**English Translation of the Original Arabic Text**

# COOPERATIVE AND AGRICULTURAL CREDIT BANK

*Sana'a, Republic of Yemen*

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

**English Translation of the Original Arabic Text**

# COOPERATIVE AND AGRICULTURAL CREDIT BANK

***Sana'a, Republic of Yemen***

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

## TABLE OF CONTENTS

KPMG Yemen Mejanni & Co.
Public Accountants
150 Zubairy St.
PO Box 3501
Sana'a, Republic of Yemen

Telephone +967 (1) 401 667 / 8 / 9
Fax +967 (1) 206 130
Internet www.kpmg.com.ye

**English Translation of the Original Arabic Text**

## INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF**
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
***Sana'a, Republic of Yemen***

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cooperative and Agricultural Credit Bank (the Bank), and its subsidiary company (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2012, and 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 information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

**English Translation of the Original Arabic Text**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cooperative and Agricultural Credit Bank as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and instructions issued by Central Bank of Yemen.

**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. We are not aware of any violations of Yemen Commercial Companies Law No. 22 of 1997 and its amendments, Banking Law No. 38 of 1998 and Law No. 39 of 1982 concerning the establishment of Cooperative and Agricultural Credit Bank having occurred during the year which might have had a material effect on the consolidated financial statements as at December 31, 2012.

**M. Zohdi Mejanni**
*Associated Accountant*

**Sana'a, April 24, 2013**

English Translation of the Original Arabic Text
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
***Sana'a, Republic of Yemen***

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2012**

| | Note | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand and reserve balances with Central Bank of Yemen | 7 | 31,748,959 | 25,502,780 |
| Due from banks | 8 | 33,154,650 | 15,758,988 |
| Loans, advances and Islamic financing activities (net) | 9 | 29,972,235 | 59,770,987 |
| Investment securities | 12 | 201,188,668 | 118,520,983 |
| Investments in Islamic Sukuk | 16 | 2,000,000 | - |
| Investments in associates | 17 | 408,540 | 357,124 |
| Debit balances and other assets (net) | 18 | 6,873,257 | 5,895,288 |
| Property and equipment (net) | 20 | 3,021,816 | 3,567,687 |
| TOTAL ASSETS | | 308,368,125 | 229,373,837 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES | | | |
| Due to banks and financial institutions | 21 | 24,933,661 | 4,078,589 |
| Customers' deposits | 22 | 262,891,367 | 208,676,003 |
| Long-term loans | 23 | 170,846 | 234,441 |
| Credit balances and other liabilities | 24 | 5,590,872 | 3,586,423 |
| Other provisions | 25 | 391,192 | 396,840 |
| Total Liabilities | | 293,977,938 | 216,972,296 |
| EQUITY | 26 | | |
| Paid-up capital | 26-a | 11,000,000 | 11,000,000 |
| Legal reserve | 22-b | 1,626,364 | 1,328,067 |
| General reserve | | 35,726 | 35,726 |
| Retained earnings | | 1,728,097 | 37,748 |
| Total Equity Attributable to Equity Holders of the Bank | | 14,390,187 | 12,401,541 |
| Non-Controlling Interest | | - | - |
| Total Equity | | 14,390,187 | 12,401,541 |
| **TOTAL LIABILITIES AND EQUITY** | | 308,368,125 | 229,373,837 |
| Contingent liabilities and commitments (net) | 27 | 39,119,154 | 39,670,580 |

The attached notes on pages 8 to 59 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on page 1 and 2.

| | | |
|---|---|---|
| **Monasser Saleh Al Quaiti** | **Ahmed A. Al Modwahi** | **Mohammed Al Maqtari** |
| **Chairman** | **Chief Executive Officer** | **Finance Manager** |

English Translation of the Original Arabic Text
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
***Sana'a, Republic of Yemen***

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

| | Note | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| Interest income | 28 | 36,691,275 | 31,342,627 |
| Less: interest expense | 29 | (21,764,994) | (21,946,328) |
| Net interest income | | 14,926,281 | 9,396,299 |
| Islamic financing and investments activities income | 30 | 422,179 | 222,320 |
| Less: Return of unrestricted investment and saving accounts holders | 31 | (157,344) | (43,980) |
| Net income from Islamic financing and investment activities | | 264,835 | 178,340 |
| Net income from interest and Islamic financing and investments activities | | 15,191,116 | 9,574,639 |
| Commissions' revenue and bank service charges | 32 | 1,725,072 | 1,811,087 |
| Gain of foreign currency transactions | 33 | 518,185 | 1,199,499 |
| Net income (loss) from investment securities | 34 | 200,838 | (31,212) |
| Other operating income | 35 | 91,836 | 279,398 |
| Net operating income | | 17,727,047 | 12,833,411 |
| Less: provisions | 36 | (4,308,153) | (1,211,929) |
| Less: general and administrative expenses and depreciation | 37 | (10,860,234) | (10,210,282) |
| Net profit for the year before income tax | | 2,558,660 | 1,411,200 |
| Less: Income tax for the year | 24-a | (570,014) | (319,755) |
| Net profit for the year after tax | | 1,988,646 | 1,091,445 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 1,988,646 | 1,091,445 |
| Attributable to: | | | |
| Equity holders of the bank | | 1,988,646 | 1,091,445 |
| Non-controlling interest | | - | - |
| Earnings per share | 38 | YR 181 | YR 104 |

The attached notes on pages 8 to 59 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on page 1 and 2.

| | | |
|---|---|---|
| **Monasser Saleh Al Quaiti** | **Ahmed A. Al Modwahi** | **Mohammed Al Maqtari** |
| **Chairman** | **Chief Executive Officer** | **Finance Manager** |

English Translation of the Original Arabic Text
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
*Sana'a, Republic of Yemen*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

| | Paid-up Capital YR 000's | Legal Reserve YR 000's | General Reserve YR 000's | Retained Earnings YR 000's | Total Equity Attributable to Equity Holders of the Bank YR 000's | Non – Controlling Interest YR 000's | Total YR 000's |
|---|---|---|---|---|---|---|---|
| **Year 2012** | | | | | | | |
| Balance as at January 1, 2012 | 11,000,000 | 1,328,067 | 35,726 | 37,748 | 12,401,541 | - | 12,401,541 |
| **Total comprehensive income for the year** | | | | | | | |
| Net profit for the year | - | - | - | 1,988,646 | 1,988,646 | - | 1,988,646 |
| **Other comprehensive income** | - | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | 1,988,646 | 1,988,646 | - | 1,988,646 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Transfer to legal reserve (proposed) | - | 298,297 | - | ( 298,297) | - | - | - |
| Transfer to capital increase | - | - | - | - | - | - | - |
| | - | 298,297 | - | ( 298,297) | - | - | - |
| Balance as at December 31, 2012 | 11,000,000 | 1,626,364 | 35,726 | 1,728,097 | 14,390,187 | - | 14,390,187 |
| **Year 2011** | | | | | | | |
| Balance as at January 1, 2011 | 10,000,000 | 1,164,350 | 141,696 | 4,050 | 11,310,096 | - | 11,310,096 |
| **Total comprehensive income for the year** | | | | | | | |
| Net profit for the year | - | - | - | 1,091,445 | 1,091,445 | - | 1,091,445 |
| **Other comprehensive income** | - | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | 1,091,445 | 1,091,445 | - | 1,091,445 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Transfer to legal reserve | - | 163,717 | - | ( 163,717) | - | - | - |
| Transfer to capital increase | 1,000,000 | - | ( 105,970) | ( 894,030) | - | - | - |
| | 1,000,000 | 163,717 | ( 105,970) | ( 1,057,747) | - | - | - |
| Balance as at December 31, 2011 | 11,000,000 | 1,328,067 | 35,726 | 37,748 | 12,401,541 | - | 12,401,541 |

The attached notes on pages 8 to 59 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on page 1 and 2.

**Monasser Saleh Al Quaiti**
**Chairman**

**Ahmed A. Al Modwahi**
**Chief Executive Officer**

**Mohammed Al Maqtari**
**Finance Manager**

English Translation of the Original Arabic Text
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
***Sana'a, Republic of Yemen***

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Note | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year before income tax | | 2,558,660 | 1,411,200 |
| **Adjustments to reconcile net profit to cash flows from operating activities** | | | |
| Depreciation of property and equipment | 20 | 997,834 | 1,111,936 |
| Provisions provided during the year | 36 | 4,308,153 | 1,211,929 |
| Provisions used during the year | | ( 395,132) | - |
| Revaluation differences of provisions in foreign currencies | | 17,168 | ( 526) |
| Loss (profit) foreign currency translation (unrealized) | | 137,908 | ( 493) |
| Provisions reversed | 35 | ( 25,221) | ( 201,056) |
| Net share in (profit) loss of investments in associates | | ( 20,812) | 82,746 |
| Net (profit) on sale of property and equipment | | ( 1,262) | ( 10,613) |
| Operating profit before changes in assets and liabilities used in operating activities | | 7,577,296 | 3,605,123 |
| Net (increase) decrease in assets | | | |
| Reserve balances with Central Bank of Yemen | | ( 4,406,382) | 12,172,889 |
| Treasury bills due after 3 months | | ( 29,903,197) | 1,205,855 |
| Loans, advances and financing activities | | 26,253,444 | 20,585,015 |
| Debit balances and other assets | | ( 1,280,537) | ( 220,587) |
| Net increase (decrease) in liabilities | | | |
| Due to banks | | 20,852,190 | ( 674,322) |
| Customers' deposits | | 53,804,646 | ( 75,854,850) |
| Credit balances and other liabilities | | 1,754,190 | ( 452,951) |
| Income tax paid | | ( 319,755) | ( 370,919) |
| **Net cash provided by (used in) operating activities** | | 74,331,895 | ( 40,004,747) |
| **Cash flows from investing activities** | | | |
| Cash payments for acquisition of property and equipment | | ( 641,420) | ( 674,879) |
| Proceeds from sale of property and equipments | | 190,719 | 46,381 |
| (Increase) in available for sale investments | | - | ( 252,401) |
| (Increase) in investments in Islamic Sukuk | | ( 2,000,000) | - |
| (Increase) in investments in associates | | ( 42,000) | ( 52,037) |
| Cash dividends received from associates | | 11,396 | 9,667 |
| **Net cash (used in) investing activities** | | ( 2,481,305) | ( 923,269) |

