>Ijarah Muntahia Bittamleek</u>

Ijarah Muntahia Bittamleek is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Bank (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

At the end of the lease term, title of leased assets passes to the lessee, provided that all Ijarah installments are settled by the lessee.

Assets acquired for Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the term of the Ijarah contract.

3. 16 Return to unrestricted investments and saving accounts holders

Return due on unrestricted investments and saving accounts is determined on the basis of Mudarba contract, which determines profit (loss) sharing basis during the period.

3. 17 Taxation

- Corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.
- Up to December 31, 2009, the Group was not subject to commercial and industrial profits tax and Income Tax, in accordance with Article (21) of Law No. (39) of 1982, concerning the establishment of the Bank, Income Tax Law No. (31) of 1991 and its subsequent amendments by Republican Decree No. (12) of 1999 and the provisions of Article No. (85) of Law No. (38) of 1998 related to banks.
- Starting from the year 2010, in accordance with Article (160) of Income Tax Law No. (17) of 2010, the net income for the Bank for the year 2010 is subject to income tax at the rate of 20%.
- Due to the characteristics of the tax accounting in Yemen, application of International Accounting Standard on Income Taxes does not usually result in deferred tax liabilities. In the case that deferred tax assets have resulted from the application of this standard, these assets are not booked unless there is assurance that these assets will be realized in the near future.

3. 18 Social security provision

a All employees of the Group are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (26) of 1991, and Law No. (25) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Group's contribution is charged to the statement of comprehensive income.

b The provisions of Social Insurance Law are applied to all employees of the Group concerning the end of service benefits.

3. 19 Dividends on ordinary shares

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

3. 20 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3. 21 Comparatives

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

3. 22 Zakat due on shareholders

The Group remits the Zakat due on the shareholders to the relevant governmental authority which decides on the allocation of Zakat.

3. 23 Shari'aboard

The Islamic branch activities are subject to the supervision of the Shari'a board. The Shari'a board's responsibility is the supervision and monitoring of the Shari'a aspects for the Islamic activities according to Islamic Shari'a principles.

3. 24 Parent bank financial information

Statement of financial position and statement of comprehensive income of the bank (Parent) as disclosed in the supplementary information to the financial statements are prepared by using the same accounting policies as mentioned above except for the investment in subsidiaries which are recorded at cost.

4. Changes in Accounting Policies

4. 1 New and revised standards that are effective for annual periods beginning on or after January 1, 2016

The standards and amendments that are effective for the first time in 2016 (for entities with a December 31, 2016 year-end) are:

1. 'Annual Improvements to IFRSs' 2012-2014 cycle
2. 'Disclosure Initiative' (Amendments to IAS 1)
3. 'Clarification of Acceptable Methods of Depreciation and Amortization' (Amendments to IAS 16 and IAS 38)
4. 'Agriculture: Bearer Plants' (Amendments to IAS 16 and IAS 41)
5. 'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11)
6. 'Equity Method in Separate Financial Statements' (Amendments to IAS 27)
7. 'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments do not have a significant impact on these financial statements. Accordingly, the Group has made no changes to its accounting policies in 2016.

The information on the new standards that could be applicable to the Group is presented below:

1. 'Annual Improvements to IFRSs' 2012-2014 cycle:

This publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2012 and which were included in an Exposure Draft published in December 2013. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is set out in the table:

Standard affected	Subject
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	Change in methods of disposal
IFRS 7 'Financial Instruments: Disclosures'	Servicing contracts
IAS 19 'Employee Benefits'	Discount rate: regional market issue
IAS 34 'Interim Financial Reporting'	Disclosure of information 'elsewhere in the interim financial report'

The amendments are effective for annual periods beginning on or after January 1, 2016, although entities are permitted to apply them earlier. The amendments are effective on a retrospective basis, except for the amendments to IFRS 5 which are to be applied prospectively.

2. 'Disclosure Initiative' (Amendments to IAS 1):

The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

3. 'Clarification of Acceptable Methods of Depreciation and Amortization' (Amendments to IAS 16 and IAS 38):

The amendments stem from concerns regarding the use of a revenue-based method for depreciating an asset. By way of background, the two Standards require that a depreciation or amortization method should reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments result from a request to clarify the meaning of the term 'consumption of the expected future economic benefits of the asset'.

− The Amendments to IAS 16 (Property, plant and equipment)

The Amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because:

A. a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life.
B. revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

− The Amendments to IAS 38(Intangible Assets)

The Amendments to IAS 38 present a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome, ie a revenue-based amortization method might be appropriate, only in two limited circumstances:

A. the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
B. when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

4. 'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11):

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

5. 'Equity Method in Separate Financial Statements' (Amendments to IAS 27):

These amendments allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates. Entities are required to apply the same accounting for each category of investments. No transitional provisions have been included as the IASB believes entities should be able to use information that is already available to them in applying the amendments.

6. 'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 27):

The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption:

- Exemption from preparing consolidated financial statements.
- A subsidiary that provides services that relate to the parent's investment activities.
- Application of the equity method by a non-investment entity investor to an investment entity investee.

These amendments only affect certain specific situations involving investment entities.

4. 2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments are not expected to have a material impact on the Group's financial statements.

1. Disclosure Initiative (Amendments to IAS 7)

The amendments respond to requests from investors for improved disclosures about an entity's financing activities. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). This amendment is for annual reporting periods beginning on or after January 1, 2017.

2. Annual Improvements to IFRSs 2014-2016 Cycle

This publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2014 and which were included in an Exposure Draft published in November 2015. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is set out below:

Standard affected	Subject
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	Deletion of short-term exemptions for first-time adopters
IFRS 12 'Disclosure of Interests in Other Entities'	Clarification of the scope of the Standard
IAS 28 'Investments in Associates and Joint Ventures'	Measuring an associate or a joint venture at fair value

The amendments are effective as follows:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards' – for annual periods beginning on or after January 1, 2018
- IFRS 12 'Disclosures of Other Entities' – retrospectively in accordance with IAS 8 for annual periods beginning on or after January 1, 2017
- IAS 28 'Investments in Associates and Joint Ventures' – retrospectively in accordance with IAS 8 for annual periods beginning on or after January 1, 2018, however early application is permitted.

3. IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

4. IFRS 9 'Financial Instruments' (2014)

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The group has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. IFRS 9 (2014) introduces a new mandatory effective date for the Standard of accounting periods beginning on or after January 1, 2018

5. Transfers of Investment Property

The IASB has published 'Transfers of Investment Property (Amendments to IAS 40)' which clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments are effective for accounting periods on or after January 1, 2018.

6. IFRIC 22 Foreign Currency Transactions and Advance Consideration

The IFRS Interpretations Committee (IFRIC) has issued 'IFRIC 22 Foreign Currency Transactions and Advance Consideration'. It looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018.

7. IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations:
- IFRIC 4 'Determining whether an Arrangement contains a Lease',
- SIC 15 'Operating Leases-Incentives' and
- SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

5. Financial Instruments and Their Related Risks Management

5. 1 Financial instruments

a. Financial instruments

The Group's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, due from banks, investment securities, loans, advances and financing activities to customers and other financial assets. Financial liabilities include customers' deposits, due to banks and financial institutions, long- term loans and other financial liabilities. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

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

b. Fair value hierarchy

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.
- Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Fair values are based on valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

The fair values for available-for-sale investments comprise YR 744,371 thousand as at December 31, 2016 (YR 744,371 thousand as at December 31, 2015) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

c. Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.

d. Fair value of financial instruments

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

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

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

2016	Held to Maturity YR 000s	Loans and Advances YR 000s	Available-for Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial Assets						
Cash on hand and reserve balances with CBY	-	41,165,652	-	-	41,165,652	41,165,652
Due from banks	-	49,396,830	-	-	49,396,830	49,396,830
Loans, advances and financing activities, net	-	34,957,302	-	-	34,957,302	34,957,302
Investments securities:						
Measured at fair value	-	-	744,371	-	744,371	744,371
Measured at amortized cost	243,086,153	-	-	-	243,086,153	243,086,153
Investments in Islamic Sukuk	8,834,000	-	-	-	8,834,000	8,834,000
	251,920,153	**125,519,784**	**744,371**	**-**	**378,184,308**	**378,184,308**
Financial Liabilities						
Due to banks and financial institutions	-	-	-	17,114,359	17,114,359	17,114,359
Customers' deposits	-	-	-	333,089,889	333,089,889	333,089,889
Long-term loans	-	-	-	3,193,540	3,193,540	3,193,540
	-	**-**	**-**	**353,397,788**	**353,397,788**	**353,397,788**

