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Consolidated Financial Statements and Independent Auditor's Report

International Bank of Yemen (Y.S.C.)

December 31, 2019

بنك اليمن الدولي
INTERNATIONAL BANK OF YEMEN

Contents

	Page
INDEPENDENT AUDITOR'S REPORT	(A-D)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1
CONSOLIDATED STATEMENT OF COMPREHEVSIVE INCOME	2
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	3
CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7

Independent Auditor's Report

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To: The Shareholders' of
International Bank of Yemen (Y.S.C.)
Sana'a - Republic of Yemen

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of **International Bank of Yemen (Y.S.C.)**, and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements (1-42), including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), instructions of Central Bank of Yemen and the prevailing Yemeni Laws and regulations.

Basis for Qualified Opinion

The other provisions item, which are carried in the group's consolidated financial statements at YR 75,681,448 thousand as on December 31, 2019 (2018: YR 57,824,758 thousand), includes a provision provided in accordance with the instructions of the Central Bank of Yemen against losses related to the exposure of foreign currencies positions of YR 62,204,166 thousand (2018: YR 47,346,610 thousand). The aforementioned provision does not meet the definition of a provision and therefore its recognition constitutes a departure from International Financial Reporting Standards. As a result, the retained earnings were understated by YR 62,204,166 thousand (2018: YR 47,346,610 thousand), other provisions were overstated by an amount of YR 62,204,166 thousand (2018: YR 47,346,610 thousand), and the profit for the year were understated by the provision provided for the year to meet the exposure of foreign currencies position amounting of YR 14,857,556 thousand (2018: YR 24,891,321 thousand).

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

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Independent Auditor's Report (Continued)

To: The Shareholders' of
International Bank of Yemen (Y.S.C.)
Sana'a - Republic of Yemen

Emphasis of Matter

We draw attention to:

1. Note No. (12) of the consolidated financial statements, which describes the events that led to the emergence of material indicators that Ocean Breeze for Investment and Development Co. Ltd. (the "subsidiary Company") may not be able to continue as the subsidiary company has not been able until the date of this report to obtain either land ownership or the usufruct contract on which the operation was supposed to be based, for the land provided by the General Authority for Land, Survey and Urban Planning in Aden city. These events and their impact on the auditor's report, in which he disclaimed from expressing an opinion on the financial statements of the subsidiary company for the financial year ending on December 31, 2019, and its effect on the group's management decision to recognize a loss of 100% of the value of usufruct amount (intangible asset).
2. Note No. (3.33) of the accompanying notes to the consolidated financial statements, regarding the Group's exposure to foreign exchange rate risks and their impact on significant foreign currency positions.
3. Note No. (39) of the accompanying notes to the consolidated financial statements, regarding the political crisis, the economic situation and the security events taking place in the Republic of Yemen, as this indicates the existence of a state of uncertainty about the possibility of improving the political and economic conditions, and this constitutes a challenge to the group's management ability to predict future cash flow patterns and their outcomes.
4. Note No. (40) of the accompanying notes to the consolidated financial statements, which indicates the impact of Corona virus (Covid-19) in the beginning of the year 2020 and its spread in several geographical regions around the world causing disturbances to economic activities and businesses, which may have an effect on the Group's investments and transactions abroad in the event of business interruption. the management of the Group believes that there is as yet no material impact or quantitative estimate of the potential effects on future financial statements at this stage. The Management and those charged with governance will continue to monitor the situation and provide stakeholders with developments as required by laws and regulations in the event of any material changes in current situations or approval of any amendments to the Group's financial statements for subsequent periods.

Our opinion is not modified in respect of the matters above.

Other Matters

- The group's consolidated financial statements for the financial year ending on December 31, 2018 were audited by another auditor, who expressed a qualified opinion on those statements on June 30, 2020, regarding the calculation of a provision for contingent liabilities to meet the losses related to the exposure of foreign currencies positions for the amount of YR 47,346,610 thousand, which represents a departure from the International Financial Reporting Standards.
- We would like to refer to the Central Bank of Yemen Circular No. (5257) issued on December 23, 2019 regarding the application of the International Financial Reporting Standard No. (9) Financial Instruments, in which it is decided to postpone the application of the IFRS No. (9) so that the standard will be applied starting from January 1, 2021.

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Independent Auditor's Report (Continued)

To: The Shareholders' of
International Bank of Yemen (Y.S.C.)
Sana'a - Republic of Yemen

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

To: The Shareholders' of
International Bank of Yemen (Y.S.C.)
Sana'a - Republic of Yemen

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Except for the matters described in the basis of qualified opinion paragraph, we obtained from the management the information and clarifications that we deemed necessary for auditing purposes, and the Group maintains regular accounts records, and the accompanying consolidated financial statements are in agreement with what is contained in those records. Furthermore, we are not aware of any violations of Yemen Commercial Companies Law No. (22) for 1997 and its amendments, or Banking Law No. (38) of 1998 occurred during the year in which might have a material impact to the Group's business or its consolidated financial position, except for the following:

1. The bank management's violation of Circular No. (6) of 1998, and the subsequent Central Bank of Yemen instructions for dealing with imbalances in foreign currency positions, as indicated in Note No. (3.33) of the accompanying notes to the consolidated financial statements.
2. As stated in Note No. (19) to the consolidated financial statements, related to the completion of the procedures for amending the articles of association and commercial registeration refelcting the capital increase that incurred during the year ended December 31, 2016.

Grant Thornton Yemen

جرانت ثورنتون يمن
Grant Thornton Yemen
محاسبون قانونيون معتمدون ترخيص ٧٤٢ صنعاء - الجمهورية اليمنية

Ramzi Al-Ariqi

Sana'a - Republic of Yemen
March 21, 2021

Consolidated statement of financial position

	Notes	Dec. 31, 2019 YR'000	Dec. 31, 2018 YR'000
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	6	**48,610,099**	51,978,760
Due from banks	7	**126,216,603**	111,626,487
Held to maturity investments	8	**504,711,273**	443,358,305
Customers loans and advances	9	**19,245,194**	32,891,771
Available for sale financing investments	10	**120,000**	120,000
Debit balances and other assets	11	**592,244**	2,782,426
Intangible assets	12	**-**	-
Property and equipment	13	**2,317,657**	1,884,686
Right to use leased assets	14	**682,878**	-
Total assets		**702,495,948**	**644,642,435**
Liabilities and equity			
Liabilities			
Due to banks	15	**58,419,286**	40,076,442
Customers' deposits	16	**496,095,603**	489,041,266
Credit balances and other liabilities	17	**19,812,361**	12,830,543
Other provisions	18	**75,681,448**	57,824,758
Total liabilities		**650,008,698**	**599,773,009**
Equity			
Share capital	19	**16,500,000**	16,500,000
Statutory reserve	20	**15,348,121**	12,992,822
Foreign currencies revaluation reserve		**(9,179)**	(9,179)
Retained earnings		**20,741,009**	15,478,148
Total equity attributable to equity holders of the bank		**52,579,951**	**44,961,791**
Non-controlling interests		**(92,701)**	(92,365)
Total equity		**52,487,250**	**44,869,426**
Total liabilities and equity		**702,495,948**	**644,642,435**
Contingent liabilities and commitments	21	**12,007,660**	**19,623,737**

First Deputy General Manager	**General Manger**	**Chairman**
Mr. Abdukader Ali Bazara	**Mr. Omar Rashed Abdulhak**	**Mr. Kamal Hussein Al-Jabri**

Consolidated statement of comprehensive income

For the year ended December 31,

	Notes	2019 YR'000	2018 YR'000
Interest income	22	7,396,083	7,543,056
Interest income from held to maturity investments		78,406,330	69,048,828
Total interest income		**85,802,413**	**76,591,884**
Interest expenses	23	(33,776,273)	(34,034,017)
Net interest income		**52,026,140**	**42,557,867**
Fee and commission income from banking services	24	2,111,636	1,499,058
Fee and commission expenses from banking services		(350,761)	(415,630)
Gain from foreign currencies transactions	25	5,528,358	11,130,283
Income from available for sale financing investments		12,000	23,040
Other incomes	26	1,015,458	1,664,647
Net operating income		**60,342,831**	**56,459,265**
Less: Impairment loss on financial assets (provision)	27	(26,301,442)	(33,747,065)
Less: Depreciation of property and equipment and right to use leased assets	14.13	(331,175)	(323,977)
Less: Staff costs	28	(1,993,570)	(1,882,890)
Less: Other expenses	29	(9,501,668)	(7,339,995)
Net profit for the year before tax		**22,214,976**	**13,165,338**
Income tax for the year	1.17	(6,513,317)	(4,265,982)
Net profit for the year after tax		**15,701,659**	**8,899,356**
Other comprehensive income		-	-
Total comprehensive income for the year		**15,701,659**	**8,899,356**
Attributable to:			
Equity holders of the bank		15,701,995	8,899,914
Non-controlling interests		(336)	(558)
		15,701,659	**8,899,356**
Earnings per share (YR)	30	**95.16**	**53.94**

First Deputy General Manager	General Manger	Chairman
Mr. Abdukader Ali Bazara	Mr. Omar Rashed Abdulhak	Mr. Kamal Hussein Al-Jabri

Consolidated statement of changes in equity

For the year ended December 31,

	2019						
	Paid-up Capital YR'000	Statutory Reserve YR'000	Foreign Currencies Revaluation Reserve YR'000	Retained Earnings YR'000	Total Equity Attributable to Equity Holders of the Bank YR'000	Non-Controlling Interests YR'000	Total YR'000
Balance at January 1, 2019	**16,500,000**	**12,992,822**	**(9,179)**	**15,478,148**	**44,961,791**	**(92,365)**	**44,869,426**
Adjustments to retained earnings for the prior year	-	-	-	(84,077)	(84,077)	-	(84,077)
Net profit for the year	-	-	-	15,701,995	15,701,995	(336)	15,701,659
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	**16,500,000**	**12,992,822**	**(9,179)**	**31,096,066**	**60,579,709**	**(92,701)**	**60,487,008**
Changes in equity holders, recorded directly in equity							
Transferred to reserves	-	2,355,299	-	(2,355,299)	-	-	-
Distributions of profits	-	-	-	(7,999,758)	(7,999,758)	-	(7,999,758)
Balances at December 31, 2019	**16,500,000**	**15,348,121**	**(9,179)**	**20,741,009**	**52,579,951**	**(92,701)**	**52,487,250**

First Deputy General Manager

Mr. Abdukader Ali Bazara

General Manger

Mr. Omar Rashed Abdulhak

Chairman

Mr. Kamal Hussein Al-Jabri

Consolidated statement of changes in equity (Continued)