English Translation of the Original Arabic Text
**COOPERATIVE AND AGRICULTURAL CREDIT BANK**
*Sana'a, Republic of Yemen*

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Note | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| (Decrease) in long term loans | | (63,595) | (3,594) |
| **Net cash (used in) financing activities** | | (63,595) | (3,594) |
| | | | |
| Net change in cash and cash equivalents | | 71,786,995 | (40,931,610) |
| Cash and cash equivalents at the beginning of the year | | 105,466,912 | 146,381,551 |
| Effect on exchange rate fluctuations on cash held | | 185,216 | 16,971 |
| Cash and cash equivalents at the end of the year | | 177,439,123 | 105,466,912 |
| | | | |
| **Cash and cash equivalents at the end of the year consist of** | | | |
| Cash on hand and reserve balances with CBY | 7 | 31,748,959 | 25,502,780 |
| Due from banks | 8 | 33,154,650 | 15,758,988 |
| Treasury bills (net) | 13 | 194,795,050 | 112,127,365 |
| | | 259,698,659 | 153,389,133 |
| Less: Reserve balances with Central Bank of Yemen | 7 | (18,635,081) | (14,200,963) |
| Less: Treasury bills due after 3 months (net) | | (63,624,455) | (33,721,258) |
| | | 177,439,123 | 105,466,912 |

The attached notes on pages 8 to 59 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on page 1 and 2.

**Monasser Saleh Al Quaiti**
**Chairman**

**Ahmed A. Al Modwahi**
**Chief Executive Officer**

**Mohammed Al Maqtari**
**Finance Manager**

## 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 license 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 CBY and obtained the final approval on April 16, 2011.

The Bank operates through its head office in Sana'a and 53 branches spread all over the governorates of the Republic of Yemen, in addition to the subsidiary company in Yemen as follows:

| Subsidiary Name | Company Operating Activity | Share Capital YR 000's | Year of Incorporation | Ownership % 2012 | Ownership % 2011 |
|---|---|---|---|---|---|
| CAC Services for Security and Maintenance | 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 and No. 5 of 1998,

    b. The recording of provision for general risks calculated on performing loans under "loans provision" and not under equity,

    c. The recording of provision for contingent liabilities under "other provisions" and not under equity.

    The effect of these deviations is immaterial on the consolidated financial statements of the Group as at December 31, 2012.

- 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 24, 2013.

*2.2 Basis of measurements*

The consolidated financial statements have been prepared on the historical cost basis except for available – for – sale investments held 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 5, 10, 12, 19 and 20.

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

*a)* *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.

*b)* *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.

*c)* *Useful lives of property and equipment*

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

## 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*

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 company after eliminating all balances and transactions and the statement of comprehensive income items resulting from intra – transactions.

a. Subsidiary Company

Subsidiary company is an entity controlled by the Group. 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.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and is generally assumed when the Group holds, directly or indirectly, majority of the voting rights of the entity. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

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 profit or loss. 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

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

*3.2 Foreign currency transactions*

- The Group (the Bank and its subsidiary company) 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 income statement.

  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 income statement.

  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. Recognition and Initial Measurement

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. Classification

- **Financial assets**

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

1. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the 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*

Held-to-maturity investments 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*

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 income statement using the effective interest method. Dividend income is recognized in 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 income statement.

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. Derecognition

- Financial assets are derecognized when the contractual rights related to the financial instruments have expired which ordinarily coincide with the sale or transfer of the contractual right to receive cash flows related to the asset to an independent party.
- Financial liabilities are derecognized when 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 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

  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.

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 income statement 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 to income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to income statement 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 income statement. 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* *<u>Revenue recognition</u>*

- 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.
- Ijarah Muntahia Bittamleek revenues are recorded over the term of the lease contract.
- Revenue from investments in Islamic Sukuk is recognized 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".
- Commissions' revenue and the bank service charges 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 and No. 5 of 1998 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:

| | |
|---|---|
| Performing loans and advances, financing activities and contingent liabilities, including watchlist accounts | 1% |
| 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 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 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, balances with Central Bank of Yemen other than reserve balances, current account and deposits with other banks and treasury bills - held to maturity which are due within three months from the issuance date.

*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 profit or loss 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:

| | **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 for rented Branches are depreciated over the expected useful lives or the term of the lease, 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 Group reviews the carrying amounts of the assets, according to their materiality, at each financial statements date to determine whether there is any indication of impairment, if any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

The Group's corporate assets that do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rate basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

*3.11 Other provisions*

A provision is provided for present legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation based on the study prepared by the Group in order to estimate the amount of the obligation.

*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 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. All the leases entered into by the Group are operating leases. Rentals payable under these leases are charged to the income statement 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 statement of comprehensive income.

*3.15 Murabaha and Istisna'a Financing*

- 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.
- Istina'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.

*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 Ijarah Muntahia Bittamleek*

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.

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

*3.18 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.

*3.19 Social security provision*

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

*3.20 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.

*3.21 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.

*3.22 Comparatives*

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

*3.23 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.

*3.24 Shari'a board*

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.

*3.25 Parent bank financial information*

Statement of financial position and statement of comprehensive income of the Parent bank as disclosed in the supplementary information to the consolidated financial statements are prepared following the same accounting policies as mentioned above except for investment in subsidiaries which are not consolidated and carried at cost.

## 4. APPLICABLE NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

For the avoidance of doubt, the following applicable new standards, amendments to standards and interpretations, which were issued by IASB before December 31, 2012 and are not yet in effect, have not been early adopted.

- lAS 1 (amendment) 'Presentation of items of other comprehensive income' The amendments to lAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

- lAS 28 (2011) “Investment in Associates and jont ventures” has been amended to include IFRS 5 applies to an investment or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

  The standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively.

- IFRS 9, Financial Instruments' is the first standard issued as part of a wider project to replace lAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortised cost and fair value.

  The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015.

- IFRS 10, Consolidated Financial Statements.
- IFRS 11, Joint Arrangements.
- IFRS 12, Disclosure of Interest in Other Entities.
- IFRS 13, Fair Value Measurement.

The above standards are effective for annual periods beginning on or after 1 January 2013.

The Group is currently assessing the impact of these standards on future periods.

## 5. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

### *5.1 <u>Financial instruments</u>*

a. The Group's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, current accounts, and deposits with 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 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 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.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Carrying amount YR 000's** | **Fair value YR 000's** | **Carrying amount YR 000's** | **Fair Value YR 000's** |
| **Financial assets** | | | | |
| Cash on hand and reserve balances with the CBY | 31,748,959 | 31,748,959 | 25,502,780 | 25,502,780 |
| Due from banks | 33,154,650 | 33,154,650 | 15,758,988 | 15,758,988 |
| Loans, advances and financing activities (net) | 29,972,235 | 29,972,235 | 59,770,987 | 59,770,987 |
| Investments securities | 201,188,668 | 201,188,668 | 118,520,983 | 118,520,983 |
| Investments in Islamic Sukuk | 2,000,000 | 2,000,000 | - | - |
| Investments in associates | 408,540 | 408,540 | 357,124 | 357,124 |
| **Financial liabilities** | | | | |
| Due to banks | 24,933,661 | 24,933,661 | 4,078,589 | 4,078,589 |
| Customers' deposits | 262,891,367 | 262,891,367 | 208,676,003 | 208,676,003 |
| Long term loans | 170,846 | 170,846 | 234,441 | 234,441 |

c. 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).

Level 3: Fair values are based on inputs for assets that are not based on observable market data.

The fair values for available-for-sale investments comprise YR 1,932,752 thousand as at December 31, 2012 (YR 1,932,752 thousand as at December 31, 2011) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

d. 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.

*5.2* *Risk management of financial instruments*

- 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 Group is accountable for the risk exposures relating to his or her responsibilities.

- Risk management structure
  The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks.

- 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 is willing to accept, with additional emphasis on selected industries.

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

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

a. Credit risk

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

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Cash on hand and reserve balances with CBY (excluding cash on hand and ATM) | 18,635,081 | 14,200,963 |
| Due from banks | 33,154,650 | 15,758,988 |
| Loans, advances and financing activities (net) | 29,972,235 | 59,770,987 |
| Investments securities | 201,188,668 | 118,520,983 |
| Investments in Islamic Sukuk | 2,000,000 | - |
| Investments in associates | 408,540 | 357,124 |
| Debit balances and other assets after deducting the advance payment (net) | 6,307,823 | 5,455,237 |
| | 291,666,997 | 214,064,282 |
| Contingent liabilities and commitments | 52,236,097 | 51,752,920 |
| Total credit risk exposure | 343,903,094 | 265,817,202 |

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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Gross Maximum Exposure YR 000's | Net Maximum Exposure YR 000's | Gross Maximum Exposure YR 000's | Net Maximum Exposure YR 000's |
| Government | 217,970,098 | - | 131,602,651 | - |
| Finance | 35,305,114 | 2,286,745 | 16,069,336 | 3,278,044 |
| General trade | 10,122,122 | 3,827,450 | 23,579,106 | 11,391,406 |
| Industry | 6,784,285 | 5,150,796 | 17,908,212 | 8,656,488 |
| Service | 184,600 | 184,600 | 2,503,600 | 810,831 |
| Individuals | 9,268,210 | 6,696,276 | 8,290,997 | 4,530,345 |
| Contractors | 4,586,801 | 3,038,704 | 5,649,785 | 1,834,979 |
| Others | 7,445,767 | 7,025,911 | 8,460,595 | 1,365,107 |
| | 291,666,997 | 28,210,482 | 214,064,282 | 31,867,200 |
| Contingent liabilities and commitments | 52,236,097 | 40,612,197 | 51,752,920 | 39,684,000 |
| | 343,903,094 | 68,822,679 | 265,817,202 | 71,551,200 |

The Group manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 41 to the consolidated financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 42 to the consolidated financial statements shows the distribution of financial instruments based on geographical locations at the consolidated financial statements date.