2015	Held to Maturity YR 000s	Loans and Advances YR 000s	Available-for Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial Assets						
Cash on hand and reserve balances with CBY	-	29,999,735	-	-	29,999,735	29,999,735
Due from banks	-	17,945,773	-	-	17,945,773	17,945,773
Loans, advances and financing activities, net	-	38,138,851	-	-	38,138,851	38,138,851
Investments securities:						
Measured at fair value	-	-	744,371	-	744,371	744,371
Measured at amortized cost	249,479,963	-	-	-	249,479,963	249,479,963
Investments in Islamic Sukuk	14,667,000	-	-	-	14,667,000	14,667,000
	264,146,963	**86,084,359**	**744,371**	**-**	**350,975,693**	**350,975,693**
Financial Liabilities						
Due to banks and financial institutions	-	-	-	14,081,808	14,081,808	14,081,808
Customers' deposits	-	-	-	309,577,769	309,577,769	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188	2,756,188
	-	**-**	**-**	**326,415,765**	**326,415,765**	**326,415,765**

5. 2 Risk management of financial instruments

a. Risk management frame work

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

b. Risk management structure

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

- **Assets and Liabilities Committee:** The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return for its impact on profitability.
- **Audit Committee:** the Audit Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

c. Risk measurement

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group willing to accept, with additional emphasis on selected industries. The Group exposed to credit risk, liquidity risk, market risk (which include interest rate risk and currency risk), operating risk and other risk.

d. Credit risk

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

- **Management of credit risk**

The Group uses an internal risk rating system to assess the credit quality of borrowers and counterparties. The risk rating system has 5 grades. Grades 1 and 2 are performing loans, advances and Islamic financing activities and Grades 3-5 are non- performing. Non-performing grades are classified based on the below criteria which agree with CBY instructions:

Grade	Classification	Criteria
3	Sub-standard loans, advances and Islamic financing activities.	Overdue greater than 90 days, and shows some loss due to adverse factors that hinder repayment.
4	Doubtful loans, advances and Islamic financing activities.	Overdue greater than 180 days, and based on available information, full recovery seems doubtful, leading to loss on portion of these loans.
5	Bad loans, advances and Islamic financing activities.	Overdue greater than 360 days, and probability of no recovery.

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

Grade	Classification	2016 YR 000s	2015 YR 000s
1-2	Performing and watch-list	34,495,279	39,358,563

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

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

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

	2016 YR 000s	2015 YR 000s
Cash on hand and reserve balances with CBY (excluding cash on hand and ATM)	25,811,842	23,188,908
Due from banks	49,396,830	17,945,773
Loans, advances and financing activities, net	34,957,302	38,138,851
Investments securities	243,830,524	250,224,334
Investments in Islamic Sukuk	8,834,000	14,667,000
Investments in associates	633,657	632,988
Debit balances and other assets after deducting the advance payment, net	1,928,352	3,553,618
	365,392,507	**348,351,472**
Contingent liabilities and commitments	42,178,593	44,838,045
Total credit risk exposure	**407,571,100**	**393,189,517**

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

	2016		2015	
	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s
Government	277,731,995	-	293,420,417	-
Finance	64,750,640	63,749	13,238,586	2,551,387
General trade	18,891,567	2,680,795	23,759,789	1,443,776
Industry	3,092,078	2,759	443,709	138,210
Service	5,759,765	3,796,447	2,686,108	219,319
Individuals	6,290,497	5,669,143	9,929,794	8,015,005
Contractors	563,625	9,302	585,760	81,256
Others	1,737,798	48,364	4,287,309	120,883
Total	**378,817,965**	**12,270,559**	**348,351,472**	**12,569,836**
Contingent liabilities and commitments	42,178,593	34,310,942	44,838,045	36,061,444
	420,996,558	**46,581,501**	**393,189,517**	**48,631,280**

The Group manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 42 to the consolidated financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 43 to the consolidated financial statements shows the distribution of financial instruments based on geographical locations at the consolidated financial statements date.

e. Liquidity risk

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

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

- **Management liquidity risk**

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

The Central Bank of Yemen circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity ratio at December 31, 2016 was 85.23% (at December 31, 2015 was 83.73 %).

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

2016	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	17,114,359	-	-	-	17,114,359
Customers' deposits	323,307,292	236,478	47,587	9,498,532	333,089,889
Long-term loans	-	-	-	3,193,540	3,193,540
Credit balances and other liabilities	4,242,187	-	-	2,886,680	7,128,867
Total liabilities	**344,663,838**	**236,478**	**47,587**	**15,578,752**	**360,526,655**

2015	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	14,081,808	-	-	-	14,081,808
Customers' deposits	297,902,578	247,206	8,388	11,419,597	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188
Credit balances and other liabilities	5,129,326	-	-	3,715,410	8,844,736
Total liabilities	**317,113,712**	**247,206**	**8,388**	**17,891,195**	**335,260,501**

Note No. 40 to the consolidated financial statements shows the maturity analysis of financial assets and liabilities and the net gap between them at the consolidated financial statements date compared with last year.

f. Market risk

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

- **Management of market risk**

The Group separate exposure market risk between two portfolios, one for trading portfolios and non-trading portfolios. The Group does not have a trading positions in equity and the main source for risk for the Group is the fluctuations in foreign exchange rates and interest rate.

The Group does not deal in forward or options contracts, except to the extent to cover the Group needs or the customers' transactions with the Group in foreign currencies, which are settled in short term periods.

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

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

g. Exposure to interest rate risk - non-trading portfolios

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

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

Interest rate risk arises form the possibility that changes in interest rates will affect the value of some of the financial instruments. The Group performs a number of procedures to limit the effect of such risk to the minimal level as follows:

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

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

	2016							
	Less than 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year	Non-interest sensitive	Total	Average interest rates	
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	Local	Foreign
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	41,165,652	41,165,652	-	-
Due from banks	8,898,274	-	2,887,500	-	37,611,056	49,396,830	15.00%	1.15%
Loans and advances and financing activities, net	18,487,504	8,895,488	2,069,068	5,505,242	-	34,957,302	22.00%	12.00%
Investments securities	238,211,122	4,460,866	414,165	-	744,371	243,830,524	16.60%	-
Investments in Islamic Sukuk	334,000	-	3,000,000	5,500,000	-	8,834,000	12.00%	-
Investments associates	-	-	-	-	633,657	633,657	-	-
Debit balances and other assets, net	-	-	-	-	2,618,741	2,618,741	-	-
Property and equipment, net	-	-	-	-	2,927,891	2,927,891	-	-
Total assets	**265,930,900**	**13,356,354**	**8,370,733**	**11,005,242**	**85,701,368**	**384,364,597**	**-**	**-**
Liabilities and equity								
Due to banks and financial institutions	16,052,494	-	-	-	1,061,865	17,114,359	15.00%	5.00%
Customers' deposits	178,166,973	236,478	47,587	9,498,532	145,140,319	333,089,889	15.07%	3.94%
Long-term loans	-	-	-	3,193,540	-	3,193,540	-	2.00%
Credit balances and other liabilities	-	-	-	-	7,128,867	7,128,867	-	-
Other provisions	-	-	-	-	526,823	526,823	-	-
Shareholders' equity	-	-	-	-	23,311,119	23,311,119	-	-
Total liabilities and equity	**194,219,467**	**236,478**	**47,587**	**12,692,072**	**177,168,993**	**384,364,597**	**-**	**-**
Interest rate sensitivity gap	**71,711,433**	**13,119,876**	**8,323,146**	**(1,686,830)**	**(91,467,625)**	**-**	**-**	**-**
Cumulative interest rate sensitivity gap	**71,711,433**	**84,831,309**	**93,154,455**	**91,467,625**	**-**	**-**	**-**	**-**