For the year ended December 31,

	2018						
	Paid-up Capital YR'000	Statutory Reserve YR'000	Foreign Currencies Revaluation Reserve YR'000	Retained Earnings YR'000	Total Equity Attributable to Equity Holders of the Bank YR'000	Non-Controlling Interests YR'000	Total YR'000
Balance at January 1, 2018	**16,500,000**	**11,657,619**	**(9,179)**	**16,063,437**	**44,211,877**	**(91,807)**	**44,120,070**
Net profit for the year	-	-	-	8,899,914	8,899,914	(558)	8,899,356
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	**16,500,000**	**11,657,619**	**(9,179)**	**24,963,351**	**53,111,791**	**(92,365)**	**53,019,426**
Changes in equity holders, recorded directly in equity							
Transferred to reserves	-	1,335,203	-	(1,335,203)	-	-	-
Distributions of profits	-	-	-	(8,150,000)	(8,150,000)	-	(8,150,000)
Balances at December 31, 2018	**16,500,000**	**12,992,822**	**(9,179)**	**15,478,148**	**44,961,791**	**(92,365)**	**44,869,426**

First Deputy General Manager

Mr. Abdukader Ali Bazara

General Manger

Mr. Omar Rashed Abdulhak

Chairman

Mr. Kamal Hussein Al-Jabri

See accompanying notes (1-42) to the consolidated financial statements

Consolidated statement of cash flows

For the year ended December 31,

	Notes	2019 YR'000	2018 YR'000
Cash flows from operating activities			
Net profit for the year before tax		22,214,976	13,165,338
Adjustments for profit:			
Zakat recognized on statement of comprehensive income		2,827,686	2,028,222
Depreciation of property and equipment and right to use leased assets		331,175	323,977
Provisions provided during the year		26,301,442	33,747,065
Provisions used during the year		(230,758)	(1,132,261)
Differences of revaluation of provisions in foreign currencies		(14,979)	(49,917)
Impairment provisions reversed		(822,709)	(1,613,809)
Adjustments on provision of loans and advances		(203,201)	-
Adjustments on accumulated depreciation of property and equipment		(80,400)	-
Debit interest on lease contracts liabilities	17.3	44,837	-
Operating profit before changes in assets and liabilities available from operating activities		50,368,069	46,468,615
Changes in:			
Reserve balances with Central Bank of Yemen		(407,392)	(3,508,653)
Customers Loans and advances		14,672,208	(6,294,878)
Debit balances and other assets		709,340	382,373
Balances due to banks		18,342,844	(10,947,721)
Customers deposits		7,054,337	43,262,544
Credit balances and other liabilities		923,595	718,414
Paid income tax	17.1	(2,623,123)	(3,658,940)
Paid zakat	17.2	(1,362,432)	(1,393,437)
Net cash available from operating activities		87,677,446	65,028,317
Cash flows from investing activities			
Acquisition of property and equipment	13	(552,861)	(331,373)
Changes in deposits with banks reserved as guarantee		1,044,154	(4,276,079)
Net cash available from (used in) investing activities		491,293	(4,607,452)
Cash flows from financing activities			
Paid Dividends		(7,999,758)	(8,150,000)
Adjustments to retained earnings		(84,077)	-
Payments to creditors of the right to use leased assets	17.3	(155,825)	-
Net cash used in financing activities		(8,239,660)	(8,150,000)
Net change in cash and cash equivalents during the year		79,929,079	52,270,865
Cash and cash equivalents at the beginning of the year		563,073,453	510,802,588
Cash and cash equivalents at the end of the year		643,002,532	563,073,453

First Deputy General Manager	General Manger	Chairman
Mr. Abdukader Ali Bazara	Mr. Omar Rashed Abdulhak	Mr. Kamal Hussein Al-Jabri

See accompanying notes (1-42) to the consolidated financial statements

Consolidated statement of cash flows (continued)

For the year ended December 31,

	Notes	2019 YR'000	2018 YR'000
Cash and cash equivalents at the end of the year consist of:			
Cash on hand and reserve balances with Central Bank of Yemen		**48,610,099**	51,978,760
Due from banks		**132,934,497**	111,626,487
Treasury bills held to maturity		**504,711,273**	443,358,305
		686,255,869	**606,963,552**
Less: Deposits with banks reserved as guarantee		**(4,001,036)**	(5,045,190)
Less: Mandatory reserve balances with Central Bank of Yemen		**(39,252,301)**	(38,844,909)
		643,002,532	**563,073,453**

First Deputy General Manager	General Manger	Chairman
Mr. Abdukader Ali Bazara	Mr. Omar Rashed Abdulhak	Mr. Kamal Hussein Al-Jabri

Notes to the consolidated financial statements

For the year ended December 31, 2019

1. General overview

International Bank of Yemen ("the Bank") was established as a Yemeni Shareholding Company (Y.S.C.) rries itsain the Republic of Yemen on January 14, 1979 under Presidential Decree No. (4) of 1979, the Bank c banking activities according to the provisions of the law of commercial banks (38) of 1998 and its bylaws. The Bank engaged in activities through the head office in the city of Sana'a and 25 branches in the cities of Sana'a, Aden, Taiz, Mukalla, Seiyuon, Dhamar, Hodeidah, Marib, Al-Qttn, Ibb and Tareem.

The consolidated financial statements include the financial statements of the Bank and the financial statements of the subsidiary in Yemen (together referred to as the "Group") as follows:

Name of the Subsidiary	Country of Incorporation	Main Activity	The Company's Capital Thousand USD	Year Incorporation	Ownership Percentage	
					2019	2018
Ocean Breeze for Investment & Development Ltd. Co.	Republic of Yemen	Establishment of investments projects in the fields of tourism, construction and overall trade	4,400	2009	80%	80%

2. Adoption of new and revised international financial reporting standards ("IFRS")

2.1 New and revised IFRS applied with material effect on the consolidated financial statements

The following new and revised standards and interpretations, which became effective for accounting periods beginning on or after January 2019, have been applied in these consolidated financial statements.

IFRS (16) (Leases)

The Group has applied the International Financial Reporting Standard No. (16) Leases. "The new standard replaces the current guidelines for lease contracts contained in International Accounting Standard No. (17) "Lease Contracts" and Interpretation No. (4) issued by the International Financial Reporting Interpretations Committee "Ensuring whether the arrangement involves a lease agreement," and Interpretation No. (15) issued by the previous International Interpretations Committee "Operational lease contracts - incentives," and Interpretation No. (27) issued by the previous International Interpretations Committee "Evaluating the substance of transactions that take legal form for the a lease ".

International Financial Reporting Standard No. (16) was issued in January 2019, and the standard applies to annual periods commencing on or after January 1, 2019, the standard stipulates that all leases and the associated contractual rights and liabilities should generally be recognized in the bank's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS (17) "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease liabilities incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS No. (16) upon adoption of the new standard. During the first-time application of IFRS No. (16) to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first-time application.

Prior to January 1, 2019, the bank accounted for the lease contracts in accordance with IAS No. (17) whereby the lease payments according to the operating leases were charged to the consolidated statement of comprehensive income on a straight-line basis over the term of the lease contract.

The Group has chosen to apply the standard to contracts that were previously identified as lease contracts to which IAS No. (17) and Interpretation No. (4) issued by the IFRS Interpretations Committee applies. Therefore, the Group did not apply the standard to contracts that were not previously identified as involving on lease contracts to which the International Accounting Standard No. (17) or Interpretation No. (4) issued by the International Financial Reporting Interpretations Committee applies.

The bank has applied the exemptions proposed in the standard to leases that expire within twelve months from the date of initial application, and to leases for low-value assets.

Upon the application of IFRS No. (16), the Group has recognized the lease liabilities in Note No. (17) “credit balances and other liabilities” with an amount of YR 702,775 thousand, and the right to use related to leased assets with an amount of YR 682,878 thousand recorded in Note No. (14) “Right to use leased assets”, in relation to contracts that entered into as lease contracts in accordance with the principles of IFRS No. (16), the related right-to-use assets were measured at the same amount of the lease liabilities, adjusted for any prepaid or accrued lease payments related to a lease contract that was recorded in the consolidated statement of financial position as of December 31, 2019.

2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

New standards, amendments and interpretations to existing standards have been issued by the International Accounting Standards Board (IASB), but they are not effective as of the date of the financial statements, and have not been adopted by the Group. Below is information thereon that is expected to be relevant to the Group's financial statements.

Summary of Standard and Amendment	Subject	Standard Affected
International Financial Reporting Standard No. (9) (2014) and amendments to the standard and other relevant standards International Accounting Standard No. (39) “Financial Instruments” Recognition and Measurement and International Financial Reporting Standard No. (7) “Financial Instruments” Disclosures related to interest rate adjustment	Financial instruments	Amendments to IFRS (9) and the related standards are effective from January 1, 2019, but the standard No. (9) and its amendments have been postponed by the Central Bank of Yemen until January 1, 2021.
Amendments to IFRS No. (3)	Business Combinations relating to definition of a business	January 1, 2020
Amendments to IAS No. (1,8)	Definition of materials	January 1, 2020
IFRS No. (17)	Insurance contracts	January 1, 2020

Summary of Standard and Amendment	Subject	Standard Affected
Amendments to IFRS (10)	Consolidated Financial Statements	The application date is indefinitely postponed
Amendments to IAS No. (28)	Investments in associates and joint ventures (2011) related to processing the sale assets or contribution of assets by the investor in the associate or joint venture	The application date is indefinitely postponed

The Group's management expects that all of these new standards, interpretations and amendments will be applied in the group's consolidated financial statements when they become into effect, and that the application of these new standards, interpretations and amendments, with the exception of IFRS No. (9) and its amendments, will have a material impact on group's consolidated financial statements on the period of initial application.

IFRS (9)Financial Instruments

IFRS (9) issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS (9) was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS (9) was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalized version of IFRS (9) which contains accounting requirements for financial instruments were issued, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS (9) introduces a 'fair value through other comprehensive income' measurement category for certain debt instruments. Financial liabilities are classified in a similar manner under IAS (39), however there are differences in the requirements applying to the measurement of the bank's own credit risk.
- **Impairment:** The 2014 version of IFRS (9) introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **De-recognition:** The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS (39).

According to the instructions of the Central Bank of Yemen, Circular No. (5257) dated on December 23, 2019, the application of the standard and its amendments have been postponed until January 1, 2021.

3. The significant accounting policies adopted

3.1 Policies applicable on or after January 1, 2019

3.1.1 Right to use leased assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasure of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment starting from January 1, 2019, the right of use assets amounted to YR 682,878 thousand as of December 31, 2019.