b. Liquidity risk

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. To limit this 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 rate as at December 31, 2012 was 78% (as at December 31, 2011 was 60%)

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

| | 2012 | | | | |
|---|---|---|---|---|---|
| | **Less than 3 months YR 000s** | **From 3 to 6 months YR 000s** | **From 6 months to 1 year YR 000s** | **Over 1 year YR 000s** | **Total YR 000s** |
| Liabilities | | | | | |
| Due to banks | 24,933,661 | - | - | - | 24,933,661 |
| Customers' deposits | 246,933,439 | 13,370,774 | 2,587,154 | - | 262,891,367 |
| Long term loans | - | - | - | 170,846 | 170,846 |
| Credit balances and other liabilities | 5,020,858 | 570,014 | - | - | 5,590,872 |
| Total liabilities | 276,887,958 | 13,940,788 | 2,587,154 | 170,846 | 293,586,746 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Less than 3 months YR 000s** | **From 3 to 6 months YR 000s** | **From 6 months to 1 year YR 000s** | **Over 1 year YR 000s** | **Total YR 000s** |
| Liabilities | | | | | |
| Due to banks | 4,078,589 | - | - | - | 4,078,589 |
| Customers' deposits | 197,885,608 | 2,655,481 | 8,134,914 | - | 208,676,003 |
| Long term loans | - | - | - | 234,441 | 234,441 |
| Credit balances and other liabilities | 3,266,668 | 319,755 | - | - | 3,586,423 |
| Total liabilities | 205,230,865 | 2,975,236 | 8,134,914 | 234,441 | 216,575,456 |

In addition to the above, Note no. 39 to the 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.

c. Interest rate risk

Interest rate risk arises from 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 the Group's exposure to interest rate risks:

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 3 months YR 000s | From 3 months to 6 months YR 000s | From 6 months to 1 year YR 000s | Over 1 year YR 000s | Non-interest sensitive YR 000s | Total YR 000s | Average interest rates Local Currency % | Foreign Currency % |
| **Assets** | | | | | | | | |
| Cash on hand and reserve balances with CBY | - | - | - | - | 31,748,959 | 31,748,959 | - | - |
| Due from banks | 4,533,164 | - | - | - | 28,621,487 | 33,154,651 | 19.58 | 0.15 |
| Loans and advances and financing activities (net) | 23,977,788 | 2,907,307 | 989,084 | 2,098,056 | - | 29,972,235 | 25 | 8 |
| Investment securities | 131,170,595 | 28,491,474 | 35,132,980 | 4,460,866 | 1,932,752 | 201,188,667 | - | - |
| Investments in Islamic Sukuk | - | - | 2,000,000 | - | - | 2,000,000 | 15 | - |
| Investments in associates | - | - | - | - | 408,540 | 408,540 | - | - |
| Debit balances and other assets (net) | - | - | - | - | 6,873,257 | 6,873,257 | - | - |
| Property and equipment (net) | - | - | - | - | 3,021,816 | 3,021,816 | - | - |
| Total Assets | 159,681,547 | 31,398,781 | 38,122,064 | 6,558,922 | 72,606,811 | 308,368,125 | | |
| **Liabilities and Equity** | | | | | | | | |
| Due to banks | 24,933,661 | - | - | - | - | 24,933,661 | 20 | - |
| Customers' deposits | 246,933,439 | 13,370,774 | 2,587,154 | - | - | 262,891,367 | 20 | 2 |
| Long term loans | - | - | - | 170,846 | - | 170,846 | 4 | - |
| Credit balances and other liabilities | - | - | - | - | 5,590,872 | 5,590,872 | - | - |
| Other provisions | - | - | - | - | 391,192 | 391,192 | | |
| Shareholders' equity | - | - | - | - | 14,390,187 | 14,390,187 | - | - |
| Total Liabilities and Equity | 271,867,100 | 13,370,774 | 2,587,154 | 170,846 | 20,372,251 | 308,368,125 | | |
| Interest rate sensitivity gap | ( 112,185,553) | 18,028,007 | 35,534,910 | 6,388,076 | 52,234,560 | - | | |
| Cumulative interest rate sensitivity gap | ( 112,185,553) | ( 94,157,546) | ( 58,622,636) | ( 52,234,560) | - | - | | |

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Average interest rates | |
| | Less than 3 months YR 000s | From 3 months to 6 months YR 000s | From 6 months to 1 year YR 000s | Over 1 year YR 000s | Non-interest sensitive YR 000s | Total YR 000s | Local Currency % | Foreign Currency % |
| **Assets** | | | | | | | | |
| Cash on hand and reserve balances with CBY | - | - | - | - | 25,502,780 | 25,502,780 | - | - |
| Due from banks | 2,073,545 | - | - | - | 13,685,443 | 15,758,988 | - | 0.75 |
| Loans, advances and financing activities (net) | 33,535,086 | 7,448,941 | 18,786,960 | - | - | 59,770,987 | 27.00 | 10.00 |
| Investments securities | 78,406,107 | 14,976,090 | 18,745,168 | 4,460,866 | 1,932,752 | 118,520,983 | 22.58 | - |
| Investments in associates | - | - | - | - | 357,124 | 357,124 | - | - |
| Debit balances and other assets (net) | - | - | - | - | 5,895,288 | 5,895,288 | - | - |
| Property and equipment (net) | - | - | - | - | 3,567,687 | 3,567,687 | - | - |
| Total Assets | 114,014,738 | 22,425,031 | 37,532,128 | 4,460,866 | 50,941,074 | 229,373,837 | | |
| **Liabilities and Equity** | | | | | | | | |
| Due to banks | 3,521,414 | - | - | - | 557,175 | 4,078,589 | 21.60 | - |
| Customers' deposits | 106,102,538 | 2,655,481 | 8,242,179 | - | 91,675,805 | 208,676,003 | 20.00 | 2.00 |
| Long term loans | - | - | - | 234,441 | - | 234,441 | 4.00 | - |
| Credit balances and other liabilities | - | - | - | - | 3,586,423 | 3,586,423 | - | - |
| Other provisions | - | - | - | - | 396,840 | 396,840 | - | - |
| Shareholders' equity | - | - | - | - | 12,401,541 | 12,401,541 | - | - |
| Total Liabilities and Equity | 109,623,952 | 2,655,481 | 8,242,179 | 234,441 | 108,617,784 | 229,373,837 | | |
| Interest rate sensitivity gap | 4,390,786 | 19,769,550 | 29,289,949 | 4,226,425 | (57,676,710) | - | | |
| Cumulative interest rate sensitivity gap | 4,390,786 | 24,160,336 | 53,450,285 | 57,676,710 | - | - | | |

Note no. 40 to the financial statements shows the average interest rates on financial assets and liabilities applied during this year compared with last year.

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.

**December 31,2012**

**The effect of increase in interest rate 2%**

| Currency | Cumulative Interest Rate Sensitivity Gap YR 000s | Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s | Sensitivity of Equity YR 000s |
|---|---|---|---|
| Yemeni Rials | 3,701,555 | 74,031 | 59,225 |
| US Dollars | (55,204,576) | (1,104,092) | (883,273) |
| Saudi Rials | (2,437,181) | (48,744) | (38,995) |
| Euro | (4,605,421) | (92,108) | (73,687) |
| Other Currencies | (77,013) | (1,540) | (1,232) |

**The effect of decrease in interest rate 2%**

| Currency | Cumulative Interest Rate Sensitivity Gap YR 000s | Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s | Sensitivity of Equity YR 000s |
|---|---|---|---|
| Yemeni Rials | 3,701,555 | (74,031) | (59,225) |
| US Dollars | (55,204,576) | 1,104,092 | 883,273 |
| Saudi Rials | (2,437,181) | 48,744 | 38,995 |
| Euro | (4,605,421) | 92,108 | 73,687 |
| Other Currencies | (77,013) | 1,540 | 1,232 |

**December 31,2011**

**The effect of increase in interest rate 2%**

| Currency | Cumulative Interest Rate Sensitivity Gap YR 000s | Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s | Sensitivity of Equity YR 000s |
|---|---|---|---|
| Yemeni Rials | 32,449,092 | 648,981 | 519,185 |
| US Dollars | 20,220,746 | 404,415 | 323,532 |
| Saudi Rials | 422,313 | 8,446 | 6,757 |
| Euro | 358,134 | 7,163 | 5,730 |

**The effect of decrease in interest rate 2%**

| Currency | Cumulative Interest Rate Sensitivity Gap YR 000s | Sensitivity of Net Interest Income (Statement of Comprehensive Income) YR 000s | Sensitivity of Equity YR 000s |
|---|---|---|---|
| Yemeni Rials | 32,449,092 | (648,981) | (519,185) |
| US Dollars | 20,220,746 | (404,415) | (323,532) |
| Saudi Rials | 422,313 | (8,446) | (6,757) |
| Euro | 358,134 | (7,163) | (5,730) |

d. Exchange rate risk

Due to the nature of the Group's activities, 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 maintains a balanced foreign currencies position in compliance with the CBY instructions and the requirements of CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all foreign currencies should not exceed 25% of the Bank's capital and reserves.