	2015						Average interest rates	
	Less than 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year	Non-interest sensitive	Total	Local Currency	Foreign Currency
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	%	%
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	29,999,735	29,999,735	-	-
Due from banks	6,722,019	71,979	2,500,000	-	8,651,775	17,945,773	15.37%	0.25%
Loans and advances and financing activities, net	29,163,898	3,445,778	3,001,235	2,527,940	-	38,138,851	22.00%	10.00%
Investments securities	190,369,021	37,292,742	21,818,200	-	744,371	250,224,334	16.04%	-
Investments in Islamic Sukuk	-	-	-	14,667,000	-	14,667,000	12.00%	-
Investments associates	-	-	-	-	632,988	632,988	-	-
Debit balances and other assets, net	-	-	-	-	4,353,952	4,353,952	-	-
Property and equipment, net	-	-	-	-	3,200,865	3,200,865	-	-
Total assets	**226,254,938**	**40,810,499**	**27,319,435**	**17,194,940**	**47,583,686**	**359,163,498**	**-**	**-**
Liabilities and equity								
Due to banks and financial institutions	12,821,426	-	-	-	1,260,382	14,081,808	15.00%	4.50%
Customers' deposits	150,564,080	247,206	8,388	11,419,597	147,338,498	309,577,769	15.00%	3.77%
Long-term loans	-	-	-	2,756,188	-	2,756,188	2.60%	2.00%
Credit balances and other liabilities	-	-	-	-	8,844,736	8,844,736	-	-
Other provisions	-	-	-	-	1,968,168	1,968,168	-	-
Shareholders' equity	-	-	-	-	21,934,829	21,934,829	-	-
Total liabilities and equity	**163,385,506**	**247,206**	**8,388**	**14,175,785**	**181,346,613**	**359,163,498**	**-**	**-**
Interest rate sensitivity gap	**62,869,432**	**40,563,293**	**27,311,047**	**3,019,155**	**(133,762,927)**	**-**	**-**	**-**
Cumulative interest rate sensitivity gap	**62,869,432**	**103,432,725**	**130,743,772**	**133,762,927**	**-**	**-**	**-**	**-**

- **Interest rate sensitivity**

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

	2016 The effect of increase in interest rate 2%		
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	144,869,457	2,897,389	2,317,911
US Dollars	(51,974,663)	(1,039,493)	(831,595)
Saudi Rials	130,212	2,604	2,083
Euro	124,415	2,488	1,991
Other	5,035	101	81

	2016 The effect of decrease in interest rate 2%		
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	144,869,457	(2,897,389)	(2,317,911)
US Dollars	(51,974,663)	1,039,493	831,595
Saudi Rials	130,212	(2,604)	(2,083)
Euro	124,415	(2,488)	(1,991)
Other	5,035	(101)	(81)

	Cumulative Interest Rate Sensitivity Gap YR 000s	2015 The effect of increase in interest rate 2% Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	150,740,446	3,014,809	2,411,847
US Dollars	(17,412,816)	(348,256)	(278,605)
Saudi Rials	184,890	3,698	2,958
Euro	(12,620)	(252)	(202)
Other	3,329	67	53

	Cumulative Interest Rate Sensitivity Gap YR 000s	2015 The effect of decrease in interest rate 2% Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	150,740,446	(3,014,809)	(2,411,847)
US Dollars	(17,412,816)	348,256	278,605
Saudi Rials	184,890	(3,698)	(2,958)
Euro	(12,620)	252	202
Other	3,329	(67)	(53)

h. Exposure to exchange rate risk for foreign currency

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

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

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

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

2016	US Dollars YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	77,448,075	2,992,586	4,504,785	68,441	159,348	85,173,235
Liabilities	(144,031,731)	(2,983,791)	(9,754,362)	(67,107)	(154,108)	(156,991,099)
Net currency position	**(66,583,656)**	**8,795**	**(5,249,577)**	**1,334**	**5,240**	**(71,817,864)**

2015	US Dollars YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	45,510,924	1,075,540	2,222,032	98,770	28,564	48,935,830
Liabilities	(110,111,719)	(3,124,522)	(5,524,464)	(241,888)	(644,908)	(119,647,501)
Net currency position	**(64,600,795)**	**(2,048,982)**	**(3,302,432)**	**(143,118)**	**(616,344)**	**(70,711,671)**

- **Effect of change in fair value for the currency (Foreign currencies sensitivity)**

Below are the average exchange rates for the major currencies at year-end:

	Closing rate as per Central Bank of Yemen		Average exchange rate as per parallel market	
	2016 Equivalent in YR	2015 Equivalent in YR	2016 Equivalent in YR	2015 Equivalent in YR
1 Dollar USA	250.25	214.89	309	249.85
1 Euro	261.78	234.91	323.24	273.13
1 Saudi Rial	66.7	57.15	82.36	66.45
1 Sterling Pound	306.39	318.61	378.32	370.44
1 AED	68.14	58.52	84.14	68.04

*These rates were based on the average exchange rates in the parallel market used by the Group's Management in the last foreign currencies transactions.

On December 29, 2016, the Central Bank of Yemen issued instructions to all banks and financial institutions working in the Republic of Yemen that the closing rate for US Dollar should be 250.25 Yemeni Rial to 1 US Dollar and therefore their financial positions should be evaluated at the end of December 2016 in this rate. Accordingly, the Group's Management used the closing rates of December 2016 that has been issued on December 29, 2016 to evaluate the foreign currencies positions as at December 31, 2016.

Taking into account the average of exchange rates in the parallel market and the conditions experienced by the country during the current period, the following table illustrates the sensitivity for decrease of the Yemeni Rial exchange rate against other related foreign currencies and the expected impact on the statement of comprehensive income and equity with all other factors remaining constant:

	Effect on Statement of Comprehensive Income and Equity	
	2016 YR 000s	2015 YR 000s
Dollar USA	(15,631,527)	(646,008)
Saudi Rial	(1,232,509)	(33,024)
Euro	2,065	(20,490)
Sterling Pound	313	(1,431)
Others	1,230	(6,163)

Note 44 to the consolidated financial statements illustrates the major foreign currencies' positions at the consolidated financial statements date compared with the last year.

i. Operational risk

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

j. Other risks

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

6. Capital Management

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

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

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

	2016 YR Million	2015 YR Million
Core capital	23,091	21,716
Supplementary capital	70	663
Total capital	**23,161**	**22,379**
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	49,799	27,318
Contingent liabilities and commitments	28,648	29,241
Total risk-weighted assets and contingent liabilities and commitments	**78,447**	**56,559**
Capital adequacy ratio	**29.5%**	**39.6%**

The core capital consists of paid-up capital, reserves and retained earnings (after deducting investment in any local bank or financial company) while supplementary capital consists of general provisions on performing debts with the percentage of 1% which should not exceed 2% of the risk weighted assets.

7. Cash on Hand and Reserve Balances with Central Bank of Yemen

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Cash on hand and at ATM - local currency	9,688,383	3,665,840
Cash on hand and at ATM - foreign currency	5,665,427	3,144,987
	15,353,810	**6,810,827**
Mandatory reserve with CBY - local currency	14,085,127	14,691,083
Mandatory reserve with CBY - foreign currency	11,726,715	8,497,825
	25,811,842	**23,188,908**
	41,165,652	**29,999,735**

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

8. Due from Banks

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Central Bank of Yemen		
Current accounts - local currency	8,221,207	5,204,132
Current accounts - foreign currency	965,731	136,043
	9,186,938	**5,340,175**
Local banks		
Current accounts - local currency	3,616	158
Current accounts - foreign currency	408	36
Short-term deposits - local currency	11,701,606	9,222,019
	11,705,630	**9,222,213**
Foreign banks		
Current accounts - local currency	830,456	832,034
Current accounts - foreign currency	27,589,638	2,479,372
Short-term deposits - foreign currency	84,168	71,979
	28,504,262	**3,383,385**
	49,396,830	**17,945,773**

Short-term deposits with foreign banks carry variable interest rates while current accounts with CBY, local and foreign banks do not carry any interest.