3.1.2 Lease contracts liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the internal cost of funds as incremental borrowing rate at the lease commencement date (20% for YR leases, 4% for foreign currency leases) after the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and is reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within credit balances and other liabilities, and these liabilities amounted of YR 702,775 thousand as of December 31, 2019.

3.1.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

3.1.4 Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (a change in business strategy).

3.2 Statement of compliance

The consolidated financial statements have been prepared on going concern basis and in accordance with International Financial Reporting Standards ("IFRS") and the amendments of Central Bank of Yemen in respect of recognition, measurement, disclosure of financial instruments, according to the circular of the Central Bank of Yemen, addressed to all banks operating in the Republic of Yemen, which states that "defer the implementation of IFRS 9 (Financial Instruments) to the beginning of the year 2021", and the requirements of the relevant Yemeni laws and regulations.

Therefore, it is required to comply with circular No. (6) of 1996 and circular No. (5) of 1998 and circular No. (8) of 2015, in respect of assets and liabilities classification. Furthermore, a provision should be made for direct facilities at amortized cost and contingent liabilities itself, in addition to a provision for general risks calculated on the total of loans and advances and other liabilities after deducting any balance secured by deposits and bank guarantees issued by foreign worthy banks. The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities, and percentages identified in the Central Bank of Yemen instructions. Therefore, general risk provisions calculated on performing loans and advances and contingent liabilities provision are to be recognized in other provisions, rather than in equity.

3.3 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. The historical cost basis is based on the fair value paid for those assets.

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

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

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

3.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- Has power over the subsidiary;
- Is exposed, or has rights, to variable returns from its involvement with the subsidiary; and
- Has the ability to use its power to affect its subsidiary's returns.

The Bank reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of a subsidiary, it has power over the subsidiary when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the subsidiary unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in a subsidiary are sufficient to give it power, including:

- The size of the Bank's holding of voting rights, its concentration in relation to the remaining holding of voting rights of the other shareholders and the size of its distribution among them.
- The expected and potential voting power of the bank to the remaining voting power of the owners and other parties.
- Rights arising from other contractual arrangements.
- Any additional facts and circumstances may indicate that the Bank has, or does not have, the ability to manage and direct the main activities of the subsidiary at the time require decision-making, and this includes the voting methodology that the shareholders used in previous meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the bank and subsidiary are eliminated upon consolidation of the financial statements.

3.5 Foreign currencies transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at date of preparing consolidated financial statements, profits/losses are recognized in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost are retranslated at the rates prevailing at the date of the transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined, revaluation gain/loss are recognized as part of the fair value.

When preparing the consolidated financial statements, assets and liabilities of the subsidiary which are prepared in currency other than the currency used in the preparation of consolidated financial statements are translated at the average rates of currencies at the date of the consolidated financial statements. Exchange rates differences resulted from revaluating net investment in the subsidiary are recognized in the consolidated statement of comprehensive income.

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

3.6 Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument except for "regular way" purchases and sales of financial assets which are recognized on settlement date basis.

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

3.7 Financial assets

All regular way purchases or sales of financial assets are recognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

The Group classifies its financial assets into the following specific categories: held-to-maturity investments, loans and advances to customers and available-for-sale financial investments. The classification of financial assets is determined upon initial listing, depending on the nature of the financial assets and the purpose of their acquisition.

3.7.1 Held to maturity investments

Financial assets at amortized cost with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held to maturity investments, for example treasury bills held to maturity dates, which represents treasury bills issued by the Central Bank of Yemen.

Financial instruments are initially recognized at fair value plus any directly attributable transaction costs.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses, with revenue recognized on an effective yield basis i.e. based on actual results.

If there is objective evidence that an impairment on held to maturity investments carried at amortized cost has been incurred, the amount of impairment loss recognized in the consolidated statement of comprehensive income is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method. Therefore, treasury bills are recognized at nominal value after deducting issuance discount as at the date of the consolidated financial statements.

3.7.2 Loans and advance

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. Loans and receivables (including direct credit facilities to customers, Loans, advances, and debit balances and other assets) are initially measured at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the consolidated statement of comprehensive income.

3.7.3 Available for sale financial investments

Available for sale financial investments are non-derivatives that are either designated as available for sale financial investments or are not classified as (a) loans and receivables, (b) held-to-maturity investments or. AFSFI are those intended to be held for an indefinite period of time and may be sold to meet liquidity requirements or changes in interest rates, exchange rates or equity prices.

Available-for-sale investments are initially recognized at fair value plus any directly attributable transaction costs and are subsequently measured at fair value.

The fair values of quoted financial assets in active markets are based on current prices. The Group's AFSFI these are unquoted and are not traded in an active market, are stated at cost less impairment unless fair value at the end of each reporting period can be reliably measured.

If an available-for-sale financial investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognized in the consolidated statement of comprehensive income is removed from equity and recognized in the consolidated statement of comprehensive income.

Gains and losses arising from changes in fair value are recognized in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity in the cumulative changes in fair value is included in the consolidated statement of comprehensive income for the year.

3.7.4 Effective interest method

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

Interest income is calculated using the effective interest rate method and the dividends from available for sale financing investments are recognized in the consolidated statement of comprehensive income. Any other changes in the value of financial assets are included in the consolidated statement of comprehensive income, as well as reserves of the fair value of the investments. Interest income is recognized by applying the effective interest rate, except for loans and short-term receivables when the effect of discounting is immaterial.

When financial assets are sold or when impairment is recognized, gains or losses which were previously assembled in fair value reserve of investments are reclassified in profit or loss.

Dividends on financial assets are recognized in profit or loss when the Group's right to receive the dividends is established.

3.7.5 Impairment of financial assets

The Group assesses at the date of each consolidated statement of financial position whether there is objective evidence of impairment of a financial asset or a Group of financial assets. The value of the financial asset or Group of financial assets decreases and the impairment loss incurred if, and only if, there was objective evidence as a result of one or more events after the initial recognition of the asset ("loss event"), and that loss event (or events) has an impact on the expected future cash flows for a financial asset or Group of financial assets that can be estimated reliably.

Objective evidence of impairment of a financial asset or a Group of financial assets includes observable data that comes to the Group's attention about loss events:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Group grants a waiver to the borrower, for economic or legal reasons due to the borrower's financial difficulty, which in its absence the lender is not seen the subject of such waiver; or
- It is becoming probable that borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for such financial asset because of financial difficulties.
- Observable information indicating that there is a measurable decrease in the estimated future cash flows of a class of financial assets since the initial recognition of those assets, although it was not possible to determine impairment of individual financial asset in the class, including:
  - There is adverse change in the payment status of the borrower or,
  - Economic conditions national or local that coincides with settlement defaults on assets in the class.

Group assess availability of any objective evidence for impairment in values of financial assets on a collective basis even if they were assessed not to be impaired individually. If the Group identified the absence of objective evidence about existence of impairment of financial asset which is individually assessed, whether significant or not, is added to a class of financial assets with similar credit risk characteristics for assessing impairment existence in this class collectively.

Assets that are individually assessed for impairment is inserted into or continued to insert an impairment loss in its value are not included in the collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred on loans and advances carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted according to the actual interest rate of the financial asset. The carrying amount of the asset is reduced through the use of the provision and the amount of the loss is included in the consolidated statement of comprehensive income. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined according to the contract. As a practical expedient, the Group may measure impairment on the basis of the instrument's fair value using an observable market price

Future cash flows in a Group of financial assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows to financial assets and historical loss experience to financial assets with similar credit risk characteristics. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

The estimations must be reflected in the future cash flows of a Group of assets, and should be in line with the changes in the related information that can be monitored from time to time. (For example, changes in the unemployment rates, real estate prices, payment position or other factors that indicate changes in the loss possibilities in the group and its size).

The calculation of the present value of estimated future cash flows of the financial asset reflects the cash flows that may result from mortgage less costs for obtaining and selling the mortgage, whether a potential foreclosure or not.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between estimated losses and actual loss.

Financial assets with similar credit risk characteristics are added to a class for assessing impairment existence in this class collectively (i.e. taking into account asset type, location, warranty. Previous accrual and other related characteristics).

These characteristics are related to the estimation of future cash flows for groups of those assets, as they indicate the ability of the debtor to pay all accruals amounts according to the contractual terms of the assets being evaluated.

If a loan is uncollectible, were to follow all the necessary legal procedures and the final loss has been determined, it is written off against the provision associated with a decrease the value of the loan. And such loans are written off after completing all the necessary procedures and determine the amount of the loss. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in in the consolidated statement of comprehensive income.

In case of loans if the decreased amount of the impairment loss in a subsequent period can be attributed objectively to an event occurred after the impairment was recognized (such as an improvement in the credit rating of the debtor), the impairment loss previously recognized will be reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income.

In case of significant or prolonged decline at fair value of financial assets below its cost is considered in determining the existence of decline in the value of the asset. If such evidence exists for available for sale financial assets, then its accumulative losses are removed, which is measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset listed previously with profit or loss, from the consolidated statement of equity and to be included in the consolidated statement of comprehensive income.

3.7.6 Provision for loans, advances to customers, and contingent liabilities

In addition to the above, and for the purpose of applying the Central Bank of Yemen instructions as per circular No. (6) of 1996, and circular No. (5) of 1998 and circular No. (8) of 2015 regarding the classification of assets and liabilities; a provision of direct credit facilities at amortized cost and contingent liabilities is made, in addition to a provision for general risks calculated on the total of loans and advances and other liabilities after deducting any balance secured by deposits and bank guarantees issued by foreign worthy banks. The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is provided in accordance with the following rates at least:

Description	%
Performing loans and advances, contingent liabilities	
Performing Loans and advances (including watch list accounts)	2%
Performing contingent liabilities (including watch list accounts)	1%
Non-performing loans, advances and contingent liabilities	
Substandard loans, advances and contingent liabilities	15%
Doubtful loans, advances and contingent liabilities	45%
Bad loans, advances and contingent liabilities	100%

Loans, and advances to customers are presented on the consolidated statement of financial position net of provisions and uncollected interests. Loans are written off if procedures taken towards their collection prove useless, or if directed by CBY inspection upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are included in the consolidated statement of comprehensive income under “other income”.

During the year ended December 31, 2015, the CBY issued circular No. (8) of 2015, including an amendment of provision percentage on performing direct loans and advances from 1% to 2%.

3.7.7 De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Derecognizing of a financial asset at amortized cost in its entirety is measured by the difference between the asset's carrying amount and the sum of the consideration received in addition to receivable and is recognized in the consolidated statement of comprehensive income.