In order to comply with the 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:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | US Dollars YR 000s | EURO YR 000s | Saudi Rial YR 000s | Sterling Pound YR 000s | Others YR 000s | Total YR 000s |
| Assets | 63,894,023 | 4,743,220 | 7,474,852 | 116,877 | 172,224 | 76,401,196 |
| Liabilities | ( 80,268,183) | ( 4,624,107) | ( 2,918,482) | ( 115,358) | ( 80,330) | ( 88,006,460) |
| Net currency position | ( 16,374,160) | 119,113 | 4,556,370 | 1,519 | 91,894 | ( 11,605,264) |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | US Dollars YR 000s | EURO YR 000s | Saudi Rial YR 000s | Sterling Pound YR 000s | Others YR 000s | Total YR 000s |
| Assets | 62,170,203 | 5,991,322 | 7,205,816 | 596,333 | 87,701 | 76,051,375 |
| Liabilities | ( 61,705,091) | ( 5,981,946) | ( 7,196,332) | ( 606,451) | ( 125,772) | ( 75,615,592) |
| Net currency position | 465,112 | 9,376 | 9,484 | ( 10,118) | ( 38,071) | 435,783 |

Effect of change in fair value of currency

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

| Currency | Change in Currency Rate% | Effect on Statement of Comprehensive Income | | Effect on Equity | |
|---|---|---|---|---|---|
| | | 2012 YR 000s | 2011 YR 000s | 2012 YR 000s | 2011 YR 000s |
| US$ | +2 | ( 327,483) | 9,302 | ( 261,987) | 7,442 |
| Euro | +3 | 3,573 | 281 | 2,859 | 225 |
| Saudi Rials | +2 | 91,127 | 190 | 72,902 | 152 |
| Sterling Pound | +2 | 30 | 202 | 24 | 162 |
| Other Currencies | +2 | 1,838 | 761 | 1,470 | 609 |
| US$ | -2 | 327,483 | ( 9,302) | 261,987 | ( 7,442) |
| Euro | -3 | ( 3,573) | ( 281) | ( 2,859) | ( 225) |
| Saudi Rials | -2 | ( 91,127) | ( 190) | ( 72,902) | ( 152) |
| Sterling Pound | -2 | ( 30) | ( 202) | ( 24) | ( 162) |
| Other Currencies | -2 | ( 1,838) | ( 761) | ( 1,470) | ( 609) |

Note 43 to the consolidated financial statements indicates the significant foreign currencies' positions at the consolidated financial statements date compared with the last year.

e. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process, infrastructure, personnel and other risks having an operational risk impact. The 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.

f. 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, the rules and ratio established by the Basel Committee on banking supervision 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 the guidelines of CBY compares the Bank core and supplementary capital with the risk weighted total assets and liabilities at the financial statements date, as follows:

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Core capital | 14,187 | 12,234 |
| Supplementary capital | 492 | 614 |
| Total capital | 14,679 | 12,848 |
| Risk-weighted assets and contingent liabilities and commitments: | | |
| Total assets | 32,646 | 46,158 |
| Contingent liabilities and commitments | 28,277 | 36,144 |
| Total risk-weighted assets and contingent liabilities and commitments | 60,923 | 82,302 |
| Capital adequacy ratio | 24.1% | 15.6% |

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

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---:|---:|
| Cash on hand and at ATM – local currency | 4,092,465 | 3,226,139 |
| Cash on hand and at ATM – foreign currency | 9,021,413 | 8,075,678 |
| | 13,113,878 | 11,301,817 |
| Mandatory reserve with CBY – local currency | 11,849,285 | 8,760,608 |
| Mandatory reserve with CBY – foreign currency | 6,785,796 | 5,440,355 |
| | 18,635,081 | 14,200,963 |
| | 31,748,959 | 25,502,780 |

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

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---:|---:|
| **Central Bank of Yemen** | | |
| Current accounts – local currency | 2,408,944 | 494,836 |
| Current accounts – foreign currency | 2,124,220 | 318,621 |
| | 4,533,164 | 813,457 |
| CBY certificates of deposit maturing within 90 days | 2,000,000 | - |
| | 6,533,164 | 813,457 |
| **Local banks** | | |
| Current accounts | 206,225 | 38,843 |
| **Foreign banks** | | |
| Current accounts – foreign currency | 23,847,251 | 12,833,143 |
| Time deposits – foreign currency | 2,568,010 | 2,073,545 |
| | 26,415,261 | 14,906,688 |
| | 33,154,650 | 15,758,988 |

- Current accounts and time deposits with foreign banks carry variable interest rates while current accounts with CBY and local banks do not carry any interest.
- The certificates of deposit carry an interest rate between 19.58% and 19.75% during the year 2012. In accordance with the Central Bank of Yemen instructions, certificate of deposits which mature within a period not exceeding three months are considered as a part of cash and cash equivalents.

## 9. LOANS AND ADVANCES AND ISLAMIC FINANCING ACTIVITIES (NET)

9.1 Loans, advances and Islamic financing activities by type

a. Trading and agricultural loans and advances

| | Note | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| Overdraft | | 16,139,270 | 25,543,065 |
| L/Cs financing | | 2,869,436 | 6,972,008 |
| Loans to customers | | 28,494,060 | 38,046,515 |
| Agricultural loans | | 184,921 | 186,415 |
| | | 47,687,687 | 70,748,003 |
| Less: | | | |
| Provision for loans and advances | 10.1a | ( 12,054,848) | ( 8,440,736) |
| Uncollected interest | 11 | ( 6,960,605) | ( 4,427,110) |
| | | 28,672,234 | 57,880,157 |

b. Islamic financing activities balances:

| | Note | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| Murabaha transactions financing | | 292,359 | 296,850 |
| Istisna'a transactions financing | | 229,998 | 1,464,525 |
| Ijarah Muntahia Bittamleek | | 2,071,412 | 306,950 |
| | | 2,593,769 | 2,068,325 |
| Less: | | | |
| Provision for financing activities | 10.1b | ( 28,223) | ( 34,287) |
| Uncollected revenue | | ( 2,723) | ( 28,368) |
| Deferred revenue | | ( 12,177) | ( 6,128) |
| Accumulated depreciation for Ijarah Muntahia Bittamleek | | ( 1,250,645) | ( 108,712) |
| | | 1,300,001 | 1,890,830 |
| | | 29,972,235 | 59,770,987 |

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 15,860,061 thousand as at December 31, 2012 after deducting uncollected interest and balances secured by cash deposits (YR 13,487,582 thousand as at December 31, 2011). The break-up of the above amount is as follows:

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Substandard loans, advances and financing activities | 2,785,471 | 2,929,062 |
| Doubtful loans, advances and financing activities | 2,753,806 | 4,982,749 |
| Bad loans, advances and financing activities | 10,320,784 | 5,575,771 |
| | 15,860,061 | 13,487,582 |

9.2 Loans, advances and financing activities by sector

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdraft YR 000's** | **L/C finance YR 000's** | **Loans to customers YR 000's** | **Agricultural loans YR 000's** | **Financing activities YR 000's** | **Total YR 000's** |
| Agricultural | 592,231 | 1,212,945 | 19,080 | 184,921 | 145,304 | 2,154,481 |
| Trading | 9,220,186 | 1,174,258 | 12,650,495 | - | 445,220 | 23,490,159 |
| Industry | 1,295,738 | 655,054 | 6,089,703 | - | - | 8,040,495 |
| Service | 572,303 | 127,545 | 492,152 | - | - | 1,192,000 |
| Finance | - | - | - | - | - | - |
| Individuals and others | 4,118,071 | 40,375 | 9,242,630 | - | 2,003,245 | 15,404,321 |
| | 15,798,529 | 3,210,177 | 28,494,060 | 184,921 | 2,593,769 | 50,281,456 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdraft YR 000's** | **L/C finance YR 000's** | **Loans to customers YR 000's** | **Agricultural loans YR 000's** | **Financing activities YR 000's** | **Total YR 000's** |
| Agricultural | 715,585 | 12,580 | 293,784 | 186,415 | 306,950 | 1,515,314 |
| Trading | 12,085,424 | 4,608,411 | 15,441,587 | - | 1,300,505 | 33,435,927 |
| Industry | 6,552,407 | 1,299,274 | 13,538,825 | - | - | 21,390,506 |
| Service | 2,506,315 | 1,051,743 | 468,513 | - | - | 4,026,571 |
| Finance | 150,796 | - | - | - | - | 150,796 |
| Individuals and others | 3,532,538 | - | 8,303,806 | - | 460,870 | 12,297,214 |
| | 25,543,065 | 6,972,008 | 38,046,515 | 186,415 | 2,068,325 | 72,816,328 |

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

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Specific YR 000's** | **General YR 000's** | **Total YR 000's** | **Specific YR 000's** | **General YR 000's** | **Total YR 000's** |
| Balance at beginning of the year | 8,237,183 | 203,553 | 8,440,736 | 7,159,560 | 266,691 | 7,426,251 |
| Revaluation differences of provision in foreign currencies | 15,418 | 656 | 16,074 | ( 207) | - | ( 207) |
| Add: provided during the year (Note 36) | 3,955,211 | - | 3,955,211 | 1,014,692 | - | 1,014,692 |
| Less : Used during the year | ( 357,173) | - | ( 357,173) | - | - | - |
| Transferred from general to specific provision | 103,641 | ( 103,641) | - | 63,138 | ( 63,138) | - |
| Balance at end of the year | 11,954,280 | 100,568 | 12,054,848 | 8,237,183 | 203,553 | 8,440,736 |

b. Provision for financing activities

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Specific YR 000's** | **General YR 000's** | **Total YR 000's** | **Specific YR 000's** | **General YR 000's** | **Total YR 000's** |
| Balance at beginning of the year | 20,184 | 14,103 | 34,287 | 1,442 | 23,185 | 24,627 |
| Revaluation differences of provision in foreign currencies | 91 | 60 | 151 | - | - | - |
| Transferred from general to specific provision | - | - | - | 9,082 | (9,082) | - |
| Add: provided during the year (Note 36) | 3,263 | 171 | 3,434 | 9,660 | - | 9,660 |
| Less : Provision reserved (Note 35) | - | ( 9,649) | ( 9,649) | - | - | - |
| Balance at end of the year | 23,538 | 4,685 | 28,223 | 20,184 | 14,103 | 34,287 |