9. Loans, Advances and Islamic Financing Activities (Net)

9. 1 Loans, advances and Islamic financing activities by type

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Trading & Agricultural Loans and Advances			
Overdraft		30,308,519	32,838,126
L/Cs financing		18,766	517,476
Loans to customers		30,390,219	28,202,459
Agricultural loans		435,597	425,869
		61,153,101	**61,983,930**
Less: Provision for loans and advances (trading & agricultural)	**(10.1-a)**	(17,875,325)	(16,552,561)
Less: Uncollected interest	**(11)**	(13,989,446)	(11,890,022)
		29,288,330	**33,541,347**
Islamic financing activities balances			
Murabaha transactions financing		1,938,815	1,738,377
Istisna'a transactions financing		3,185,290	2,660,299
Ijarah Muntahia Bittamleek		2,902,775	2,773,591
Agricultural financing		45,773	46,196
		8,072,653	**7,218,463**
Less: Provision for financing activities	**(10.1-b)**	(609,639)	(845,674)
Less: Uncollected revenue		(101,191)	(123,734)
Less: Deferred revenue		(69,843)	(248,102)
Less: Accumulated depreciation for Ijarah Muntahia Bittamleek		(1,623,008)	(1,403,449)
		5,668,972	**4,597,504**
		34,957,302	**38,138,851**

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

Non-performing loans, advances and financing activities amounted to YR 19,803,679 thousand as at December 31, 2016 after deducting uncollected interest and revenue by amount of YR 14,090,637 thousand and balances secured by cash deposits by amount of YR 836,158 thousand. As at December 31, 2015, the non-performing loans, advances and financing activities amounted to YR 17,674,111 thousand after deducting uncollected interest and revenue by amount of YR 12,013,756 thousand and balances secured by cash deposits by amount of YR 1,195,821 thousand. The break-up of the above amount is as follows:

	2016 YR 000s	2015 YR 000s
Substandard loans, advances and financing activities	152,953	880,045
Doubtful loans, advances and financing activities	3,570,815	759,092
Bad loans, advances and financing activities	16,079,911	16,034,974
	19,803,679	**17,674,111**

9. 2 Loans, advances and financing activities by sector

	2016					
	Overdraft YR 000s	L/C finance YR 000s	Loans to customers YR 000s	Agricultural loans YR 000s	Financing activities YR 000s	Total YR 000s
Agricultural	1,928,549	-	-	435,597	45,773	2,409,919
Trading	11,637,677	18,766	13,080,213	-	1,266,979	26,003,635
Industry	5,484,486	-	2,286,647	-	-	7,771,133
Service	3,660,273	-	877,522	-	3,185,289	7,723,084
Finance	65,972	-	7,857	-	-	73,829
Individuals and others	7,531,562	-	14,137,980	-	3,574,612	25,244,154
	30,308,519	**18,766**	**30,390,219**	**435,597**	**8,072,653**	**69,225,754**

	2015					
	Overdraft YR 000s	L/C finance YR 000s	Loans to customers YR 000s	Agricultural loans YR 000s	Financing activities YR 000s	Total YR 000s
Agricultural	1,683,920	-	379,908	472,065	-	2,535,893
Trading	17,341,759	517,476	11,538,295	-	2,660,754	32,058,284
Industry	2,349,415	-	2,087,323	-	-	4,436,738
Service	3,412,198	-	802,422	-	-	4,214,620
Finance	305,364	-	-	-	-	305,364
Individuals and others	7,745,470	-	13,394,511	-	4,511,513	25,651,494
	32,838,126	**517,476**	**28,202,459**	**472,065**	**7,172,267**	**69,202,393**

The amounts above are shown gross figures before subtracting the provision for loans, advances, financing activities, uncollected interest and revenue and deferred revenue.

10. Provision for Loans, Advances and Financing Activities (Performing and Non-Performing)

10. 1 Provision for loans, advances and financing activities by type

a Provision for trading and agricultural loans and advances

		2016			2015		
	Note	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year		16,443,259	109,302	16,552,561	13,694,685	112,816	13,807,501
Retranslation differences of provision in foreign currencies		1,194,132	1,842	1,195,974	(985)	-	(985)
Add: Provided during the year	**36**	950,293	-	950,293	2,994,156	-	2,994,156
Less: Provision reversed		(791,434)	-	(791,434)	-	(94,908)	(94,908)
Less: Used during the year		(32,069)	-	(32,069)	(153,203)	-	(153,203)
Transferred from general to specific Provision		63,325	(63,325)	-	(91,394)	91,394	-
Balance at end of the year		**17,827,506**	**47,819**	**17,875,325**	**16,443,259**	**109,302**	**16,552,561**

b Provision for financing activities

		2016			2015		
	Note	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year		652,840	192,834	845,674	49,251	43,443	92,694
Retranslation differences of provision in foreign currencies		7,657	5,716	13,373	-	-	-
Add: provided during the year	**36**	52,134	1,145	53,279	603,589	149,391	752,980
Less: provision reversed		(248,962)	-	(248,962)	-	-	-
Transferred from general to specific provision		177,154	(177,154)	-	-	-	-
Reclassified to doubtful debits provision		(53,725)	-	(53,725)	-	-	-
		587,098	**22,541**	**609,639**	**652,840**	**192,834**	**845,674**

10. 2 Provision for loans, advances and financing activities by sector

a Provision for trading and agricultural loans and advances

	2016			
	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	13,325,155	3,226,325	1,081	16,552,561
Retranslation differences of provision in foreign currencies	1,195,974	-	-	1,195,974
Add: Provided during the year	-	950,293	-	950,293
Less: Used during the year	(16,255)	(15,814)	-	(32,069)
Less: Provision reversed	(604,983)	(186,451)	-	(791,434)
Balance at end of the year	**13,899,891**	**3,974,353**	**1,081**	**17,875,325**

	2015			
	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	10,699,596	3,106,824	1,081	13,807,501
Retranslation differences of provision in foreign currencies	(985)	-	-	(985)
Add: Provided during the year	2,871,640	122,516	-	2,994,156
Less: Used during the year	(150,188)	(3,015)	-	(153,203)
Less: Provision reversed	(94,908)	-	-	(94,908)
Balance at end of the year	**13,325,155**	**3,226,325**	**1,081**	**16,552,561**

b Provision for financing activities

	2016			
	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	578,591	267,083	-	845,674
Retranslation differences of provision in foreign currencies	13,373	-	-	13,373
Add: Provided during the year	53,279	-	-	53,279
Less: used during the year	-	-	-	
Less: provision reversed	(248,962)	-	-	(248,962)
Reclassified to doubtful debits provision	(53,725)	-	-	(53,725)
Balance at end of the year	**342,556**	**267,083**	**-**	**609,639**

	2015			
	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	59,676	33,018	-	92,694
Add: Provided during the year	518,915	234,065	-	752,980
Balance at end of the year	**578,591**	**267,083**	**-**	**845,674**

11. Uncollected Interest

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Balance at beginning of the year	11,890,022	9,603,755
Uncollected interest written off or collected during the year	(3,874,994)	(2,410,193)
Increase during the year	5,657,288	4,696,460
Retranslation differences of provision in foreign currencies	317,130	-
Balance at end of the year	**13,989,446**	**11,890,022**

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

12. Investment Securities

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
<u>Held to maturity investments</u>			
Treasury bills (net)	**13**	238,625,287	245,019,097
Government bonds	**14**	4,460,866	4,460,866
		243,086,153	**249,479,963**
Available for sale investments	**15**	744,371	744,371
		243,830,524	**250,224,334**

13. Treasury Bills (Net)

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Treasury bills maturing within 90 days	244,549,370	178,494,580
Treasury bills maturing within 180 days	500,000	44,000,000
Treasury bills maturing within 360 days	1,460,000	33,700,000
	246,509,370	**256,194,580**
Unearned discount balance	(7,884,083)	(11,175,483)
	238,625,287	**245,019,097**

The treasury bills carry an interest rate between 15.8% and 16.1% during the year 2016 (between 15.8% up to 16.1% during the year 2015). In accordance with the Central Bank of Yemen instructions, treasury bills which mature within a period not exceeding three months are considered as a part of cash and cash equivalents.

14. Government Bonds

	2016 YR 000s	2015 YR 000s
Government bonds (non-registered)	4,460,866	4,460,866
	4,460,866	**4,460,866**

In accordance with the Council of Ministers' Resolution No. (145) of 2006 dated April 11, 2006, Ministry of Finance should purchase the agricultural credit portfolio due to the Bank as at December 31, 2005 and according to the agreement reached between Ministry of Finance and the Bank, the Central Bank of Yemen, on behalf of the Ministry of Finance, issued government bonds maturing on April 11, 2016 according to the letter No. (180-130) dated May 10, 2016 sent by the Ministry of Finance to the Governor of the Central Bank of Yemen, these bonds have been extended for one year starting from April 11, 2016 and according to bond No (7) dated April 4, 2017 which sent by Central Bank of Yemen based on the letter No. (62-130) dated March 22, 2017 of the Ministry of Finance addressed to the Governor of the Central Bank of Yemen, these bonds were renewed for one year starting from April 10, 2017 and bear an interest rate at the average rate of three months of treasury bills and the CBY records the interest of these bonds to the Group's account every three months.