3.8 Financial liabilities

The Group classifies its financial liabilities into financial liabilities at amortized cost only (i.e. other financial liabilities).

3.8.1 Other financial liabilities

Other financial liabilities (including amounts due to banks, customer's deposits, credit balances and other liabilities) are initially measured at their fair value which is the cost at the time of transaction and subsequently measured at amortized cost, using the effective interest method.

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

Interest expense is recognized on an effective interest basis, except for short-term payables when the recognition of interest would be immaterial. All the financial liabilities of the Group are short term in nature.

3.8.2 De-recognition of financial liabilities

The Group de-recognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in the consolidated statement of comprehensive income.

3.9 Cash and cash equivalents

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, balances with the Central Bank (other than reserve balances), current accounts with other banks in addition to treasury bills and certificates of deposits which are due within three months.

3.10 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

The Bank measures the fair value of an instrument using the quoted price in an active market for that instrument if available. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The fair value is measured by one of the following methods:

- Comparing the fair value of another similar financial asset;
- Discounting estimated future cash flows; or
- Pricing options techniques.

The valuation methods aim to arrive at a fair value that reflects the expectations of market participants, expected risks and expected benefits of fair value estimation. When the fair value cannot be measured reliably, financial assets are stated at cost or amortized cost

3.11 Intangible assets

Usufruct is recorded at acquisition cost less accumulated depreciation and impairment losses, if any, and is depreciated over the period of usufruct contract.

Usufruct is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of the asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income.

3.12 Property and equipment

3.12.1 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 labor, 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 benefit is 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.

3.12.2 Subsequent costs

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

3.12.3 Depreciation

Depreciation is calculated based on the cost of property and equipment less its residual value - if any -.

The useful life is estimated for each part of the fixed asset, and if this part has a different useful life from the rest of the components of the asset, it will be depreciated separately.

These properties - except for land - are depreciated using a straight-line method and the amount of which is charged to the consolidated statement of comprehensive income and over its estimated useful life.
The following is a statement of the estimated useful lives of those properties for the purposes of calculating depreciation:

Statement	Estimated Useful Lives
Buildings and constructions	5-50 years
Furniture and fixtures	5 - 10 years
Machinery and equipment	5-20 years
Motor vehicles	5 - 10 years
Computer equipment	2 - 5 years

It is reviewed annually by the Group's management knowledge of both the depreciation method and the estimated useful life as well as the values estimated as scrap at the end of the estimated useful life of that property (if any).

3.13 Impairment of tangible and intangible assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than it carrying amount, the carrying amount of it is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.14 Valuation of assets transferred to the Group’s ownership as a repayment of loans

The assets that the ownership transferred to the group are included in the consolidated statement of financial position under the item “debit balances and other assets” in accordance with the instructions of the Central Bank of Yemen, with the value they have transferred to the Group minus any decrease in their value at the date of the financial statements - if any -, and the value of this decrease is charged to the consolidated statement of comprehensive income.

3.15 Contingent liabilities and commitments

Contingent liabilities and commitments (after deducting retained guarantees) in which the Group is a party are shown outside the consolidated statement of financial position under the item "Contingent liabilities and commitments" considering that they do not represent actual assets or liabilities as at the consolidated financial position date.

3.16 Other provisions

Provisions are recognized in the consolidated financial statements when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined, (when the effect of the time value of money is material), by discounting the expected future cash flows using a rate that reflects current market assessments, the time value of money and the risks related to the liability, when appropriate.

3.17 Offsetting

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

3.17.1 Net interest income

Interest income and expense is recognized in "net interest income" as "interest income" and "interest expense" in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows of the financial instrument over the expected life of the financial instrument or over a shorter period, whichever is appropriate, to the net carrying amount of the financial assets or financial liabilities. Future cash flows are estimated taking into account all contractual terms of the instrument. The effective interest rate calculation includes all fees and points paid or received between parties to a contract that are increasingly due directly to specific lending arrangements, transaction costs, and all other bonuses or discounts. For financial assets at fair value through profit or loss (if any), transaction costs are recognized in profit or loss upon initial recognition.

Interest is credited to debts that are past due for three months (low-value financial assets - non-performing debts) that are not paid marginally and are not raised on clients' debts and are not added to the statement of comprehensive income only when they are collected and after they have collected the principal of the debt.

3.17.2 Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of effective interest income (see above). The fees included in this part of the Group's consolidated statement of comprehensive income include among other things, fees charged for servicing a loan and non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement. Fees and commission income with regards to services are accounted for as the services are received.

3.17.3 Dividends income

Dividend's income is recognized when the right to receive payments is established. This is the ex-dividend date for listed equity securities (if any), and usually the date when shareholders approve the dividend for unlisted equity securities.

3.17.4 Investments in associates

Revenues of investments in associates are recognized based on the Bank's share in the equity of these companies in accordance with the approved financial statements of these companies.

3.18 Retirement and social insurance

a. Group's employees pay their share in return for social security according to the Yemeni Social Insurance Law No. (26) for the year 1991, as well as Law No. (25) 1991 regarding insurances and pensions. Contributions are paid to the General Organization for Social Insurance and the General Authority for Insurances and Pensions before the tenth day of the next month. The Group's contribution is charged to the consolidated statement of comprehensive income.

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

3.19 Income Tax

The taxes owed by the bank are calculated in accordance with the Income Tax Law No. (17) of 2010, and a provision is made for tax obligations after conducting the necessary study.

3.19.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using the tax rates prevailing at reporting date.

3.19.2 Deferred income tax

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

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

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

3.20 Zakat due on shareholders

The due Zakat is calculated on Group according to laws and instructions in the Republic of Yemen, and a provision is creating for the due Zakat. The Group remits the Zakat due on the shareholders to the relevant governmental authority which decides on the allocation of Zakat.

3.21 Consigned assets

Consigned assets are not considered part of the Group's assets; therefore, they are not included in the Group's consolidated financial statements.

3.22 Segment information

Segment is a differentiable component of the Group that is engaged either in providing products or rendering services (business segment), or in providing products and services within a particular economic environment (geographical segment), which are subject to risks and returns that are different from those of other segments. The main form of a report on the Group's segment information is business segments based on the management structure and internal reporting. The main business of the Group is in sector of banking services provided to retail, corporates and banks.

3.23 Dividends for ordinary shares

Dividend distributions for ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividend distributions for the year declared after the consolidated statement of financial position date are dealt with in a separate note.

3.24 Earnings per share

Basic earnings per share are calculated by dividing the profits (losses) of ordinary stock holders in the bank by the number of shares or the weighted average for number of shares outstanding during the year.

3.25 Comparative figures

All amounts are included with the comparative figures, except as permitted by accounting standards or interpretations.

3.26 Parent company information

Statement of financial position and statement of comprehensive income of the bank (Parent) as disclosed in the supplementary notes to the financial statements are prepared by using the same accounting policies as mentioned above.

4. Critical accounting assumptions and key sources of estimation of uncertainty

The preparation of the consolidated financial statements requires from the Group's management to make estimates and assumptions that affect the financial assets and liabilities shown at the date of the consolidated financial statements, and created provisions and changes in fair value during the year. These estimates are based on assumptions including many factors, which varies the degree of certainty, and these differences in actual results from management's estimates lead to changes in estimated future liabilities and assets.

Estimates and judgments are continually evaluated and are based primarily on historical experience and other factors, including expectations of future events that are believed to be reasonable according to the circumstances.

The following are the estimations followed in preparing the consolidated financial statements:

4.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as financial assets as available for sale or held to maturity.

4.1.1 Available for sale assets

Management follows the guidance set out in International Accounting Standard IAS (39) Financial Instruments: Recognition and Measurement on classifying non-derivative as AFS assets.

4.1.2 Held to maturity investments

The management follows the guidance of IAS (39) on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for the specific circumstances for example, selling an insignificant amount close to maturity, it will be required to classify the entire class as available for sale. The investments could, therefore, be measured at fair value, not at amortized cost.

4.2 Fair value estimation

Fair value is based on quoted market prices at the reporting date. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

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

4.3 Impairment losses on loans and advances

The purpose of the review of credit portfolio of customers is to determine the required provision for loans and advances balances, contingent liabilities and commitments which are studied in line with the laws and regulations issued by the Central Bank of Yemen.

In addition to laws and regulations issued by the Central Bank of Yemen Circular No. (6) of 1996, the Bank takes into account the following factors in the study:

- Analytical study of the customer's financial situation based on the financial statements and cash flows provided by the customer in addition to the movement of their accounts held with the group.
- The credit limit to the customer.
- The proportion of risk analysis, i.e., customer's ability to implement a profitable business and collect enough cash for the repayment of amount borrowed.
- The value of the mortgage and the possibility of re-owned.
- The cost of debt recovery.
- The client's obligations with Tax Authority and the Social Security Corporation.

The Group's policy requires regular and periodic review for impairment provisions on credit facilities, in addition to the periodic evaluation of mortgages and make sure of the possibility of recovery.

The classification of loans as non-performing loans continues unless reclassified as current loans and the collection of interest and the principal amount of the loan are considered probable. The provision of loan losses is calculated and included in the consolidated statement of comprehensive income.

4.4 Impairment losses on AFS investments

The Group determines that shares' prices are impaired when there is a significant or prolonged decline in the fair value below its cost. The determination of what is significant or long-term requires judgment. In making this judgment, the management evaluates, among other factors, the normal course of volatility in the share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial situation of the investor and the performance of the field work, the sector and the changes in the technical, operational and financing cash flows.

4.5 Useful lives of property and equipment

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

5. Capital management

The primary objective of the Group's capital management is to ensure compliance with the capital requirements issued by the Central Bank of Yemen, and to ensure that the Group maintains an outstanding credit rating, as well as a good capital adequacy ratio above the minimum required to keep it .The group monitors capital adequacy in accordance with the instructions issued by the Central Bank of Yemen in this regard, using methods in accordance with the standards applied by the Central Bank of Yemen for monitoring purposes. The group prepares periodic reports (every 3 months) on the capital adequacy ratio, according to the Central Bank of Yemen Circular No. (2) of 1997.

The Central Bank of Yemen requires banks operating in Yemen to maintain the ratio of total capital to risk-weighted assets at an internationally recognized ratio of (8%) as a minimum, and the bank must maintain a ratio of total capital to customer's deposits of (5%) as a minimum.