10.2 Provision for loans, advances and financing activities by sector

a. Provision for trading and agricultural loans and advances

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Corporate Lending YR 000's | Small business Lending YR 000's | Residential Mortgage YR 000's | Total YR 000's | Corporate Lending YR 000's | Small business Lending YR 000's | Residential Mortgage YR 000's | Total YR 000's |
| Balance at beginning of the year | 7,054,637 | 1,385,018 | 1,081 | 8,440,736 | 6,206,746 | 1,218,554 | 951 | 7,426,251 |
| Revaluation differences of provision in foreign currencies | 10,162 | 5,912 | - | 16,074 | ( 173) | ( 34) | - | ( 207) |
| Add: provided during the year | 2,500,484 | 1,454,727 | - | 3,955,211 | 848,064 | 166,498 | 130 | 1,014,692 |
| Less: Used during the year | ( 225,805) | ( 131,368) | - | ( 357,173) | - | - | - | - |
| Balance at end of the year | 9,339,478 | 2,714,289 | 1,081 | 12,054,848 | 7,054,637 | 1,385,018 | 1,081 | 8,440,736 |

b. Provision for financing activities

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Corporate Lending YR 000's | Small business Lending YR 000's | Residential Mortgage YR 000's | Total YR 000's | Corporate Lending YR 000's | Small business Lending YR 000's | Residential Mortgage YR 000's | Total YR 000's |
| Balance at beginning of the year | 30,266 | 4,021 | - | 34,287 | 21,739 | 2,888 | - | 24,627 |
| Revaluation differences of provision in foreign currencies | 39 | 112 | - | 151 | - | - | - | - |
| Add: provided during the year | 896 | 2,538 | - | 3,434 | 8,527 | 1,133 | - | 9,660 |
| Less: Provision reversed | ( 7,131) | ( 2,518) | - | ( 9,649) | - | - | - | - |
| Balance at end of the year | 24,070 | 4,153 | - | 28,223 | 30,266 | 4,021 | - | 34,287 |

## 11. UNCOLLECTED INTEREST

| | 2012<br>YR 000s | 2011<br>YR 000s |
|---|---|---|
| Balance at beginning of the year | 4,427,110 | 2,350,746 |
| Uncollected interest written off or collected during the year | (634,045) | ( 43,245) |
| Increase during the year | 3,167,540 | 2,119,609 |
| Balance at end of the year | 6,960,605 | 4,427,110 |

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

| | | Note | 2012<br>YR 000s | 2011<br>YR 000s |
|---|---|---|---|---|
| a. | Held to maturity investments | | | |
| | - Treasury bills (net) | 13 | 194,795,050 | 112,127,365 |
| | - Government bonds | 14 | 4,460,866 | 4,460,866 |
| | | | 199,255,916 | 116,588,231 |
| b. | Available for sale investments | 15 | 1,932,752 | 1,932,752 |
| | | | 201,188,668 | 118,520,983 |

## 13. TREASURY BILLS (net)

| | 2012<br>YR 000s | 2011<br>YR 000s |
|---|---|---|
| Treasury bills maturing within 90 days | 135,434,470 | 81,564,100 |
| Treasury bills maturing within 180 days | 30,032,940 | 16,711,190 |
| Treasury bills maturing within 360 days | 38,675,780 | 20,518,880 |
| | 204,143,190 | 118,794,170 |
| Unearned discount balance | ( 9,348,140) | ( 6,666,805) |
| | 194,795,050 | 112,127,365 |

The treasury bills carry an interest rate between 19.4% and 22.9% during the year 2012 (between 22.5% and 23% during the year 2011). 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.

The treasury bills maturing within 360 days as at December 31, 2012 include amount of YER 5,000,000 thousand pledged with Central Bank of Yemen against credit facilities, unearned discount relating to these bills in the amount of YER 446,885 thousand (Nil as at December 31, 2011).

## 14. GOVERNMENT BONDS

| | 2012<br>YR 000s | 2011<br>YR 000s |
|---|---|---|
| Government bonds (non-registered) | 4,460,866 | 4,460,866 |

In accordance with the Council of Ministers' Resolution no. 145 of 2006 dated 11 April 2006, Ministry of Finance should purchase the agricultural credit portfolio due to the Bank as at 31 December 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 11 April 2016. These bonds earn interest at the average rate of three months of treasury bills and the CBY adjusts the interest to the group account every three months.

## 15. AVAILABLE FOR SALE INVESTMENTS

| | 2012<br>YR 000s | 2011<br>YR 000s |
|---|---|---|
| a. Financing investments - local | | |
| Asas Real Estate Company Limited | 1,001,250 | 1,001,250 |
| President Saleh Housing Project | 852,401 | 852,401 |
| 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 |
| | 1,944,341 | 1,944,341 |
| b. Financing investments - foreign | | |
| CAC International Bank Djibouti | 19,970 | 19,970 |
| | 1,964,311 | 1,964,311 |
| Less: Impairment for available for sale investment | (31,559) | (31,559) |
| | 1,932,752 | 1,932,752 |

- 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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of Sukuk | Value of Sukuk YR 000's | Number of Sukuk | Value of Sukuk YR 000's |
| Investment in Governmental Islamic Sukuk mature at April 1, 2013 | 2000 | 2,000,000 | - | - |
| | | 2,000,000 | | - |

- The nominal value of Suk is 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.

## 17. INVESTMENTS IN ASSOCIATES

| | 2012 YR 000's | Share % | 2011 YR 000's | Share % |
|---|---|---|---|---|
| Mareb Poultry Company | 255,076 | 27.32 | 245,660 | 27.32 |
| CAC Insurance Company | 150,464 | 21.00 | 108,464 | 21.00 |
| CAC Information Technology Company – under liquidation | 1,500 | 30.00 | 1,500 | 30.00 |
| CAC Marketing and Advertisement Company – under liquidation | 1,500 | 30.00 | 1,500 | 30.00 |
| | 408,540 | | 357,124 | |

The breakup of the above amount is as follows:

| | 2012 YR 000s | 2011 YR 000s |
|---|---|---|
| Balance at beginning of January | 357,124 | 397,500 |
| Net share in profit (loss) | 20,812 | (82,746) |
| Increase in investment during the year | 42,000 | 52,037 |
| Cash distributions received during the year | (11,396) | (9,667) |
| Balance at 31 December | 408,540 | 357,124 |

The total of assets of Mareb Poultry Company and CAC Insurance Company amounted to YR 1,912,500 thousand and YR 1,142,123 thousand respectively. Moreover, the total liabilities amounted to YR 978,838 thousand and YR 601,960 thousand respectively. Each of Mareb Poultry Company and CAC Insurance Company has realized a net profit to amount to YR 41,257 thousand and YR 70,950 thousand respectively according to the last audited financial statements.

## 18. DEBIT BALANCES AND OTHER ASSETS (NET)

| | Note | 2012 YR 000s | 2011 YR 000s |
|---|---|---|---|
| Accrued income and interest | | 816,708 | 288,371 |
| Advances to employees | | 277,316 | 264,725 |
| Prepaid expenses | | 253,325 | 236,947 |
| Projects in process (advances) | | 312,109 | 303,104 |
| Assets transferred to the Group's ownership | | 3,708,713 | 3,706,046 |
| Other debit balances | | 2,661,304 | 1,949,745 |
| | | 8,029,475 | 6,748,938 |
| Less: Provision for doubtful debts | 19 | (1,156,218) | (853,650) |
| | | 6,873,257 | 5,895,288 |

## 19. PROVISION FOR DOUBTFUL DEBITS

| | Note | 2012 YR 000s | 2011 YR 000s |
|---|---|---|---|
| Balance at beginning of the year | | 853,650 | 666,148 |
| Add: Provision provided during the year | 36 | 340,573 | 187,577 |
| Less: Provision used during the year | | (37,959) | - |
| Revaluation differences of provision in foreign currencies | | (46) | (75) |
| Balance at end of the year | | 1,156,218 | 853,650 |

## 20. PROPERTY AND EQUIPMENT (NET)

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Land, Buildings and Constructions YR 000's** | **Furniture and Equipment YR 000's** | **Points of Sale and ATMs YR 000's** | **Motor Vehicles YR 000's** | **Leasehold Improvements YR 000's** | **Total YR 000's** |
| **Cost** | | | | | | |
| Balance at beginning of the year | 964,276 | 4,332,699 | 1,175,304 | 544,791 | 1,028,613 | 8,045,683 |
| Additions during the year | - | 461,712 | 88,831 | 38,164 | 52,713 | 641,420 |
| Disposals during the year | (658) | (569,706) | (12) | (24,698) | (1,416) | (596,490) |
| Balance at the end of the year | 963,618 | 4,224,705 | 1,264,123 | 558,257 | 1,079,910 | 8,090,613 |
| **Accumulated depreciation** | | | | | | |
| Balance at beginning of the year | 179,621 | 2,365,391 | 933,738 | 363,065 | 636,181 | 4,477,996 |
| Depreciation | 20,457 | 609,994 | 146,396 | 63,834 | 157,153 | 997,834 |
| Disposals | - | (389,075) | (12) | (17,818) | (128) | (407,033) |
| Balance at the end of the year | 200,078 | 2,586,310 | 1,080,122 | 409,081 | 793,206 | 5,068,797 |
| **Net book value** | | | | | | |
| December 31, 2012 | 763,540 | 1,638,395 | 184,001 | 149,176 | 286,704 | 3,021,816 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Land, Buildings and Constructions YR 000's** | **Furniture and Equipment YR 000's** | **Points of Sale and ATMs YR 000's** | **Motor Vehicles YR 000's** | **Leasehold Improvements YR 000's** | **Total YR 000's** |
| **Cost** | | | | | | |
| Balance at beginning of the year | 954,684 | 3,936,656 | 1,149,768 | 498,762 | 955,843 | 7,495,713 |
| Additions during the year | 9,592 | 456,662 | 25,536 | 75,111 | 92,886 | 659,787 |
| Disposals during the year | - | (60,619) | - | (29,082) | (20,116) | (109,817) |
| Balance at the end of the year | 964,276 | 4,332,699 | 1,175,304 | 544,791 | 1,028,613 | 8,045,683 |
| **Accumulated depreciation** | | | | | | |
| Balance at beginning of the year | 159,276 | 1,743,940 | 745,691 | 318,830 | 472,372 | 3,440,109 |
| Depreciation | 20,345 | 655,089 | 188,047 | 71,562 | 176,893 | 1,111,936 |
| Disposals | - | (33,638) | - | (27,327) | (13,084) | (74,049) |
| Balance at the end of the year | 179,621 | 2,365,391 | 933,738 | 363,065 | 636,181 | 4,477,996 |
| **Net book value** | | | | | | |
| December 31, 2011 | 784,655 | 1,967,308 | 241,566 | 181,726 | 392,432 | 3,567,687 |