15. Available for Sale Investments

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Financing investments – local			
Asas Real Estate Company Limited		1,049,802	1,049,802
President Saleh Housing Project		252,401	852,401
General Company for Real Estate Investment Limited		600,000	-
Y-Telecom		430,043	430,043
Yemeni Financial Services		59,131	59,131
Yemen Company for Manufacturing Pumps		15,750	15,750
Dates Factory in Al Tahiti		11,834	11,834
Yemen Hotels Company		2,500	2,500
Yemen Company for Marketing Agricultural Products		1,350	1,350
Yemen British Investment Company		125	125
		2,422,936	**2,422,936**
Financing investments - foreign			
CAC International Bank - Djibouti		19,970	19,970
		2,442,906	**2,442,906**
Less: Impairment for available for sale investments	**15.1**	(1,698,535)	(1,698,535)
		744,371	**744,371**

15. 1 Impairment for available-for-sale investments

	2016 YR 000s	2015 YR 000s
Balance at beginning of the year	1,698,535	520,733
Add: impairment during the year	-	1,177,802
Balance at end of the year	**1,698,535**	**1,698,535**

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

16. Investment in Islamic Sukuk

This item consists of the following as of December 31:

	2016			2015		
	Maturity Date	Number of Sukuk	Value of Sukuk YR 000s	Maturity Date	Number of Sukuk	Value of Sukuk YR 000s
Investment in Governmental Islamic Sukuk	March 27, 2017	334	334,000	March 27, 2017	1,000	667,000
Investment in Governmental Islamic Sukuk	August 19, 2017	1,000	1,000,000	Nov. 21, 2018	8,000	8,000,000
Investment in Governmental Islamic Sukuk	November 21, 2018	4,000	4,000,000	August 19, 2017	1,000	1,000,000
Investment in Governmental Islamic Sukuk – restricted	August 19, 2017	2,000	2,000,000	Dec. 19, 2018	3,000	3,000,000
Investment in Governmental Islamic Sukuk – restricted	December 19, 2018	1,500	1,500,000	August 19, 2017	2,000	2,000,000
		8,834	**8,834,000**		**15,000**	**14,667,000**

- The nominal value of Sukuk YR 1,000,000.
- Islamic governmental Sukuks are issued by Unit of the Islamic Sukuk at CBY.
- The Yemeni Government represented by the Ministry of Finance guarantees the Sukuk at the maturity dates and authorizes the Central Bank of Yemen to deduct such dues from the Ministry of Finance account with the Central Bank of Yemen at the maturity dates.
- The investment in the Islamic Sukuk - Restricted in investments of the Islamic Sukuk in favor of the Bank's customers.

17. Investments in Associates

	2016 YR 000s	Share %	2015 YR 000s	Share %
Mareb Poultry Company	472,363	27.32	472,363	27.32
CAC Insurance Company	161,294	21.00	160,625	21.00
	633,657		**632,988**	

The breakup of the above amount is as follows:

	2016 YR 000s	2015 YR 000s
Balance at beginning of January1,	632,988	618,949
Net share in profit	669	14,039
Cash distributions received during the year	-	-
Derecognized Investments during the year	-	-
Balance at December 31,	**633,657**	**632,988**

The total assets of CAC Insurance Company amounted to YR 2,643,827 thousand for the year 2015(compared with YR 2,295,951 thousand for year 2014). Moreover, the total liabilities amounted to YR 1,875,757 thousand for the year 2015 (compared with YR 1,531,069 thousand for the year 2014).

CAC Insurance Company has realized a net profit of YR 6,931 thousand for the year 2015 (compared with YR 38,650 thousand for the year 2014) according to the last audited financial statements and the audited financial statements for the year 2016 have not been issued.

The total assets of Mareb Poultry Company amounted to YR 4,394,249 thousand for the year 2014, and the total liabilities amounted to YR 2,665,249 thousand for the year 2014. Mareb Poultry Company has realized a net profit of YR 39,287 thousand for the year 2014 according to the last audited financial statements, and the audited financial statements for the years 2015 & 2016 have not been issued.

18. Debit Balances and Other Assets, Net

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Assets transferred to the Group's ownership		3,631,629	3,821,262
Accrued income and interest		614,430	582,361
Prepaid expenses		373,876	389,558
Projects in process (advances)		316,513	410,776
Advances to employees		159,001	184,373
Other debit balances		2,859,878	3,847,617
		7,955,327	**9,235,947**
Less: Provision for doubtful debts	**19**	(5,336,586)	(4,881,995)
		2,618,741	**4,353,952**

19. Provision for Doubtful Debits

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Balance at beginning of the year		4,881,995	2,653,352
Add: Provision provided during the year	**36**	400,273	2,253,883
Less: Provision used during the year		(6,405)	(24,905)
Reclassified from financing activities provision		53,725	-
Retranslation differences of provision in foreign currencies		6,998	(335)
Balance at end of the year		**5,336,586**	**4,881,995**

20. Property and Equipment, Net

This item consists of the following as of December 31:

2016	Balance at January 1, 2016 YR 000s	Addition during the year YR 000s	Disposals during the year YR 000s	Balance at December 31, 2016 YR 000s	Accumulated depreciation at January 1, 2016 YR 000s	Reclassification YR 000s	Depreciation during the year YR 000s	Disposals during the year YR 000s	Accumulated depreciation at December 31, 2016 YR 000s	Net book value as at December 31, 2016 YR 000s
Land, Buildings and Constructions	1,056,570	-	-	1,056,570	266,453	-	18,873	-	285,326	771,244
Furniture and Equipment	5,505,111	251,292	(14,809)	5,741,594	3,865,580	-	435,536	(13,053)	4,288,063	1,453,531
Point of Sale and ATMs	1,532,768	14,166	-	1,546,934	1,364,388	-	75,127	-	1,439,515	107,419
Motor Vehicles	819,288	18,482	-	837,770	644,356	-	68,748	-	713,104	124,666
Leasehold Improvements	1,458,821	150,567	(55,069)	1,554,319	1,030,916	-	106,692	(54,320)	1,083,288	471,031
Total	**10,372,558**	**434,507**	**(69,878)**	**10,737,187**	**7,171,693**	**-**	**704,976**	**(67,373)**	**7,809,296**	**2,927,891**

2015	Balance at January 1, 2015 YR 000s	Addition during the year YR 000s	Disposals during the year YR 000s	Balance at December 31, 2015 YR 000s	Accumulated depreciation at January 1, 2015 YR 000s	Reclassification YR 000s	Depreciation during the year YR 000s	Disposals during the year YR 000s	Accumulated depreciation at December 31, 2015 YR 000s	Net book value as at December 31, 2015 YR 000s
Land, Buildings and Constructions	1,056,570	-	-	1,056,570	244,784	(720)	22,389	-	266,453	790,117
Furniture and Equipment	5,165,532	446,912	(107,333)	5,505,111	3,485,022	2,413	467,624	(89,479)	3,865,580	1,639,531
Point of Sale and ATMs	1,485,685	47,083	-	1,532,768	1,277,464	170	86,754	-	1,364,388	168,380
Motor Vehicles	803,830	21,691	(6,233)	819,288	562,531	388	84,169	(2,732)	644,356	174,932
Leasehold Improvements	**1,108,222**	361,207	(10,608)	1,458,821	979,737	(2,251)	64,036	(10,606)	1,030,916	427,905
Total	**9,619,839**	**876,893**	**(124,174)**	**10,372,558**	**6,549,538**	**-**	**724,972**	**(102,817)**	**7,171,693**	**3,200,865**

21. Due to Banks and Financial Institutions

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Local banks		
Current accounts - foreign currency	105,713	82,971
Current accounts - local currency	380,085	20,388
Time deposits - foreign currency	11,913,693	8,992,244
	12,399,491	**9,095,603**
Foreign banks		
Current accounts - foreign currency	156,230	835,491
Current accounts - local currency	58	896
Time deposits - local currency	4,138,801	3,829,182
	4,295,089	**4,665,569**
Foreign financial institutions		
Current accounts - foreign currency	419,617	318,729
Current accounts - local currency	162	1,907
	419,779	**320,636**
	17,114,359	**14,081,808**

Current accounts and time deposits, which are due to banks carry variable interest rates.

22. Customers' Deposits

a. Customers' deposits by type

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Time deposits	176,998,775	150,198,088
Current and demand accounts	122,051,254	121,627,791
Margins of LCs and LGs	17,237,605	20,768,673
Saving accounts	10,965,226	10,035,489
Time deposits - restricted	3,500,000	5,000,000
Other deposits	2,337,029	1,947,728
	333,089,889	**309,577,769**

As at December 31, 2016 customer deposits include YR 30,076 million of margins held for direct and indirect facilities (YR 26,378 million as at December 31, 2015).

b. Customers' deposits by sector

This item consists of the following as of December 31:

	2016 YR 000s	2015 YR 000s
Corporations	76,383,416	99,337,136
Individuals	92,497,999	105,247,018
Public and mixed sectors	142,058,037	82,277,214
Others	22,150,437	22,716,401
	333,089,889	**309,577,769**

23. Long Term Loans

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Tehama Development Project - III	**23.1**	5,271	5,271
Raimah Development Project	**23.2**	4,670	5,094
Mahra Rural Development Project	**23.3**	55,474	59,699
Arab Fund for Economic and Social Development	**23.4**	3,128,125	2,686,124
		3,193,540	**2,756,188**

23.1 Tehama Development Project - III

On April 16, 1980, the government received a loan from Reconstruction Credit Institution of Germany to activate the agricultural loans activities in the Tehama Development Project matures on April 16, 2009. The Group is executing the project through an agreement with the Ministry of Agriculture.