The capital adequacy ratio is calculated in accordance with the instructions of the Central Bank of Yemen by comparing the components of the core and supplementary capital with the total assets and liabilities of the bank, which are shown in the financial statements after weighting them with risk weights as follow:

	2019 YR'000	2018 YR'000
Core capital	52,469	44,939
Supplementary capital	136	250
Total Capital	**52,605**	**45,189**
Risk-weighted assets and liabilities:		
Total assets	63,104	63,931
Contingent liabilities and commitments	8,695	16,391
Total risk-weighted assets and liabilities	**71,799**	**80,322**
Capital adequacy ratio	**73.27%**	**56,26%**

The core capital consists of the paid-up capital, reserves and retained earnings (after excluding contributions to the capital of any local bank or local financial group), while the Supplementary capital consists of general provisions on performing debts at a rate of 1%, not exceed more than 2% of the risk weighted assets.

6. Cash on hand and reserve balances with Central Bank of Yemen

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Cash on hand and ATMs		
Local currency balances	5,104,533	9,448,631
Foreign currencies' balances	4,253,265	3,685,220
	9,357,798	**13,133,851**
Reserve Balances with Central Bank of Yemen*		
Local currency balances	21,000,642	21,602,436
Foreign currencies' balances	18,251,659	17,242,473
	39,252,301	**38,844,909**
	48,610,099	**51,978,760**

* In accordance with regulation of the Central Bank of Yemen, a mandatory reserve is maintained with the CBY calculated in 2019 as 10% of the total on customers' deposits in foreign currencies and 7% of the total on customers' deposits in local currency (2018: 10% and 7% of the total on customers' deposits in foreign currency and of the total on customers' deposits in local currency respectively). The Bank does not get any interest income on mandatory reserve balances with CBY.

7. Due from banks

This item consists of the following as of December 31:

	Notes	2019 YR'000	2018 YR'000
Balances with local banks			
Time deposits		7,216,413	10,868,613
Current accounts		3,753,750	-
		10,970,163	**10,868,613**
Balances with foreign banks			
Time deposits		73,660,899	47,436,277
Current accounts		32,607,624	30,789,790
		106,268,523	**78,226,067**
Balances with Central Bank of Yemen current account			
foreign currencies balances		10,695,101	12,693,733
local currency balances		5,000,710	9,838,074
		15,695,811	**22,531,807**
Total balances due from banks		**132,934,497**	**111,626,487**
Less: Impairment provision on balances with banks	**7.1**	(6,717,894)	-
		126,216,603	**111,626,487**

Time deposits with foreign and local banks carry variable interest rates while current accounts with such foreign banks do not carry any interest. Reserved deposits as guarantee with foreign banks amounted to YR 4,001,036 thousand as at December 31, 2019 (2018: YR 5,045,190 thousand).

7.1 Impairment provision on balances with banks

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Transferred from impairment provision on loans and advances	38,457	-
Provided during the year*	6,679,437	-
Provision balance at the end of the year	**6,717,894**	**-**

* The economic situation in the Republic of Lebanon and its local banking system has been subjected to a large degree of uncertainty and the current lack of clarity about the potential negative effects on the Lebanese economy and the banking sector. As a result of these events, a provision for impairment was provided on the bank balances due with the Bank of Beirut and other Lebanese banks at 15% of the bank balances referred to under the approval of the Central Bank of Yemen No. (805) on February 9, 2021, in addition to the balances of other banks that are not moving from year to another.

8. Held to maturity investments

Held to maturity investments represent in treasury bills (debt securities) issued by the Central Bank of Yemen on behalf of the Ministry of Finance in the Republic of Yemen and carry different interest rates.

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Due from 31 days to 90 days	515,773,200	452,800,000
	515,773,200	**452,800,000**
less: Unearned discount	(11,061,927)	(9, 441, 695)
	504,711,273	**443,358,305**

The treasury bills carry an interest rate between 16.24% and 16.99% during the year ended 31 December 2019 (2018: between 16.58% and 16.61%). In accordance with the Central Bank of Yemen instructions, treasury bills that mature within a period not exceeding three months are considered as part of cash and cash equivalents.

9. Customers loans and advances

This item consists of the following as of December 31:

	Notes	2019 YR'000	2018 YR'000
Financing accounts - Overdrafts		61,592,129	74,815,549
Loans to customers		3,583,277	5,054,783
Loans and advances to employees		98,298	48,601
		65,273,704	**79,918,933**
Less:			
Impairment provision on loans and advances (performing and non-performing)	**9.1**	(44,911,635)	(45,937,266)
Uncollected interest	**9.2**	(1,116,875)	(1,089,896)
		19,245,194	**32,891,771**

In accordance to Banking Law No. (38) of 1998, Article No. (85) and Income Tax Law No. (17) of 2010, Article No. (14), All provisions created in accordance with the instructions of the Central Bank of Yemen regarding loans, credit facilities and contingent liabilities are exempted from being subject to income tax.

Non-performing loans and advances amounted to YR 59,795,451 thousand as at December ,31 2019 (2018: YR 76,355,311 thousand). The Bank maintains a variety of good guarantees, such as real estate, cash guarantees against loans and advances granted to customers. Cash guarantees against credit, loans and other facilities amounted to YR 10,905,203 thousand as at December 31, 2019 (2018: YR 21,556,979 thousand).

The following are details of loans and advances covered with cash guarantees:

		2019	
	Loans & Advances YR'000	Cash Guarantees YR'000	Net YR'000
Substandard loans and advances	198,692	(22,172)	176,520
Doubtful loans and advances	394,759	(92,382)	302,377
Bad loans and advances	59,202,000	(9,002,069)	50,199,931
	59,795,451	**(9,116,623)**	**50,678,828**
Performing loans and advances	5,478,253	(1,788,580)	3,689,673
	65,273,704	**(10,905,203)**	**54,368,501**

		2018	
	Loans & Advances YR'000	Cash Guarantees YR'000	Net YR'000
Substandard loans and advances	2,042,841	(27,070)	2,015,771
Doubtful loans and advances	4,594,580	(751,003)	3,843,577
Bad loans and advances	69,717,890	(19,918,658)	49,799,232
	76,355,311	**(20,696,731)**	**55,658,580**
Performing loans and advances	3,563,622	(860,248)	2,703,374
	79,918,933	**(21,556,979)**	**58,361,954**

9.1 Impairment provision on loans and advances (performing and non-performing)

This item consists of the following as of December 31:

	Notes	2019 Specific YR'000	General YR'000	Total YR'000
Balance as at January 1		45,883,182	54,084	45,937,266
Adjustments to opening balance		(203,201)	-	(203,201)
Add: Provided during the year	**27**	-	-	-
Less: Used during the year		(22,456)	-	(22,456)
Less: Reversed during the year	**26**	(746,538)	-	(746,538)
Transferred to specific provision		37,949	(37,949)	-
Transferred to provision for impairment of bank balances		(38,457)	-	(38,457)
Foreign currencies revaluation differences		(14,979)	-	(14,979)
Balance at December 31		**44,895,500**	**16,135**	**44,911,635**

This item consists of the following as of December 31:

	Notes	2018 Specific YR'000	General YR'000	Total YR'000
Balance as at January 1		43,697,339	156,866	43,854,205
Add: Provided during the year	**27**	2,885,112	-	2,885,112
Less: Used during the year		(699,767)	-	(699,767)
Less: Reversed during the year	**26**	(52,367)	-	(52,367)
Transferred to specific provision		102,782	(102,782)	-
Foreign currencies revaluation differences		(49,917)	-	(49,917)
Balance at December 31		**45,883,182**	**54,084**	**45,937,266**

In accordance with the instructions of the Central Bank of Yemen, provisions are classified into specific and non-specific (general provision for debts and facilities). Based on the instructions of the Central Bank of Yemen, a 1% provision is provided for all performing direct credit facilities and indirect facilities after deducting related cash margins.

During the year ended on December 31, 2015, the Central Bank of Yemen has issued Circular No. (8), which refers to adjusting the provision percentage on performing regular direct loans and advances from 1% to 2%.

In accordance with the provisions of IAS (39), measurement method can be applied for impairment of credit facilities and financial assets based on the groups by applying the study of impairment on the sets of credit facilities and financial assets that have been studied and analyzed individually and proved not to be impaired, while there are indications of impairment in similar groups, and the decline in the value of each asset within that Group cannot be identified.

9.2 Uncollected interest

Uncollected interests are due interests on non-performing loans and advances, which is recognized as revenue only when actually collected in accordance with the CBY instructions.

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Balance at January 1	1,089,896	1,066,439
Increase during the year	26,979	23,457
Balance at December 31	**1,116,875**	**1,089,896**

10. Available for sale financing investments

This item consists of the following as of December 31:

	Notes	Contribution Percentage %	2019 YR'000	2018 YR'000
Yemeni Financial Services Company		**30%**	33,736	33,736
Yemeni- Qatari Insurance Company		**60%**	120,000	120,000
			153,736	**153,736**
Less: Impairment of available for sale financing investments	**10.1**		(33,736)	(33,736)
			120,000	**120,000**

Available for sale financing investments represent in unquoted investments, due to the difficulty of obtaining a reliable estimate of fair value for these investments and there are no quoted market prices and future cash flows are not determinable, these investments were carried at cost.

The decline was calculated for the entire value of the investment in the Yemeni Financial Services Company, due to the absence of distributions from that investment during the past years, as well as the non-expectation of receiving any dividends in the coming years.

All financial investments available for sale are not rated by international rating companies.