## 21. DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | | 2012 YR 000's | 2011 YR 000's |
|---|---|---|---|
| a. | Local banks | | |
| | Current accounts – foreign currency | 867,949 | 5,001 |
| | Current accounts – local currency | 1,447,026 | 25,719 |
| | Time deposits – local currency | 17,921,744 | 3,521,414 |
| | | 20,236,719 | 3,552,134 |
| b. | Foreign banks | | |
| | Current accounts – foreign currency | 171,088 | 396,282 |
| | Current accounts – local currency | 4,511,991 | 92,688 |
| | | 4,683,079 | 488,970 |
| c. | Financial institutions | | |
| | Current accounts – foreign currency | 13,863 | 36,411 |
| | Current accounts – local currency | - | 1,074 |
| | | 13,863 | 37,485 |
| | | 24,933,661 | 4,078,589 |

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

## 22. CUSTOMERS' DEPOSITS

a. Customers' deposits by type

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Current and demand accounts | 110,685,400 | 76,253,619 |
| Time deposits | 125,955,633 | 113,180,352 |
| Saving accounts | 7,028,409 | 3,919,343 |
| Margins of LCs, LGs | 13,116,943 | 12,082,340 |
| Other deposits | 6,104,982 | 3,240,349 |
| | 262,891,367 | 208,676,003 |

Customer deposits as at December 31, 2012 include YR 33,635 million of margins held for direct and indirect facilities (YR 28,349 million as of December 31, 2011).

b. Customers' deposits by sector

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Public and mixed sectors | 104,462,493 | 59,074,461 |
| Individuals | 76,863,887 | 44,148,168 |
| Corporations | 57,361,614 | 81,846,209 |
| Others | 24,203,373 | 23,607,165 |
| | 262,891,367 | 208,676,003 |

## 23. LONG TERM LOANS

| | Note | 2012 YR 000s | 2011 YR 000s |
|---|---|---|---|
| Tehama Development Project – III | 23.1 | 5,271 | 5,271 |
| Raimah Development Project | 23.2 | 6,793 | 6,793 |
| Mahra Rural Development Project | 23.3 | 68,782 | 71,324 |
| Agricultural and Fisheries Production Promotion Fund | 23.4 | 90,000 | 151,053 |
| | | 170,846 | 234,441 |

23.1 Tehama Development Project – III

The government received the loan from a Reconstruction Credit Institution of Germany to activate the agricultural loans activities in the Tehama Development Project. The Bank is executing the project through an agreement with the Ministry of Agriculture.

23.2 Raimah Development Project

The government received the loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Raimah Development Project. The Bank is executing the project through an agreement with the Ministry of Finance.

23.3 Mahra Rural Development Project

The government received the loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Mahra Development Project. The Bank is executing the project through an agreement with the Ministry of Finance.

23.4 Agricultural and Fishery Production Promotion Fund

The government received the loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities of Agricultural and Fishery Production Promotion Fund in the rural areas of Al – Mahra. The Bank is executing the project through an agreement with the Ministry of Finance.

## 24. CREDIT BALANCES AND OTHER LIABILITIES

| | Note | 2012 YR 000s | 2011 YR 000s |
|---|---|---|---|
| Corporate tax for the year | 24.a | 570,014 | 319,755 |
| Accrued interest payable | | 2,035,649 | 1,500,846 |
| Accrued expenses | | 901,010 | 620,932 |
| Unearned income | | 372,363 | 122,600 |
| Other credit balances | | 1,711,836 | 1,022,290 |
| | | 5,590,872 | 3,586,423 |

24.a Corporate tax for the year

| | Note | 2012 YR 000s | 2011 YR 000s |
|---|---|---|---|
| Balance at beginning of the year | | 319,755 | 370,919 |
| Less: Paid during the year | | (319,755) | (370,919) |
| Add: Provided during the year | | 570,014 | 319,755 |
| Balance at end of the year | 45 | 570,014 | 319,755 |

## 25. OTHER PROVISIONS

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Balance at 1/1/2012 YR 000's | Revaluation differences of provision in foreign currencies YR 000's | Provided during the year YR 000's | Reversed provision YR 000's | Balance at 31/12/2012 YR 000's |
| Provisions for contingent liabilities | 396,840 | 989 | 8,935 | (15,572) | 391,192 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Balance at 1/1/2011 YR 000's | Revaluation differences of provision in foreign currencies YR 000's | Provided during the year YR 000's | Reversed provision YR 000's | Balance at 31/12/2011 YR 000's |
| Provisions for contingent liabilities | 598,140 | (244) | - | (201,056) | 396,840 |

## 26. SHAREHOLDERS' EQUITY

a. Paid-up capital

As at December 31, 2012 the paid-up capital represents amounts of YR 11 billion divided into 11 million shares of YR 1,000 par value (December 31, 2011: YR 11 billion) according to the Board of Directors meeting held on March 18, 2012.

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

| | Number of Shares | Value of Shares YR 000's | Percentage of holding % |
|---|---|---|---|
| Agricultural Promotion Fund | 4,455,000 | 4,455,000 | 40.50 |
| Government represented by the Ministry of Finance | 3,720,200 | 3,720,200 | 33.82 |
| Civil Aviation and Metrology Authority | 2,750,000 | 2,750,000 | 25.00 |
| General Confederation of Agriculture | 74,800 | 74,800 | 00.68 |
| | 11,000,000 | 11,000,000 | 100.00 |

b. Legal 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 legal 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 legal reserve, in accordance with Law No. (22) of 1997 regarding the commercial companies in the Republic of Yemen.
- Legal reserve comprises an amount of YR 500,000 thousand in the form of premium in excess of par value during the year 2008.

c. Proposed Dividends

On April 24, 3013, the Board of Directors have proposed cash dividends to shareholders for the year 2012 amounting to YR 860,000 thousand in addition to issuing a bonus share of 8.18% of the share capital amounting to YR 900,000 thousand by transferring an amount of YR 868,097 thousand from retained earnings and an amount of YR 31,903 thousand from the general reserve. However, the Board of Directors proposal is subject to the approval of the General Assembly.

## 27. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

| | 2012 | | |
|---|---|---|---|
| | **Gross commitment YR 000's** | **Margin held YR 000's** | **Net commitments YR 000's** |
| Letters of credit | 10,266,488 | ( 4,935,163) | 5,331,325 |
| Letters of guarantee | 41,969,609 | ( 8,181,780) | 33,787,829 |
| | 52,236,097 | ( 13,116,943) | 39,119,154 |

| | 2011 | | |
|---|---|---|---|
| | **Gross commitment YR 000's** | **Margin held YR 000's** | **Net commitments YR 000's** |
| Letters of credit | 8,557,513 | ( 4,148,933) | 4,408,580 |
| Letters of guarantee | 37,636,368 | ( 7,933,407) | 29,702,961 |
| Others | 5,559,039 | - | 5,559,039 |
| | 51,752,920 | ( 12,082,340) | 39,670,580 |

## 28. INTEREST INCOME

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Interest on loans and advances to customers | 5,380,225 | 7,805,270 |
| Interest on due from banks | 94,959 | 243,862 |
| Interest on certificates of deposit with CBY | 30,040 | - |
| Interest on treasury bills | 30,223,024 | 22,277,370 |
| Interest on Government Bonds | 963,027 | 1,016,125 |
| | 36,691,275 | 31,342,627 |

## 29. INTEREST EXPENSE

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Interest on customers' deposits | | |
| Interest on time deposits | 18,382,473 | 20,171,040 |
| Interest on saving accounts and current accounts | 1,349,224 | 1,041,040 |
| | 19,731,697 | 21,212,080 |
| Interest on balances due to banks | | |
| Interest paid to banks | 2,031,314 | 722,553 |
| Interest paid to long term loans | 1,983 | 11,695 |
| | 2,033,297 | 734,248 |
| | 21,764,994 | 21,946,328 |

## 30. ISLAMIC FINANCING AND INVESTEMENT ACTIVITIES INCOME

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Revenues of financing Murabaha transactions | 27,060 | 59,330 |
| Revenues of Ijarah Muntahia Bittamleek | 83,807 | 162,990 |
| Revenues of Istisna'a | 86,106 | - |
| Revenues of Islamic Sukuk | 225,206 | - |
| | 422,179 | 222,320 |

## 31. RETURN OF UNRESTRICTED INVESTMENTS AND SAVING ACCOUNTS HOLDERS

The investment return allocated between shareholders and customers is based on the percentage of their contribuation 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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Local Currency % | Foreign Currencies % | Local Currency % | Foreign Currencies % |
| Investment deposits | 12.4 | 4.8 | 14.7 | 5.8 |
| Saving accounts | 7.6 | 3.0 | 9.7 | 3.8 |

## 32. COMMISSIONS INCOME AND BANK SERVICE CHARGES

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Commissions on letters of credit | 269,098 | 355,636 |
| Commissions on letters of guarantee | 377,194 | 417,335 |
| Commissions on transfer of funds | 271,862 | 238,692 |
| Other banking service charges | 806,918 | 799,424 |
| | 1,725,072 | 1,811,087 |

## 33. GAIN OF FOREIGN CURRENCY TRANSACTIONS

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Gain from foreign currencies transactions | 293,875 | 2,481,771 |
| Gain (loss) from translation of foreign currencies | 224,310 | (1,282,272) |
| | 518,185 | 1,199,499 |

## 34. NET INCOME (LOSS) FROM INVESTMENT SECURITIES

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Income from available for sale investments | 180,026 | 51,534 |
| Net (loss) on investments in associates | 20,812 | (82,746) |
| | 200,838 | (31,212) |

## 35. OTHER OPERATING INCOME

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Reversed provision | 25,221 | 201,056 |
| Gain on sale of property and equipment | 1,262 | 12,619 |
| Others | 65,353 | 65,723 |
| | 91,836 | 279,398 |

## 36. PROVISIONS PROVIDED DURING THE YEAR

| | Note | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|---|
| Provision for loans and advances | 10/1-a | 3,955,211 | 1,014,692 |
| Provision for Islamic financing activities | 10/1-b | 3,434 | 9,660 |
| Provision for doubtful debts | 19 | 340,573 | 187,577 |
| Other provisions | 25 | 8,935 | - |
| | | 4,308,153 | 1,211,929 |