23.2 Raimah Development Project

On December 15, 1997, the government received a loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Raimah Development Project matures on July 1, 2027. The Group is executing the project through an agreement with the Ministry of Finance.

23.3 Mahra Rural Development Project

On November 11, 1999, the government received a loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Mahra Development Project matures on June 1, 2034. The Group is executing the project through an agreement with the Ministry of Finance.

23.4 Arab Fund for Economic and Social Development

On October 22, 2014, the government received the first installment of the loan from the Arab Fund for Economic and Social Development in Kuwait in the amount of USD 12.5 million from a total loan of USD 50 million to finance the small and medium enterprises in the agricultural and fisheries field mature in January 28, 2026. The Group is executing the project through an agreement with the Ministry of Planning and International Cooperation.

24. Credit Balances and Other Liabilities

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Accrued interest payable		1,886,723	1,654,868
Income taxes for previous years		727,919	21,622
Accrued expenses		718,540	538,780
Unearned income		582,178	48,907
Income tax for the year	**24.1**	201,133	1,173,066
Salary tax payable		125,696	96,075
Other credit balances		2,886,678	5,311,418
		7,128,867	**8,844,736**

24.1 Income taxes for the year

This item consists of the following as of December 31:

	Note	2016 YR 000s	2015 YR 000s
Income taxes for the year		1,173,066	1,311,893
Less: Paid during the year		(1,173,066)	(1,310,944)
Add: Provided during the year		201,133	1,172,117
Balance at end of the year	**46**	**201,133**	**1,173,066**

25. Other Provisions

This item consists of the following as of December 31:

2016	Balance at Jan. 1, 2016 YR 000s	Retranslation Differences of provision in foreign currencies YR 000s	Provided during the year YR 000s	Used during year YR 000s	Reversed provision YR 000s	Balance at Dec. 31, 2016 YR 000s
Provisions for contingent liabilities	360,614	47,064	-	-	(64,569)	343,109
Provisions for contingent claims	1,607,554	-	-	(1,423,840)	-	183,714
	1,968,168	**47,064**	**-**	**(1,423,840)**	**(64,569)**	**526,823**

2015	Balance at Jan. 1, 2015 YR 000s	Retranslation Differences of provision in foreign currencies YR 000s	Provided during the year YR 000s	Used during year YR 000s	Reversed provision YR 000s	Balance at Dec. 31, 2015 YR 000s
Provisions for contingent liabilities	622,120	(1,902)	-	-	(259,604)	360,614
Provisions for contingent claims	3,577,303	-	169,959	(2,139,708)	-	1,607,554
	4,199,423	**(1,902)**	**169,959**	**(2,139,708)**	**(259,604)**	**1,968,168**

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

26. Shareholders' Equity

26.1 Share capital

As at December 31, 2016, the share capital represents amounts of YR 19 billion (December 31, 2015: YR 17 billion) divided into 19 million shares of YR 1,000 par value according to the General Assembly meeting held on August 13, 2016 regarding to increase the capital by amount of YR 2,000,000 thousand (bonus shares).

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

	2016 Number of Shares	Percentage of holding %	Value of Shares YR 000s
Agricultural Promotion Fund	7,695,000	40.50	7,695,000
Government represented by the Ministry of Finance	6,425,800	33.82	6,425,800
Civil Aviation and Metrology Authority	4,750,000	25.00	4,750,000
General Confederation of Agriculture	129,200	0.68	129,200
	19,000,000	**100**	**19,000,000**

	2015 Number of Shares	Percentage of holding %	Value of Shares YR 000s
Agricultural Promotion Fund	6,885,000	40.50	6,885,000
Government represented by the Ministry of Finance	5,749,400	33.82	5,749,400
Civil Aviation and Metrology Authority	4,250,000	25.00	4,250,000
General Confederation of Agriculture	115,600	0.68	115,600
	17,000,000	**100**	**17,000,000**

26.2 Statutory Reserve

- In accordance with the provisions of the Banks Law No. (38) of 1998, 15% of the net profit for the year is transferred to statutory reserve until the balance of this reserve reaches twice the capital. The Group cannot use this reserve without the prior approval of the Central Bank of Yemen.
- Capital will be increased by the proceeds from the par value of the issued shares, and in case the shares were issued with a premium amount over the par value, the net increase will be included in statutory reserve, in accordance with Law No. (22) of 1997 regarding the commercial companies in the Republic of Yemen.
- Statutory reserve comprises an amount of YR 500 Million in the form of premium in excess of par value during the year 2008.

27. Contingent Liabilities and Commitments, Net

	2016 Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of credit	8,536,884	(1,458,091)	7,078,793
Letters of guarantee - customers	33,641,709	(6,409,560)	27,232,149
	42,178,593	**(7,867,651)**	**34,310,942**

	2015 Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of credit	10,887,186	(2,361,999)	8,525,187
Letters of guarantee - customers	33,950,859	(6,414,602)	27,536,257
	44,838,045	**(8,776,601)**	**36,061,444**

28. Interest Income

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Interest on treasury bills	38,919,325	41,288,732
Interest on loans and advances to customers	3,172,298	5,353,136
Interest on due from banks	1,557,259	1,194,906
Interest on Government Bonds	738,966	718,089
	44,387,848	**48,554,863**

29. Interest Expense

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Interest on customers' deposits:		
Interest on time deposits	17,367,712	22,532,072
Interest on saving accounts and current accounts	1,356,809	1,328,573
	18,724,521	**23,860,645**
Interest on balances due to banks:		
Interest paid to banks	2,318,410	2,080,171
Interest paid to long term loans	60,432	54,021
	2,378,842	**2,134,192**
	21,103,363	**25,994,837**

30. Islamic Financing and Investement Activities Income

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Income from Islamic Sukuk	939,308	870,868
Income from financing Murabaha transactions	112,433	247,047
Income from Ijarah Muntahia Bittamleek	99,627	118,543
Income from Istisna'a transaction	127,108	64,694
Income from agricultural financing	11	-
	1,278,487	**1,301,152**

31. Return of Unrestricted Investments and Saving Accounts Holders

The investment return allocated between shareholders and customers is based on the percentage of their contribution weighted by numbers. This allocation is proposed by the budget committee which calculates investments in local and foreign currencies and their related numbers and contribution and approved by the Board of Directors. The return ratios are as follows:

	2016		2015	
	Local Currency %	Foreign Currencies %	Local Currency %	Foreign Currencies %
Investment deposits	7.65%	3.23%	7.74%	3.05%
Saving accounts	4%	1.5%	4.40%	1.73%

32. Fee and Commission Income

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Commissions on letters of credit	731,853	762,788
Commissions on letters of guarantee	244,057	276,365
Commissions on transfer of funds	342,984	166,686
Other banking service charges	1,016,693	666,314
	2,335,587	**1,872,153**

33. Loss from Foreign Currency Transactions

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Gain from foreign currencies transactions	3,413,157	412,334
(Loss) from retranslation of foreign currencies	(13,771,829)	(515,255)
	(10,358,672)	**(102,921)**

34. Income From Investment Securities

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Income from available for sale investments	-	3,055
Income from investments in associates	669	14,039
	669	**17,094**

35. Other Operating Income

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Provision reversed	1,104,965	354,512
Income from owned properties rental	1,900	2,408
Others	14,354	27,082
	1,121,219	**384,002**

36. Provisions

This item consists of the following for the year ended December 31:

	Note	2016 YR 000s	2015 YR 000s
Provision for loans and Advances	**(10.1-a)**	950,293	2,994,156
Provision for financing activities	**(10.1-b)**	53,279	752,980
Provision for doubtful debts	**19**	400,273	2,253,883
Other provisions	**25**	-	169,959
		1,403,845	**6,170,978**

37. Staff Cost

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Salaries, allowances and incentives	7,781,978	8,600,233
Medical insurance	549,320	490,316
Social security	366,290	253,525
Others	42,877	4,314
	8,740,465	**9,348,388**