10.1 Impairment of available for sale financing investments

This item consists of the following as of December 31

	2019 YR'000	2018 YR'000
Balance at January 1	33,736	33,736
Provided during the year	-	-
Balance at December 31	**33,736**	**33,736**

11. Debit balances and other assets

This item consists of the following as of December 31:

	Notes	2019 YR'000	2018 YR'000
Assets transferred to the bank ownership as a repayment of debts of customers		811,415	811,415
Unearned accrued interest		415,700	319,003
Prepaid expenses		146,494	198,285
Other debit balances		2,276,634	3,030,880
		3,650,243	**4,359,583**
Less:			
Provision for doubtful debts balances and other assets	**11.1**	(3,057,999)	(1,577,157)
		592,244	**2,782,426**

11.1 Provision for doubtful debts balances and other assets

This item consists of the following as of December 31:

	Notes	2019 YR'000	2018 YR'000
Balance at the beginning of the year		1,577,157	3,138,599
Add: Provided during the year	**27**	1,480,842	-
Less: Used during the year		-	-
Less: Reversed during the year	**26**	-	(1,561,442)
Balance at end of the year		**3,057,999**	**1,577,157**

12. Intangible assets

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Usufruct		
Lands in Aden	1,085,517	1,085,517
Costs of studies and consulting	127,995	127,995
Revaluation differences from assets foreign currencies	249,512	249,512
Total cost of Usufruct	**1,463,024**	**1,463,024**
Impairment losses of intangible assets	(1,463,024)	(1,463,024)
	-	**-**

- Usufruct represents the usage rights of the land of 26,181 m2 relinquished by one of the shareholders in the subsidiary, afforded by the Public Authority for Lands and Survey and Urban Planning in Aden city (free of charge) and under the record of temporary transmission dated 22 December 2010, to identify the streets and the buildings for the investment project number (264/2010).
- According to the handing over conditions by the Public Authority for Lands and Survey and Urban Planning of Aden, Ocean Breeze will be granted a lease contract for 99 years if the investment cost of the project will be less than USD I0 million, or will be awarded free of charge ownership contract if the project investment cost will exceed USD I0 million.
- Based on the instructions of the Local Authority in Aden, Ocean Breeze was granted a time frame of 24 months to execute the project, such period starts from the date of receiving the licenses for the execution of the project. However, the Public Authority for Lands and Survey and Urban Planning in Aden city has the right to retrieve the land and any constructions on the land.
- In the subsequent periods, the Group could not get the usufruct or the ownership of the land which recognized was recognized as an intangible asset in the amounted of YR 1,463,024 thousand as at 31 December 2019 (2018: YR 1,463,024 thousand) due to failure to complete the licensing procedures for the execution of the project from the date of receiving the land transmission document dated in 22 December 2010, which does not represent a proof of ownership. This land is granted free of charge to Ocean Breeze for Investment and Development Co. Ltd. (subsidiary company).
- The above-mentioned events represent fundamental indicators may lead to the inability of the Ocean Breeze Company for Investment and Development Co. Ltd. to continue as a going concern due to the fact that the company is not able until the date of these consolidated financial statements to get the usufruct or proof of the ownership of the land. These events made the management recognize an impairment loss of assets equals to 100% of usufruct ("intangible assets").

13. Property and equipment

This item consists of the following as of December 31:

	Lands YR'000	Buildings and constructions YR'000	Furniture & Fixtures YR'000	Machinery & Equipment YR'000	Motor Vehicles YR'000	Computer Equipment YR'000	Total YR'000
Cost							
Balances at January 1 ,2019	**446,053**	**1,364,126**	**489,058**	**2,075,309**	**476,995**	**1,689,169**	**6,540,710**
Additions	-	-	19,064	63,927	4,503	465,367	552,861
Disposals	-	-	-	(48)	(6,534)	-	(6,582)
Balance at December 31, 2019	**446,053**	**1,364,126**	**508,122**	**2,139,188**	**474,964**	**2,154,536**	**7,086,989**
Accumulated Depreciation							
Balances at January 1 ,2019	**-**	**619,208**	**405,215**	**1,865,952**	**455,479**	**1,310,170**	**4,656,024**
Depreciation of the year	-	66,032	17,636	44,969	2,846	68,807	200,290
Disposals	-	-	-	(48)	(6,534)	-	(6,582)
Adjustments during the year	-	(70,610)	-	(9,790)	-	-	(80,400)
Balance at December 31, 2019	**-**	**614,630**	**422,851**	**1,901,083**	**451,791**	**1,378,977**	**4,769,332**
Net book value at December 31, 2019	**446,053**	**749,496**	**85,271**	**238,105**	**23,173**	**775,559**	**2,317,657**
Used Depreciation rates	**-**	**2%-20%**	**10%-20%**	**5%-20%**	**10%-20%**	**20%-50%**	**-**

This item consists of the following as of December 31:

	Lands YR'000	Buildings and constructions YR'000	Furniture & Fixtures YR'000	Machinery & Equipment YR'000	Motor Vehicles YR'000	Computer Equipment YR'000	Total YR'000
Cost							
Balances at January 1 ,2018	**446,053**	**1,280,187**	**471,373**	**1,930,046**	**460,483**	**1,622,941**	**6,211,083**
Additions	-	83,939	17,685	147,009	16,512	66,228	331,373
Disposals	-	-	-	(1,746)	-	-	(1,746)
Balance at December 31, 2018	**446,053**	**1,364,126**	**489,058**	**2,075,309**	**476,995**	**1,689,169**	**6,540,710**
Accumulated Depreciation							
Balances at January 1 ,2018	-	**572,539**	**377,798**	**1,751,977**	**398,975**	**1,232,504**	**4,333,793**
Depreciation of the year	-	46,669	27,417	115,721	56,504	77,666	323,977
Disposals	-	-	-	(1,746)	-	-	(1,746)
Balance at December 31, 2018	**-**	**619,208**	**405,215**	**1,865,952**	**455,479**	**1,310,170**	**4,656,024**
Net book value at December 31, 2018	**446,053**	**744,918**	**83,843**	**209,357**	**21,516**	**378,999**	**1,884,686**
Used Depreciation rates	**-**	**2%-20%**	**10%-20%**	**5%-20%**	**10%-20%**	**20%-50%**	-

14. Right to use leased assets

This item consists of the following as of December 31:

	2019 YR'000
Cost	
Balance at January 1, 2019	751,033
Additions to the right to use leased assets during the year	62,730
Expiration of the right to use leased assets during the year	-
Revaluation differences of foreign currencies	-
	813,763
Accumulated depreciation	
Balance at January 1, 2019	-
Depreciation of the year	130,885
Depreciation of the right to use expired leased Assets during the year	-
Revaluation differences of foreign currencies	-
	130,885
Net right to use leased assets as at December 31, 2019	**682,878**

15. Due to banks

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Current accounts		
Local currency balances	34,070,436	9,422,701
Foreign currencies balances	168,880	2,531,404
	34,239,316	**11,954,105**
Time deposits		
Local currency balances	24,179,970	27,808,187
Foreign currencies balances	-	314,150
	24,179,970	**28,122,337**
Total balances due to banks	**58,419,286**	**40,076,442**

Current accounts and time deposits due to banks and financial institutions carry different rates of interest.

16. Customers' deposits

16.1 Customers' deposits according to type

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Current and demand accounts	239,509,291	223,278,127
Time deposits	219,938,852	227,889,925
Savings accounts	23,930,981	22,846,998
Cash guarantees, LCs and LGs	7,059,154	8,903,267
Other deposits	5,657,325	6,122,949
	496,095,603	**489,041,266**

Time deposits and saving accounts bear fixed interest rates during the deposit period, while other current accounts, cash margins, and other deposits earn nil interest.

Customers' deposits as at December 31, 2019 include amounts booked for direct and indirect credit facilities amounted to YR 10,905,203 thousand (YR 21,556,979 thousand as at December 31, 2018).

16.2 Customers' deposits according to sectors

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Corporations	193,477,285	167,283,457
Public and mixed sector	158,750,593	176,392,398
Individuals	69,453,385	35,950,391
Others	74,414,340	109,415,020
	496,095,603	489,041,266

17. Credit balances and other liabilities

This item consists of the following as of December 31:

	Notes	2019 YR'000	2018 YR'000
Income tax	**17.1**	8,012,788	4,122,594
Zakat	**17.2**	4,150,019	2,684,765
Accrued interest		4,044,122	3,411,401
Lease contracts liabilities	**17.3**	702,775	-
Accrued expenses		411,857	273,633
Unearned revenue		33,112	57,485
Other credit balances and liabilities		2,457,688	2,280,665
		19,812,361	**12,830,543**

17.1 Income tax

Income tax is provided at 20% for the year 2019 (2018: 20%) of the annual amended profit for tax purposes. The table below shows the movement of income tax provision:

	2019 YR'000	2018 YR'000
Balance at the beginning of the year	4,122,594	3,515,552
Provided during the year	6,513,317	4,265,982
Paid during the year	(2,623,123)	(3,658,940)
	8,012,788	**4,122,594**

17.2 Zakat

Zakat is calculated at 2.5775% of the Zakat base according to the modified growth method, which is established in accordance with the decision of the Chairman of the General Authority for Zakat No. (41) of 2018 regarding the zakat calculation guide.

Following are the details of the movements of Zakat as at December 31:

	2019 YR'000	2018 YR'000
Balance at the beginning of the year	2,684,765	2,049,980
Provided during the year	2,827,686	2,028,222
Paid during the year	(1,362,432)	(1,393,437)
	4,150,019	**2,684,765**

17.3 Lease liabilities

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Balance at the beginning of the year	751,033	-
Provided during the year	62,730	-
Debit interest	44,837	-
Paid during the year	(155,825)	-
Balance as at December 31	**702,775**	**-**

18. Other provisions

This item consists of the following as of December 31:

	Notes	December 31, 2019			
		Provision for Contingent Liabilities %	Provisions for Contingent Claims YR'000	Foreign Currencies Fluctuation Provision and the Impact on the Exposed Foreign Currencies Positions YR'000	Total YR'000
Balance at the beginning of the year		196,238	10,281,910	47,346,610	57,824,758
Add: Provided during the year	**27**	-	3,283,607	14,857,556	18,141,163
Less: Used during the year		-	(208,302)	-	(208,302)
Less: Reversed during the year	**26**	(76,171)	-	-	(76,171)
Balance as at December 31		**120,067**	**13,357,215**	**62,204,166**	**75,681,448**

	Notes	December 31, 2018			
		Provision for Contingent Liabilities %	Provisions for Contingent Claims YR'000	Foreign Currencies Fluctuation Provision and the Impact on the Exposed Foreign Currencies Positions YR'000	Total YR'000
Balance at the beginning of the year		145,278	4,794,732	22,455,289	27,395,299
Add: Provided during the year	**27**	50,960	5,919,672	24,891,321	30,861,953
Less: Used during the year		-	(432,494)	-	(432,494)
Less: Reversed during the year	**26**	-		-	-
Balance as at December 31		**196,238**	**10,281,910**	**47,346,610**	**57,824,758**

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

b. As described in note (33.3), and in accordance with the instructions issued by the Central Bank of Yemen to all banks operating in the Republic of Yemen, which stated that foreign currencies sensitivity analysis should be performed and presented regarding the effect of foreign currencies fluctuations on the financial statements, based on the exchange rate of the parallel market and stating the effect of such change on the consolidated statement of comprehensive income, and banks holding short foreign currencies financial positions should create a provision for losses related to the exposure of the difference between the value of the foreign currencies short positions according to the closing rates as per CBY instructions and the average parallel market exchange rate.

19. Share capital

In accordance with the decision of the Extraordinary General Assembly of the Bank held on August 8, 2016, the capital was increased by distributing 15,000,000 shares, as free shares at the rate of one free share for each owner of ten shares, as a transfer from the accumulated profits, so that the capital becomes YR 16,500 million It is divided into 165,000,000 shares with a nominal value of YR 100 per share. The Bank in the process completing the procedures related to the amendment of the Articles of Association and the Commercial Registration that reflect the capital increase incurred during the year ended December 31, 2016.