## 37. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

| | Note | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|---|
| Wages and salaries | | 5,687,415 | 4,973,488 |
| Depreciation of property and equipment | 20 | 997,834 | 1,111,936 |
| Communications | | 684,836 | 374,275 |
| Advertisement and publicity | | 518,894 | 1,157,201 |
| Rent | | 434,635 | 449,413 |
| Travelling and transportation | | 422,274 | 213,542 |
| Maintenance and repairs | | 350,323 | 180,781 |
| Insurance expenses | | 298,104 | 193,857 |
| Zakat expenses | | 239,325 | 227,203 |
| Security and guarding | | 197,232 | 99,058 |
| Water and electricity | | 157,291 | 157,198 |
| Consultancy and professional fees | | 149,038 | 220,393 |
| Stationery and printing supplies | | 132,380 | 101,035 |
| Training expenses | | 126,271 | 123,897 |
| Fees and licenses | | 123,938 | 170,396 |
| Other expenses | | 340,444 | 456,609 |
| | | 10,860,234 | 10,210,282 |

## 38. EARNINGS PER SHARE

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Net profit for the year (YR thousand) | 1,988,646 | 1,091,445 |
| Average number of shares (by thousand) | 11,000 | 10,500 |
| Earnings per share (YR) | 181 | 104 |

## 39. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

| | 2012 | | | | |
|---|---|---|---|---|---|
| Description | Due within 3 months YR 000's | Due from 3 to 6 months YR 000's | Due from 6 months to one year YR 000's | Due after one year YR 000's | Total YR 000's |
| **a. Assets** | | | | | |
| Cash on hand & reserve balances with CBY | 31,748,959 | - | - | - | 31,748,959 |
| Due from banks | 28,856,850 | 4,297,800 | - | - | 33,154,650 |
| Loans and advances (net) | 23,977,788 | 2,907,307 | 989,084 | 2,098,056 | 29,972,235 |
| Investment securities | 131,170,595 | 28,491,474 | 35,132,980 | 6,393,619 | 201,188,668 |
| Investment in Islamic Sukuk | - | 2,000,000 | - | - | 2,000,000 |
| Investments in associates | - | - | - | 408,540 | 408,540 |
| Other assets | - | - | - | 9,895,073 | 9,895,073 |
| | 215,754,192 | 37,696,581 | 36,122,064 | 18,795,288 | 308,368,125 |
| **b. Liabilities** | | | | | |
| Due to banks and financial institution | 24,933,661 | - | - | - | 24,933,661 |
| Customers' deposits | 246,933,439 | 13,370,774 | 2,587,154 | - | 262,891,367 |
| Long term loans | - | - | - | 170,846 | 170,846 |
| Other liabilities and equity | - | - | - | 20,372,251 | 20,372,251 |
| | 271,867,100 | 13,370,774 | 2,587,154 | 20,543,097 | 308,368,125 |
| Net | ( 56,112,908) | 24,325,807 | 33,534,910 | ( 1,747,809) | - |

| | 2011 | | | | |
|---|---|---|---|---|---|
| Description | Due within 3 months YR 000's | Due from 3 to 6 months YR 000's | Due from 6 months to one year YR 000's | Due after one year YR 000's | Total YR 000's |
| **a. Assets** | | | | | |
| Cash on hand & reserve balances with CBY | 25,502,780 | - | - | - | 25,502,780 |
| Due from banks | 15,758,988 | - | - | - | 15,758,988 |
| Loans and advances (net) | 33,535,086 | 7,448,941 | 18,786,960 | - | 59,770,987 |
| Investment securities | 78,406,107 | 14,976,090 | 18,745,168 | 6,393,618 | 118,520,983 |
| Investments in associates | - | - | - | 357,124 | 357,124 |
| Other investments | 2,420,337 | - | - | 7,042,638 | 9,462,975 |
| | 155,623,298 | 22,425,031 | 37,532,128 | 13,793,380 | 229,373,837 |
| **b. Liabilities** | | | | | |
| Due to banks and financial institutions | 4,078,589 | - | - | - | 4,078,589 |
| Customers' deposits | 197,778,343 | 2,655,481 | 8,242,179 | - | 208,676,003 |
| Long term loans | - | - | - | 234,441 | 234,441 |
| Other liabilities and equity | 3,663,508 | 319,755 | - | 12,401,541 | 16,384,804 |
| | 205,520,440 | 2,975,236 | 8,242,179 | 12,635,982 | 229,373,837 |
| Net | ( 49,897,142) | 19,449,795 | 29,289,949 | 1,157,398 | - |

## 40. 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:

| | 2012 | | |
|---|---|---|---|
| **Description** | **Yemeni Rial %** | **US Dollar %** | **EURO %** |
| Assets | | | |
| Due from banks – time deposits | - | 0.15 | 0.15 |
| Certificates of deposit with CBY | 19.58 | - | - |
| Treasury bills - held to maturity | 21.60 | - | - |
| Government bonds | 21.59 | - | - |
| Loans to customers | 25.00 | 8.00 | 8.00 |
| Agricultural loans | 11.00 | 4.00 | - |
| Overdrafts | 29.25 | 12.00 | 12.00 |
| Liabilities | | | |
| Customers - time deposits | 19.70 | 4.20 | 2.00 |
| Saving accounts | 19.50 | 2.00 | 2.00 |
| Banks - time deposits | 21.20 | - | - |
| Long term loans | 4.00 | - | - |

| | 2011 | | |
|---|---|---|---|
| **Description** | **Yemeni Rial %** | **US Dollar %** | **EURO %** |
| Assets | | | |
| Due from banks – time deposits | - | 0.75 | 0.75 |
| Treasury bills - held to maturity | 22.58 | - | - |
| Government bonds | 22.78 | - | - |
| Loans to customers | 25.00 | 8.00 | 8.00 |
| Agricultural loans | 11.00 | 4.00 | - |
| Overdrafts | 30.00 | 12.00 | 12.00 |
| Liabilities | | | |
| Customers - time deposits | 20.00 | 2.00 | 2.00 |
| Saving accounts | 20.00 | 2.00 | 2.00 |
| Banks - time deposits | 21.60 | - | - |
| Long term loans | 4.00 | - | - |

## 41. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS

As at December 31, 2012

| | Manufacturing YR'000 | Agriculture YR'000 | Trade YR'000 | Building and Construction YR'000 | Finance YR'000 | Tourism YR'000 | Other YR'000 | Total YR'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash on hand and reserve balances with Central Bank of Yemen | - | - | - | - | 31,784,959 | - | - | 31,748,959 |
| Due from banks | - | - | - | - | 33,154,650 | - | - | 33,154,650 |
| Loans and advances and financing activities (net) | 6,784,285 | 2,154,481 | 10,119,122 | 2,733,150 | - | 184,600 | 7,996,597 | 29,972,235 |
| Investment securities | - | - | - | 1,853,651 | 194,874,151 | - | 4,460,866 | 201,188,668 |
| Investments in Islamic Sukuk | - | - | - | - | 2,000,000 | - | - | 2,000,000 |
| Investments in associates | - | 255,076 | 3,000 | - | 150,464 | - | - | 408,540 |
| **LIABILITIES** | | | | | | | | |
| Due to banks and financial institutions | - | - | - | - | 24,933,661 | - | - | 24,933,661 |
| Customers deposits | 14,888,583 | 16,261,226 | 122,860,301 | 17,223,242 | 9,562,333 | 1,863,231 | 80,232,451 | 262,891,367 |
| Long term loans | - | - | - | - | 170,846 | - | - | 170,846 |
| **CONTINGENT LIABILITIES AND COMMITMENTS (NET)** | 2,896,533 | 1,634,149 | 15,266,118 | 10,717,588 | 4,543,496 | 589,745 | 3,471,525 | 39,119,154 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

As at December 31, 2011

| | Manufacturing YR'000 | Agriculture YR'000 | Trade YR'000 | Building and Construction YR'000 | Finance YR'000 | Tourism YR'000 | Other YR'000 | Total YR'000 |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| Cash on hand and reserve balances with Central Bank of Yemen | - | - | - | - | 25,502,780 | - | - | 25,502,780 |
| Due from banks | - | - | - | - | 15,758,988 | - | - | 15,758,988 |
| Loans and advances and financing activities (net) | 21,487,904 | 1,011,646 | 25,659,875 | 3,796,134 | 126,247 | 409,831 | 7,279,350 | 59,770,987 |
| Investment securities | - | - | - | 1,853,651 | 112,206,466 | - | 4,460,866 | 118,520,983 |
| Investment in associates | - | 245,660 | 3,000 | - | 108,464 | - | - | 357,124 |
| LIABILITIES | | | | | | | | |
| Due to banks and financial institutions | - | - | - | - | 4,078,589 | - | - | 4,078,589 |
| Customers deposits | 9,784,039 | 12,914,353 | 97,573,288 | 14,963,693 | 11,188,111 | 1,479,742 | 60,772,777 | 208,676,003 |
| Long-term loans | - | - | - | - | 234,441 | - | - | 234,441 |
| CONTINGENT LIABILITIES AND COMMITMENTS (NET) | 12,643,046 | 714,214 | 18,115,655 | 2,680,038 | 89,129 | 289,337 | 5,139,161 | 39,670,580 |