38. Other Expenses

This item consists of the following for the year ended December 31:

	2016 YR 000s	2015 YR 000s
Operating leases	571,898	556,439
Zakat expenses	501,215	421,108
Maintenance and repairs	438,890	420,990
Travelling and transportation	321,734	563,004
Communications	306,993	227,634
Security and guarding	305,126	376,271
Fees and licenses	272,551	253,183
Transportation and post office	207,910	353,397
Insurance expenses	199,514	167,427
Advertisement and publicity	175,675	479,062
Stationery and printing supplies	138,520	121,555
Utilities	65,347	141,853
Consultancy and professional fees	59,247	48,190
Training expenses	53,041	65,244
Other expenses	487,056	573,348
	4,104,717	**4,768,705**

39. Earnings Per Share

This item consists of the following as of December 31:

	2016	2015
Net profit for the year (YR thousand)	2,173,384	2,351,419
Weighted average number of shares (Thousand shares)	19,000	17,000
Earnings Per Share (YR)	**114**	**138**

The weighted average number of shares have been calculated as follows:

	Thousand Shares	Thousand Shares
Number of shares at the beginning of the year	17,000	14,900
Effect of bonus shares during the year	2,000	2,100
	19,000	**17,000**

40. Maturities of Assets and Liabilities

The following table shows the maturity of assets and liabilities as at December 31, 2016:

	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	2016 Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Assets					
Cash on hand & reserve balances with CBY	41,165,652	-	-	-	41,165,652
Due from banks	46,509,330	-	2,887,500	-	49,396,830
Loans, Advances and financing activities, net	18,487,504	8,895,488	2,069,068	5,505,242	34,957,302
Investments securities	238,211,122	4,460,866	414,165	744,371	243,830,524
Investment in Islamic Sukuk	334,000	-	3,000,000	5,500,000	8,834,000
Investments in associates	-	-	-	633,657	633,657
Debit balances and other assets	1,463,820	-	-	4,082,812	5,546,632
	346,171,428	**13,356,354**	**8,370,733**	**16,466,082**	**384,364,597**
Liabilities					
Due to banks and financial institutions	17,114,359	-	-	-	17,114,359
Customers' deposits	323,307,292	236,478	47,587	9,498,532	333,089,889
Long-term loans	-	-	-	3,193,540	3,193,540
Other liabilities and equity	4,242,189	-	-	26,724,620	30,966,809
	344,663,840	**236,478**	**47,587**	**39,416,692**	**384,364,597**
Net	**1,507,588**	**13,119,876**	**8,323,146**	**(22,950,610)**	**-**

The following table shows the maturity of assets and liabilities as at December 31, 2015:

	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	2015 Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Assets					
Cash on hand & reserve balances with CBY	29,999,735	-	-	-	29,999,735
Due from banks	15,373,794	71,979	2,500,000	-	17,945,773
Loans, Advances and financing activities, net	29,163,898	3,445,778	3,001,235	2,527,940	38,138,851
Investments securities	190,369,021	37,292,742	21,818,200	744,371	250,224,334
Investment in Islamic Sukuk	-	-	-	14,667,000	14,667,000
Investments in associates	-	-	-	632,988	632,988
Debit balances and other assets	2,721,846	-	-	4,832,971	7,554,817
	267,628,294	**40,810,499**	**27,319,435**	**23,405,270**	**359,163,498**
Liabilities					
Due to banks and financial institutions	14,081,808	-	-	-	14,081,808
Customers' deposits	297,902,578	247,206	8,388	11,419,597	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188
Other liabilities and equity	5,129,326	-	-	27,618,407	32,747,733
	317,113,712	**247,206**	**8,388**	**41,794,192**	**359,163,498**
Net	**(49,485,418)**	**40,563,293**	**27,311,047**	**(18,388,922)**	**-**

41. Average Interest Rates Applied During the Year

Average interest rates on assets and liabilities during the year compared with the last year are as follows:

	2016			
	Saudi Rial %	Yemeni Rial %	US Dollar %	Euro %
Assets				
Due from banks - time deposits	1.15	15	5	-
Treasury bills - held to maturity	-	16.6	-	-
Government bonds	-	16.60	-	-
Loans to customers	7.94	22	10	12
Agricultural loans	-	6	-	-
Overdrafts	-	25	12	2.5
Liabilities				
Customers - time deposits	1.72	15.07	3.94	-
Saving accounts	15	15	2	2.5
Banks - time deposits	-	15	5	-
Long term loans	-	2.6	2	-

	2015			
	Saudi Rial %	Yemeni Rial %	US Dollar %	Euro %
Assets				
Due from banks - time deposits	0.25	15.37	-	-
Treasury bills - held to maturity	-	16.04	-	-
Government bonds	-	16.10	-	-
Loans to customers	7.94	22	10	12
Agricultural loans	-	6	-	-
Overdrafts	-	25	12	12
Liabilities				
Customers - time deposits	-	15	3.77	-
Saving accounts	2	15	2	2
Banks - time deposits	-	15.37	4.5	-
Long term loans	-	2.6	2	-

42. Distribution of Assets, Liabilities, Contingent Liabilities and Commitments based on Economic Sectors

	Manufacturing YR 000s	Agriculture YR 000s	Trade YR 000s	2016 Building and Construction YR 000s	Finance YR 000s	Tourism YR 000s	Others YR 000s	Total YR 000s
Assets								
Cash on hand and reserve balances with Central Bank of Yemen	-	-	-	-	41,165,652	-	-	41,165,652
Due from banks	-	-	-	-	49,396,830	-	-	49,396,830
Loans, advances and financing activities (net)	3,092,078	1,704,669	17,664,588	563,625	70,154	51,045	11,811,143	34,957,302
Investments securities	-	-	-	744,371	238,625,287	-	4,460,866	243,830,524
Investments in Islamic Sukuk	-	-	-	-	8,834,000	-	-	8,834,000
Investments in associates	-	472,363	-	-	161,294	-	-	633,657
Liabilities								
Due to banks and financial institutions	-	-	-	-	17,114,359	-	-	17,114,359
Customers' deposits	8,737,757	6,536,668	56,126,844	15,299,522	3,857,244	451,098	242,080,756	333,089,889
Long-term loans	-	-	-	-	3,193,540	-	-	3,193,540
Contingent liabilities and commitments, net	3,155,196	497,388	9,736,163	8,813,327	6,308,080	349,740	5,451,048	34,310,942

	Manufacturing YR 000s	Agriculture YR 000s	Trade YR 000s	2015 Building and Construction YR 000s	Finance YR 000s	Tourism YR 000s	Others YR 000s	Total YR 000s
Assets								
Cash on hand and reserve balances with Central Bank of Yemen	-	-	-	-	29,999,735	-	-	29,999,735
Due from banks	-	-	-	-	17,945,773	-	-	17,945,773
Loans, advances and financing activities (net)	443,709	1,373,519	23,512,615	585,760	277,905	44,476	11,900,867	38,138,851
Investments securities	-	-	-	744,371	245,019,097	-	4,460,866	250,224,334
Investments in Islamic Sukuk	-	-	-	-	14,667,000	-	-	14,667,000
Investments in associates	-	472,363	-	-	160,625	-	-	632,988
Liabilities								
Due to banks and financial institutions	-	-	-	-	14,081,808	-	-	14,081,808
Customers' deposits	15,615,902	7,882,396	125,237,962	17,220,188	6,797,159	705,814	136,118,348	309,577,769
Long-term loans	-	-	-	-	2,756,188	-	-	2,756,188
Contingent liabilities and commitments, net	4,050,089	711,594	15,931,630	8,673,968	5,000,604	765,770	927,789	36,061,444

43. Distribution of Assets, Liabilities, Contingent Liabilities and Commitments based on Geographical Locations

	2016					
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with CBY	41,165,652	-	-	-	-	41,165,652
Due from banks	20,892,568	58,231	2,082,845	26,359,944	3,242	49,396,830
Loans, advances and financing activities, net	34,957,302	-	-	-	-	34,957,302
Investments securities	243,810,554	-	-	-	19,970	243,830,524
Investments in Islamic Sukuk	8,834,000	-	-	-	-	8,834,000
Investments in associates	633,657	-	-	-	-	633,657
Liabilities						
Due to banks and financial institutions	13,429,491	-	-	419,779	3,265,089	17,114,359
Customers' deposits	333,089,889	-	-	-	-	333,089,889
Long-term loans	3,193,540	-	-	-	-	3,193,540
Contingent liabilities and commitments, net	27,232,942	-	381,530	6,696,470	-	34,310,942