20. Statutory reserve

As per article (12-1) of the Yemeni Banking Law No. (38) of 1998, 15% of the net profit for the year should be transferred to the statutory reserve until the reserve equals two times the paid-up capital. The Group's management cannot use the reserve without a prior approval from the Central Bank of Yemen. During the fiscal year 2019, the Bank transferred an amount of YR 2,355,299 thousand (2018: YR 1,335,203 thousand) from the net profit for the year to the statutory reserve.

21. Contingent liabilities and commitments

This item consists of the following as of December 31:

	2019			2018		
	Gross Commitments YR'000	Margin Held YR'000	Net Commitments YR'000	Gross Commitments YR'000	Margin Held YR'000	Net Commitments YR'000
Letters of credit	6,544,394	(2,403,197)	4,141,197	6,490,629	(2,449,382)	4,041,247
Letters of guarantee	12,522,420	(4,655,957)	7,866,463	20,928,117	(5,345,627)	15,582,490
	19,066,814	**(7,059,154)**	**12,007,660**	**27,418,746**	**(7,795,009)**	**19,623,737**

22. Interest income

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

	2019 YR'000	2018 YR'000
Interest from loans and advances	5,838,317	6,630,897
Interest from due from banks	1,557,766	912,159
	7,396,083	**7,543,056**

23. Interest expenses

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

	2019 YR'000	2018 YR'000
Interest expenses on customers' deposits:		
Time deposits	27,026,972	27,477,021
Saving accounts	2,997,638	2,687,862
Other deposits	112,882	126,548
	30,137,492	**30,291,431**
Interest expense on balances due to banks		
Time deposits for banks	3,638,781	3,742,586
	33,776,273	**34,034,017**

24. Fee and commission income from banking services

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

	2019 YR'000	2018 YR'000
Commissions on received transfers	1,017,114	608,080
Commissions on Visa card	309,937	477,615
Commissions on letters of guarantee	101,517	133,188
Commissions on letters of credit	50,378	99,900
Fee and commissions for other banking services	632,690	180,275
	2,111,636	**1,499,058**

25. Gains from foreign currency transactions

This item consists of the following as of December 31:

	2019 YR'000	2018 YR'000
Gain from foreign currencies transactions	5,529,389	11,124,534
(Loss) Gain from translation of foreign currencies	(1,031)	5,749
	5,528,358	**11,130,283**

26. Other incomes

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

	Notes	2019 YR'000	2018 YR'000
Provisions reversed during the year			
Provision on loans and advances (performing and non-performing)	**9,1**	746,538	52,367
Provision for doubtful debts balances and other assets	**11,1**	-	1,561,442
Other provisions	**18**	76,171	-
		822,709	**1,613,809**
Income from owned properties rental		48,763	46,585
Other incomes		143,986	4,253
		1,015,458	**1,664,647**

27. Impairment loss on financial assets (Provisions)

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

	Notes	2019 YR'000	2018 YR'000
Impairment provision on balances with banks	**7,1**	6,679,437	-
Provision on loans and advances (performing and non-performing)	**9,1**	-	2,885,112
Provision for doubtful debts balances and other assets	**11,1**	1,480,842	-
Other provisions	**18**	18,141,163	30,861,953
		26,301,442	**33,747,065**

28. Staff costs

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

	2019 YR'000	2018 YR'000
Salaries, allowances and incentives	1,795,471	1,654,260
Social security subscriptions	110,810	110,751
Medical expenses	87,289	117,879
	1,993,570	**1,882,890**

29. Other expenses

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

	2019 YR'000	2018 YR'000
Zakat	2,827,686	2,028,222
Board of Directors allowances	1,390,547	1,068,872
Donations and charities	1,285,003	707,457
Insurance	805,021	606,970
Fuels, oils and maintenance	699,398	596,669
Service contracts expenses	567,055	616,194
Rents	273,297	261,469
Communications expenses	232,905	217,464
Advertising and publishing	173,421	45,518
Stationery and office supplies	137,738	74,538
Electricity and water	126,179	52,465
Marketing expenses	121,119	348,775
Legal and professional fees	110,639	39,011
Transportation	100,604	116,873
Costs of financing the right to use leased assets	44,837	-
Training	44,636	28,602
Subscription	1,560	6,888
Miscellaneous other expenses	560,023	524,008
	9,501,668	**7,339,995**

30. Earnings per share

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

	2019	2018
Profit per share attributable to Bank's equity holders (YR'000)	15,701,995	8,899,914
Weighted average number of shares (Thousand shares)	165,000	165,000
Earnings per share (YR)	**95.16**	**53.94**

31. Related party transactions

This item consists of the transactions with related parties are shown in these consolidated financial statements are as follows:

	2019 YR'000	2018 YR'000
Deposits		
Balance at January 1	3,035,231	5,640,386
Added during the year	-	-
Deducted during the year	(1,136,495)	(2,605,155)
Exchange rate differences	-	-
Balance as at December 31	**1,898,736**	**3,035,231**
Loans and advances		
Balance at January 1	28,757,327	28,251,317
Added during the year	-	506,010
Deducted during the year	(3,345,715)	-
Exchange rate differences	-	-
Balance as at December 31	**25,411,612**	**28,757,327**
Interests		
Interests and commissions collected	1,269,267	1,540,833
Paid interests	(353,237)	568,325
Balance as at December 31	**916,030**	**2,109,158**
Remuneration for people in top management		
Salaries, bonuses and session allowances of directors and key managers during the year	2,019,425	1,718,872
Balance as at December 31	**2,019,425**	**1,718,872**

32. Fair value information

Based on the evaluation method described below, the Group considers the fair value of all financial instruments shown in the statement of financial position and off-balance sheet items as of December 31, 2019 are not materially different from their carrying values at the consolidated statement of financial position date.

32.1 Estimating the fair values

32.1.1 Customers' Loans and advances

The fair value is calculated based on the expected future cash flows discounted for the asset and interests. It was assumed that loan repayments took place in the due dates as per agreement when applicable. For loans that have no specific repayment dates or those that are subject to collection risks, repayment is estimated based on previous periods experience when interest rates were at levels similar to current interest rates levels, adjusted for any changes in the expected interest rate. Estimation of future cash flows is developed taking into consideration the associated credit risk and any indications of impairment. An estimate of future cash flows for any similarly classified loans on a portfolio basis and are discounted at current rates for similar loans available to new borrowers with similar credit profiles. The estimated fair values reflect the changes in the credit position from the date of granting the loans, they also reflect changes in interest rates in case of fixed interest rates loans.

32.1.2 Investments

Fair value is based on quoted market prices at the consolidated statement of financial position date. In the absence of a quoted market price, fair value is estimated using discounted cash flow techniques and any other methods of evaluation. When the discounted cash flow techniques are applied it shall be based on management's best estimates of these future cash flows and the discount rate is the rate prevailing in the market for a similar financial instrument at the consolidated statement of financial position date.

32.1.3 Current accounts balance due to/from banks

The book value of current accounts balances due to and due from banks, is an appropriate estimate of fair value due to their short-term nature.

32.1.4 Deposits at banks and customers' deposits

For demand deposits and deposits with unknown maturities, fair value is considered to be the amount payable on demand at the consolidated statement of financial position date. The estimated fair value of deposits with fixed maturity periods is based on discounted cash flows using interest rates currently offered for deposits of similar remaining maturities. When estimating fair value, long-term relationships with depositors are not taken into account.

32.2 Other financial instruments in the consolidated statement of financial position

The fair values of all other financial instruments in the consolidated statement of financial position approximate to their carrying values.

32.3 Financial instruments outside the consolidated statement of financial position

No adjustments are made to the fair value of financial instruments outside the consolidated statement of financial position that are related credit, which includes contingencies to provide credit facilities, letters of credit and letters of guarantees, because future revenues associated with them reflect fundamentally contractual fees and commissions related to agreements with similar credits and maturities at the consolidated financial position date.

32.4 Fair value compared to book value

The fair value of financial assets and liabilities approximates to their book values as shown in the consolidated statement of financial position.

The following tables provide analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the observability of the fair value measurement inputs and the degree of their importance to the fair value measurement process as a whole.

2019	Carrying Value YR'000	Level 1 YR'000	Level 2 YR'000	Level 3 YR'000	Total YR'000
Assets					
Due from banks	126,216,603	-	126,216,603	-	126,216,603
Held to maturity investments	504,711,273	-	504,711,273	-	504,711,273
Available for sale financing investments	120,000	-	120,000	-	120,000
Customers Loans and advances	19,245,194	-	19,245,194	-	19,245,194
Liabilities		-		-	
Due to banks	58,419,286	-	58,419,286	-	58,419,286
Customers deposits	496,095,603	-	496,095,603	-	496,095,603

2018	Carrying Value YR'000	Level 1 YR'000	Level 2 YR'000	Level 3 YR'000	Total YR'000
Assets					
Due from banks	111,626,487	-	111,626,487	-	111,626,487
Held to maturity investments	443,358,305	-	443,358,305	-	443,358,305
Available for sale financing investments	120,000	-	120,000	-	120,000
Customers Loans and advances	32,891,771	-	32,891,771	-	32,891,771
Liabilities		-		-	
Due to banks	40,076,442	-	40,076,442	-	40,076,442
Customers deposits	489,041,266	-	489,041,266	-	489,041,266

33. Risk management

The Group manages risks by various means through a comprehensive strategy in place determining the risks and ways to address and mitigate such risks. The risk management devices in the Group include the Board of Directors, the CEO, the assets and liabilities committee, finance manager, investment manager and the manager of risk management, all whom are under constant supervision by the management of the bank.

The following is a summary of how the bank is managing risks:

33.1 Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument will default on its contractual obligations resulting in financial loss, credit risk arises in the normal course of business of the Group.

In this context, the Group strengthens institutional frameworks governing the management of credit through the modernization and development of policies and procedures on an on-going basis.

The bank also applies the instructions of the Central Bank of Yemen circular No. (10) of 1997 on credit risk. The management is committed with a minimum set of standards for credit risk management. Procedures of managing and mitigating credit risk include the following:

- Preparing credit studies on customers before dealing with them and determining credit risk rates related to them.
- Obtaining sufficient collateral to minimize the credit risk exposure that may arise in case of customers' default.
- Conduct field visits and prepare periodic studies to customers in order to evaluate their financial and credit positions.
- Create the required provisions for non-performing loans.
  Distributing Loans and advances portfolio to various sectors in order to avoid concentration of credit risk.