## 42. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Republic of Yemen YR 000's | America YR 000's | Europe YR 000's | Asia YR 000's | Africa YR 000's | Total YR 000's |
| **ASSETS** | | | | | | |
| Cash on hand and reserve balances with CBY | 31,748,959 | - | - | - | - | 31,748,959 |
| Due from banks | 7,655,621 | 8,074,873 | 7,472,653 | 5,306,452 | 4,645,051 | 33,154,650 |
| Loans and advances and financing activities (net) | 29,972,235 | - | - | - | - | 29,972,235 |
| Investment securities | 201,188,668 | - | - | - | - | 201,188,668 |
| Investments in Islamic Sukuk | 2,000,000 | - | - | - | - | 2,000,000 |
| Investments in associates | 408,540 | - | - | - | - | 408,540 |
| **LIABILITIES** | | | | | | |
| Due to banks | 9,640,738 | - | - | 229,337 | 15,063,586 | 24,933,661 |
| Customers deposits | 262,891,367 | - | - | - | - | 262,891,367 |
| Long term loans | 170,846 | - | - | - | - | 170,846 |
| **CONTINGENT LIABILITIES AND COMMITMENTS (NET)** | 33,860,670 | - | 316,371 | 4,664,387 | 277,726 | 39,119,154 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Republic of Yemen YR 000's | America YR 000's | Europe YR 000's | Asia YR 000's | Africa YR 000's | Total YR 000's |
| **ASSETS** | | | | | | |
| Cash on hand and reserve balances with CBY | 25,502,780 | - | - | - | - | 25,502,780 |
| Due from banks | 1,538,183 | 578,931 | 9,960,367 | 3,606,090 | 75,417 | 15,758,988 |
| Loans and advances and financing activities (net) | 59,770,987 | - | - | - | - | 59,770,987 |
| Investment securities | 118,501,013 | - | - | - | 19,970 | 118,520,983 |
| Investments in associates | 357,124 | - | - | - | - | 357,124 |
| **LIABILITIES** | | | | | | |
| Due to banks | 3,585,188 | - | - | 294,502 | 198,899 | 4,078,589 |
| Customers deposits | 208,676,003 | - | - | - | - | 208,676,003 |
| Long term loans | 234,441 | - | - | - | - | 234,441 |
| **CONTINGENT LIABILITIES AND COMMITMENTS (NET)** | 35,723,594 | 71,686 | 522,712 | 2,936,635 | 415,953 | 39,670,580 |

## 43. 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 financial statements date:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Surplus (deficit) YR 000's | % of capital & reserves | Surplus (deficit) YR 000's | % of capital & reserves |
| US Dollar | ( 16,374,160) | (129.3%) | 465,112 | 3.7% |
| Euro | 119,113 | 0.9% | 9,376 | 0.1% |
| Saudi Rial | 4,556,370 | 36.0% | 9,484 | 0.1% |
| Sterling Pound | 1,519 | - | ( 10,118) | ( 0.1%) |
| Others | 91,894 | 0.7% | ( 38,071) | ( 0.3%) |
| Net (deficit) surplus | ( 11,605,264) | ( 91.6%) | 435,783 | 3.5% |

The US Dollar exchange rate as at December 31, 2012 was YR 214.89 (as at December 31, 2011: US Dollar exchange rate was YR 213.80).

## 44. 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.

The following are the nature and balances of these transactions at the financial statements date:

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Loans and advances (net) | 272,538 | 238,655 |
| Current accounts and time deposits | 4,106,154 | 4,645,218 |
| Long term loans | 170,846 | 234,441 |
| Commissions and interest received | 1,826 | 773 |
| Interest paid | 4,696 | 1,452 |
| Salaries and benefits | 79,140 | 101,494 |

## 45. TAX STATUS

- The difference between accounting and tax profit for the year 2012 represents an additional amount for YR 291,410 thousand as a result of adjusting the accounting profit with provided provisions during the year which is subject to tax; and the income received from investments in companies which have been subject to tax on the basis of 20% tax rate.
- 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.
- The Bank has submitted the 2010 and 2011 profit tax declaration and paid the amount due within the legal deadline. The Tax Authority has not performed any review for the years 2010 and 2011 nor has the Group received any notification of any assessment till now.
- Salary tax has been finalized up to 2008.
- The Group has paid the salary tax for the period from 2009 to the end of 2012 based on monthly declarations. The Tax Authority is currently conducting its review and no additional assessments has been received yet.

## 46. 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 2011 according to the Zakat declaration. No additional assessment notifications has been issued by the Zakat Department.

## 47. 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.

## 48. TRUST ACTIVITIES

The Group does not hold nor manage assets for or on behalf of other parties, except the loans it manages on behalf of The Agricultural and Fisheries Promotion Fund and Ministry of Finance.

## 49. COMPARATIVE FIGURES

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**THE SEPARATED FINANCIAL STATEMENT FOR COOPERATIVE AND AGRICULTURAL CREDIT BANK – PARENT COMPANY**

**1. STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012**

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| **ASSETS** | | |
| Cash on hand and reserve balances with Central Bank of Yemen | 31,748,959 | 25,502,780 |
| Due from banks | 33,154,650 | 15,758,988 |
| Loans, advances and financing activities (net) | 29,972,235 | 59,770,987 |
| Investment Securities | 201,188,668 | 118,520,983 |
| Investments in Islamic Sukuk | 2,000,000 | - |
| Investments in associates | 408,540 | 357,124 |
| Investments in subsidiaries | 10,000 | 10,000 |
| Debit balances and other assets (net) | 6,922,841 | 5,897,467 |
| Property and equipment (net) | 2,999,278 | 3,548,676 |
| TOTAL ASSETS | 308,405,171 | 229,367,005 |
| **LIABILITIES AND EQUITY** | | |
| LIABILITIES | | |
| Due to banks and financial institutions | 24,933,661 | 4,078,589 |
| Customers' deposits | 262,961,077 | 208,783,268 |
| Long-term loans | 170,846 | 234,441 |
| Credit balances and other liabilities | 5,560,753 | 3,516,736 |
| Other provisions | 391,192 | 396,840 |
| Total Liabilities | 294,017,529 | 217,009,874 |
| EQUITY | | |
| Paid-up capital | 11,000,000 | 11,000,000 |
| Legal reserve | 1,625,982 | 1,321,405 |
| General reserve | 35,726 | 35,726 |
| Retained earnings | 1,725,934 | - |
| Total Equity | 14,387,642 | 12,357,131 |
| TOTAL LIABILITIES AND EQUITY | 308,405,171 | 229,367,005 |
| Contingent liabilities and commitments (net) | 37,959,858 | 39,670,580 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**THE SEPARATE FINANCIAL STATEMENT FOR COOPERATIVE AND AGRICULTURAL CREDIT BANK – PARENT COMPANY (continued)**

## 2. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2012<br>YR 000's | 2011<br>YR 000's |
|---|---|---|
| Interest income | 36,691,275 | 31,342,627 |
| Less: interest expense | ( 21,779,216) | ( 21,960,639) |
| Net interest income | 14,912,059 | 9,381,988 |
| Islamic financing and investments activities income | 422,179 | 222,320 |
| Less: Return of unrestricted investment and saving accounts holders | ( 157,344) | ( 43,980) |
| Net income from Islamic financing and investment activities | 264,835 | 178,340 |
| Net income from interest and Islamic financing and investments activities | 15,176,894 | 9,560,328 |
| Commissions' revenue and bank service charges | 1,725,072 | 1,811,087 |
| Gain of foreign currency transactions | 518,185 | 1,199,499 |
| Net gain (loss) from investment securities | 256,349 | ( 31,212) |
| Other operating income | 32,229 | 221,109 |
| Net operating income | 17,708,729 | 12,760,811 |
| Less: provisions | ( 4,293,692) | ( 1,211,929) |
| Less: general and administrative expenses and depreciation | ( 10,821,539) | ( 10,193,194) |
| Net profit for the year before income tax | 2,593,498 | 1,355,688 |
| Less: Income tax for the year | ( 562,987) | ( 308,653) |
| Net profit for the year after tax | 2,030,511 | 1,047,035 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | 2,030,511 | 1,047,035 |
| Earnings per share | YR 184.60 | YR 99.70 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**THE FINANCIAL STATEMENTS FOR COOPERATIVE & AGRICULTURAL CREDIT BANK – ISLAMIC BRANCH**

**The financial statements for the Islamic branch are prepared and presented in accordance with the Accounting Standards for Islamic Financial Institutions and instructions issued by Central Bank of Yemen**

**1. STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012**

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | **YR 000's** | **YR 000's** |
| Cash on hand | 115,103 | 43,982 |
| Due from Banks | 2,272,623 | 554,663 |
| Murabaha financing transactions (net) | 251,536 | 246,144 |
| Istisna'a financing transactions (net) | 227,698 | 1,446,448 |
| Ijarah Muntahia Bittamleek (net) | 820,767 | 198,238 |
| Investments in Islamic Sukuk | 2,000,000 | - |
| Debit balances and other assets (net) | 1,585,029 | 307,188 |
| Property and equipment (net) | 189,653 | 76,836 |
| TOTAL ASSETS | 7,462,409 | 2,873,499 |
| **LIABILITIES AND EQUITY** | | |
| LIABILITIES | | |
| Current accounts and other deposits | 5,126,386 | 1,312,703 |
| Credit balances and other liabilities | 1,301,872 | 557,421 |
| Other provisions | 11,593 | 2,645 |
| Total Liabilities | 6,439,851 | 1,872,769 |
| EQUITY | | |
| Capital | 1,000,000 | 1,000,000 |
| Legal reserve | 4,004 | 730 |
| Retained earnings | 18,554 | - |
| Total shareholders' equity | 1,022,558 | 1,000,730 |
| TOTAL LIABILITIES AND EQUITY | 7,462,409 | 2,873,499 |
| Contingent liabilities and commitments (net) | 1,159,296 | 264,496 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**THE FINANCIAL STATEMENTS FOR COOPERATIVE & AGRICULTURAL CREDIT BANK – ISLAMIC BRANCH (continued)**

## 2. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2012 YR 000's | 2011 YR 000's |
|---|---|---|
| Income from financing Murabaha and Istisna'a | 113,166 | 199,093 |
| Income from other joint investments | 309,013 | 23,227 |
| | 422,179 | 222,320 |
| Less: Return of unrestricted investments and saving accounts' holders | (157,344) | (43,980) |
| Bank's share in the return from Murabaha, Istisna'a and other joint investment's income | 264,835 | 178,340 |
| Commissions income and bank service charges | 12,012 | 3,357 |
| Gain (loss) from foreign currency translation | 13,138 | (1,560) |
| Other operting income | 9,649 | 6,642 |
| Operating profit | 299,634 | 186,779 |
| Less: provisions | (12,368) | (10,761) |
| Less: general and administrative expenses and depreciation | (259,981) | (140,513) |
| Net profit for the year before income tax | 27,285 | 35,505 |
| Less: Income tax for the year | (5,457) | (7,321) |
| Net profit for the year after tax | 21,828 | 28,184 |