	2015					
	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with CBY	29,999,735	-	-	-	-	29,999,735
Due from banks	14,815,096	21,605	247,910	2,847,630	13,532	17,945,773
Loans, advances and financing activities, net	38,138,851	-	-	-	-	38,138,851
Investments securities	250,224,334	-	-	-	-	250,224,334
Investments in Islamic Sukuk	14,667,000	-	-	-	-	14,667,000
Investments in associates	613,018	-	-	-	19,970	632,988
Liabilities						
Due to banks and financial institutions	9,414,114	-	349,946	247,029	4,070,719	14,081,808
Customers' deposits	309,577,769	-	-	-	-	309,577,769
Long-term loans	2,756,188	-	-	-	-	2,756,188
Contingent liabilities and commitments, net	28,412,343	-	320,270	7,328,831	-	36,061,444

44. Significant Foreign Currencies' Positions

To comply with CBY circular No. 6 of 1998, the Group establishes limits for positions in individual foreign currencies as well as an aggregate limit for all currencies. These limits are 15% and 25% of total capital and reserves respectively. The following schedule shows the Group's significant foreign currency positions at the consolidated financial statements date:

	2016 Surplus (deficit) YR 000s	2016 % of capital & reserves	2015 Surplus (deficit) YR 000s	2015 % of capital & reserves
US Dollar	(66,583,656)	(298%)	(64,600,795)	%(295)
Saudi Rial	(5,249,577)	(24%)	(3,302,432)	%(15)
Euro	8,795	0.04%	(2,048,982)	%(9)
Sterling Pound	1,334	0.01%	(143,118)	%(1)
Others	5,240	0.02%	(616,344)	%(3)
Net (deficit)	**(71,817,864)**	(321%)	**(70,711,671)**	**%(323)**

The US Dollar exchange rate as at December 31, 2016 was YR 250.25 (as at December 31, 2015: US Dollar exchange rate was YR 214.89).

45. Transactions with Related Parties

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

The Group deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular No. 4 of 1999, which limits credit transactions with related parties and requires that the Group applies the same terms and conditions that are applied with non-related parties.

The nature of the Group's activities requires dealing with certain shareholders, members of the Board of Directors and companies owned by them. These transactions consist of obtaining loans and advances, issuing letters of credit and letters of guarantee and other various transactions conducted as part of the Group's normal activities.

	2016 YR 000s	2015 YR 000s
Loans, advances and Islamic financing activities (net)	239,047	79,015
Current accounts and time deposits	1,037,313	1,176,403
Long term loans	-	-
Commissions and interest received	348	225
Interest paid	3,584	10,293
Salaries and benefits	217,859	233,814

46. Tax Status

- Up to December 31, 2009, the Bank is not subject to commercial and industrial profit tax and income tax, in accordance with Article (21) of Law no. (39) of 1982 concerning the establishment of the Bank, Income Tax Law No. (31) of 1991 and its subsequent amendments by Republican Decree No. (12) of 1999 and the provisions of Article No. (85) of Law No. (38) of 1998 concerning banks.
- Salary tax has been cleared up to the year 2008.
- The Group has paid the salary tax for the year 2009 based on the declaration but the reconciliation between the Group and the Tax Authority has not been completed yet.
- Profit and salary tax have been cleared for the year 2010.
- Profit and salary tax have been cleared for the year 2011.
- Profit and salary tax have been cleared for the year 2012 according to the reconciliation minutes signed on October 25, 2016 between the Group and Tax Authority.
- Profit and salary tax have been cleared for the year 2013.
- The Group has submitted the tax declaration for the year 2014 and paid the amount due within the legal deadline. The Group was notified on April 3, 2017 of additional profit tax assessment with an amount of YR 170,781 thousand (after deducting the taxes paid) and YR 92,591 thousand for salary tax, in addition to the amount of YR 1,545 thousand as tax differences on taxable income according to the form No. (3) and the Group is not intending to submit any objection.
- The Group has submitted the tax declaration for the year 2015 and paid the amount due within the legal deadline. The field inspection is in progress by Tax Authority and has not been completed yet, and the Group did not receive any additional tax notification from Tax Authority up to the issuance date of the consolidated financial statements.

47. Zakat

- The Group submits its Zakat declaration annually and remits the amount due based on the declaration.
- The Group has paid the Zakat up to the end of 2014 according to the Zakat declaration. No additional assessment notifications has been issued by the Zakat Department.
- The Group has paid the Zakat for the year 2015 according to the Zakat declaration, financial statements and supporting receipts from the Head Office and Branches. No additional assessment notifications has been issued by the Zakat Department.

48. Contingent Liabilities

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

49. Operating Lease

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

	2016 YR 000s	2015 YR 000s
Not later than one year	143,747	125,757
Later than one year and not later than five years	12,763	22,544
Later than five years	2,708	2,915
	159,218	**151,216**

50. Comparative Figures

Some comparative figures were reclassified to conform with this consolidated financial statements classification for more appropriate presentation. The reclassifications do not impact the previously reported net profit or equity.

51. Events in republic of Yemen

As a result of the events and the security situation happened in the Republic of Yemen during the years 2015, 2016 and 2017 which affected the business activities and economic situation of the country, it is difficult for management to predict the effects of these events until the issuance date of the consolidated financial statements for the year 2016. The management confirms that it will study the Group effects of this crisis in the short term and make the necessary precautions to ensure continuity.

52. The Separate Financial Statements for CAC Bank - Parent company

1 Statement of Financial Position

	Dec. 31, 2016 YR 000s	Dec. 31, 2015 YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	**41,165,652**	29,999,735
Due from banks	**49,396,830**	17,945,773
Loans, advances and financing activities, net	**34,957,302**	38,138,851
Investments securities	**243,830,524**	250,224,334
Investments in Islamic Sukuk	**8,834,000**	14,667,000
Investments in associates	**633,657**	632,988
Investments in subsidiaries	**10,000**	10,000
Debit balances and other assets, net	**2,657,297**	4,386,103
Property and equipment, net	**2,906,107**	3,178,327
Total assets	**384,391,369**	**359,183,111**
Liabilities and equity		
Liabilities		
Due to banks and financial institutions	**17,114,359**	14,081,808
Customers' deposits	**333,338,361**	309,661,436
Long-term loans	**3,193,540**	2,756,188
Credit balances and other liabilities	**6,818,580**	7,457,415
Other provisions	**521,823**	3,085,632
Total Liabilities	**360,986,663**	**337,042,479**
Equity		
Share capital	**19,000,000**	17,000,000
Statutory reserve	**3,093,504**	2,887,060
General reserve	**253,803**	47,151
Retained earnings	**1,057,399**	2,206,421
Total Equity	**23,404,706**	**22,140,632**
Total liabilities and equity	**384,391,369**	**359,183,111**
Contingent liabilities and commitments, net	**34,310,942**	**36,061,444**

Separate Financial Statements for CAC Bank - Parent company (Continued)

2 Statement of Comprehensive Income for the years ended December 31,

	2016 YR 000s	2015 YR 000s
Interests income	**44,387,848**	48,561,883
Less: interests expense	**(21,122,512)**	(26,054,318)
Net interests income	**23,265,336**	**22,507,565**
Islamic financing and investments activities income	**1,278,487**	1,301,152
Less: Return of unrestricted investment and saving accounts holders	**(333,255)**	(317,125)
Net income from Islamic financing and investment Activities	**945,232**	**984,027**
Net income from interests and Islamic financing and investments activities	**24,210,568**	**23,491,592**
Fees and commission income	**2,335,587**	1,919,008
Loss from foreign currency transactions	**(10,359,861)**	(102,921)
Income from investment in securities	**669**	17,094
Other operating income	**1,117,370**	372,949
Net operating income	**17,304,333**	**25,697,722**
Less: Impairment loss on investments securities	**-**	(1,177,802)
Less: Provisions	**(1,403,845)**	(6,151,837)
Less: Staff cost	**(7,770,596)**	(8,266,152)
Less: Depreciation of property and equipment	**(700,225)**	(716,835)
Less: Other expenses	**(5,333,075)**	(5,653,845)
Net profit for the year before income tax	**2,096,592**	**3,731,251**
Less: Income tax for the year	**(201,133)**	(1,172,117)
Net profit for the year after tax	**1,895,459**	**2,559,134**
Other comprehensive income	**-**	-
Total comprehensive income for the year	**1,895,459**	**2,559,134**
Earnings per share	**100 YR**	**151 YR**