Distribution is disclosed for financial assets and liabilities and contingent liabilities and commitments in the consolidated statement of financial position date, according to the business sector as follows:

33.1.1 Concentration by customers

	Assets		Liabilities	
	Due from Banks YR000	Customers Loans and Advances YR000	Due to Banks YR000	Customers' Deposits YR000
December 31, 2019				
Individuals	-	2,501,875	-	69,453,385
Corporates	-	16,743,319	-	426,642,218
Banks	126,216,603	-	58,419,286	-
	126,216,603	**19,245,194**	**58,419,286**	**496,095,603**
December 31, 2018				
Individuals	-	3,289,199	-	35,950,391
Corporates	-	29,602,572	-	453,090,875
Banks	111,626,487	-	40,076,442	-
	111,626,487	**32,891,771**	**40,076,442**	**489,041,266**

33.1.2 Concentration by business sector

	2019			2018		
	Assets YR000	Liabilities YR000	Contingent Liabilities and Commitments YR000	Assets YR000	Liabilities YR000	Contingent Liabilities and Commitments YR000
Industrial &Commercial	16,743,319	352,227,878	10,591,697	29,602,572	343,675,672	17,424,410
Services	-	74,414,340	1,415,963	-	109,415,203	2,199,327
Financial	679,657,975	58,419,286	-	607,083,552	40,076,442	-
Others	3,094,119	164,947,194	-	6,071,625	106,605,692	-
	699,495,413	**650,008,698**	**12,007,660**	**642,757,749**	**599,773,009**	**19,623,737**

33.1.3 Concentration by geographical locations

	2019					
	Republic of Yemen YR000	America YR000	Europe YR000	Asia YR000	Africa YR000	Total YR000
Assets						
Cash in hand and reserve balances with the Central Bank of Yemen	48,610,099	-	-	-	-	48,610,099
Due from banks	40,389,313	-	51,748,807	34,078,483	-	126,216,603
Held to maturity Investments	504,711,273	-	-	-	-	504,711,273
Customers loans and advances	19,245,194	-	-	-	-	19,245,194
Available for sale financial investments	120,000	-	-	-	-	120,000
Liabilities						
Due to banks	58,419,286	-	-	-	-	58,419,286
Customers' deposits	496,095,603	-	-	-	-	496,095,603
Contingent liabilities and commitments, net	7,927,122	-	2,422,668	1,657,870	-	12,007,660

	2018					
	Republic of Yemen YR000	America YR000	Europe YR000	Asia YR000	Africa YR000	Total YR000
Assets						
Cash in hand and reserve balances with the Central Bank of Yemen	51,978,760	-	-	-	-	51,978,760
Due from banks	32,503,987	-	47,473,500	31,649,000	-	111,626,487
Held to maturity Investments	443,358,305	-	-	-	-	443,358,305
Customers loans and advances	32,891,771	-	-	-	-	32,891,771
Available for sale financing investments	120,000	-	-	-	-	120,000
Liabilities						
Due to banks	40,076,442	-	-	-	-	40,076,442
Customers' deposits	489,041,266	-	-	-	-	489,041,266
Contingent liabilities and commitments, net	11,084,993	-	4,907,367	3,631,377	-	19,623,737

33.1.4 Credit risk without taking into consideration the collaterals

	2019 YR'000	2018 YR'000
Items of the consolidated statement of financial position		
Due from banks	126,216,603	111,626,487
Customers Loans and advances	19,245,194	32,891,771
Available for sale financing investments	120,000	120,000
Debit balances and other assets	592,244	2,782,426
Items of the consolidated statement of financial position	**146,174,041**	**147,420,684**
Items off the consolidated statement of financial position	**12,007,660**	**19,623,737**

33.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as they fall due. Liquidity risk results from group's inability to obtain cash to face the decrease in deposits or increase in assets. The Group monitors its liquidity risks through assets and liabilities maturity report, which is prepared internally. The Group then classifies all assets and liabilities to periods up to one year and more. Investment department of the bank controls and monitors liquidity risks and ensure that the Group does not face such risks and the best utilize the group's resources at the same time.

The table below shows the maturity analysis of the bank's financial assets and liabilities at December 31, 2019 as follows:

	Due within 3 Months YR'000	Due within 3 to 6 Months YR'000	Due within 6 Months to One year YR'000	Due over One Year YR'000	Total YR'000
Assets					
Cash on hand and reserve balances with Central Bank of Yemen	48,610,099	-	-	-	48,610,099
Due from banks	126,216,603	-	-	-	126,216,603
Held to maturity investments	504,711,273	-	-	-	504,711,273
Available for sale financing investments	-	-	-	120,000	120,000
Customers loans and advances	13,471,636	692,260	2,116,971	2,694,327	19,245,194
	693,009,611	**962,260**	**2,116,971**	**2,814,327**	**698,903,169**
Liabilities					
Due to banks	58,419,286	-	-	-	58,419,286
Customers' deposits	322,462,142	99,219,121	74,414,340	-	496,095,603
	380,881,428	**99,219,121**	**74,414,340**	**-**	**554,514,889**

The maturity profile of the bank's financial assets and liabilities at December 31, 2018 was as follows:

	Due within 3 Months YR'000	Due within 3 to 6 Months YR'000	Due within 6 Months to One year YR'000	Due over One Year YR'000	Total YR'000
Assets					
Cash on hand and reserve balances with Central Bank of Yemen	51,978,760	-	-	-	51,978,760
Due from banks	111,626,487	-	-	-	111,626,487
Held to maturity investments	443,358,305	-	-	-	443,358,305
Available for sale financing investments	-	-	-	120,000	120,000
Customers loans and advances	24,339,911	986,753	2,631,342	4,933,765	32,891,771
	631,303,463	**986,753**	**2,631,342**	**5,053,765**	**639,975,323**
Liabilities					
Due to banks	40,076,442	-	-	-	40,076,442
Customers' deposits	283,643,934	146,712,380	58,684,952	-	489,041,266
	323,720,376	**146,712,380**	**58,684,952**	**-**	**529,117,708**

33.3 Market risk

33.3.1 Foreign currency risk

Foreign currency risk is the risk of fluctuation in the prices of financial instruments due to the change in foreign exchange rates, and it arises from financial instruments denominated in foreign currencies. The operating currency approved by the group is the Yemeni Rial, and given the group's dealings in a number of foreign currencies according to the nature of its activity, this matter may expose it the risk of fluctuations in foreign exchange rates. For the purposes of reducing that risk to a minimum, the group is working to take into account the balance in the foreign currencies positions in accordance with the instructions issued by the Central Bank of Yemen in Circular No. (6) of 1998. So that the surplus in the position of each currency separately does not exceed 15% of the capital base according to the circular No. (4975) issued by the Central Bank of Yemen on December 4, 2019, in addition to the fact that the surplus in the combined position of all currencies should not exceed 25% of the capital base referred to according to the circular.

In order to comply with the instructions of the Central Bank of Yemen in Circular No. (6) of 1998 and Circular No. (4975), the Group periodically monitors foreign currency positions and disposes of surplus foreign currencies at the exchange rates prevailing on that date.

The following table shows the net exposure to fluctuations in foreign exchange rates at the date of the financial statements:

	US Dollars YR'000	Euro YR'000	2019 SAR YR'000	Sterling Pound YR'000	Other currencies YR'000	Total YR'000
Assets	164,736,201	10,901,072	1,118,383	296,545	7,444,884	184,497,085
Liabilities	213,226,273	11,132,190	2,944,000	295,427	3,978,938	231,576,828
Net foreign currencies **positions**	**(48,490,072)**	**(231,118)**	**(1,825,617)**	**1,118**	**3,465,946**	**(47,079,743)**

	US Dollars YR'000	Euro YR'000	2018 SAR YR'000	Sterling Pound YR'000	Other currencies YR'000	Total YR'000
Assets	284,774,173	11,123,001	3,818,231	887,144	3,301,903	303,904,451
Liabilities	327,949,028	11,867,706	6,376,073	907,966	727,641	347,828,413
Net foreign currencies positions	**(43,174,855)**	**(744,705)**	**(2,557,842)**	**(20,822)**	**2,574,262**	**(43,923,962)**

The following table also shows the significant foreign currency positions at the date of the consolidated financial statements:

	2019 Surplus / (Deficit) YR'000	2019 % of Capital & Reserves %	2018 Surplus / (Deficit) YR'000	2018 % of Capital & Reserves %
US Dollars	(48,490,072)	(92.18)	(43,174,855)	(146.39)
Sterling Pound	1,118	-	(20,822)	(0.07)
Euro	(231,118)	(0.44)	(744,705)	(2.53)
Saudi Rial	(1,825,617)	(3.47)	(2,557,842)	(8.67)
Emirati Dirham	3,464,614	6.59	2,574,852	8.73
Other currencies	1,332	-	(590)	-
	(47,079,743)	**(89.5)**	**(43,923,962)**	**(148,93)**

The bank exceeded the specified ceilings according to the instructions of the Central Bank of Yemen issued in Circular No. (6) of 1998, which stipulates that bank apply a higher ceiling for each currency position separately, in addition to a ceiling for the Combined foreign currencies position, so that the surplus in the position of each currency separately does not exceed 15% of the capital base according to Circular No. (4975) and the combined position of foreign currencies does not exceed 25% of the capital base according to the circular. The bank's management during the subsequent period is working to gradually correct the situation.

Foreign currency sensitivity analysis:

The exchange rates for the major currencies as at 31 December are as follows:

	Closing rate According to CBY Announcement		Average Rate in the Parallel Market*	
	2019 YR	2018 YR	2019 YR	2018 YR
US Dollars	250.25	250.25	580	520
Euro	280.43	285.93	649.8	594.14
Saudi Rial	66.71	66.71	153.5	138.62
Sterling Pound	328.21	317.53	760.89	659.8
UAE Dirham	68.13	68.13	154	141.57

∗ The latest transactions were used by the Group's management to determine the average exchange rates in the parallel market.

The following table shows the sensitivity analysis related to the effect of changes in the foreign currency against the Yemeni Rial, taking into account exchange rates in the parallel market, and assuming that the other variables are stable, on the statement of comprehensive income (as a result of the fair value of financial assets and liabilities subject to currency risk).

	Impact on net Income Increase/ (Decrease)	
	2019 YR'000	2018 YR'000
US Dollars	(63,894,510)	(46,539,130)
Euro	(304,418)	(802,734)
Saudi Rial	(2,375,136)	(2,757,154)
Sterling Pound	1,474	(22,445)
UAE Dirham	4,366,746	2,775,490
Other	1,678	(637)
	(62,204,166)	**(47,346,610)**

In accordance with the instructions issued by the Central Bank of Yemen to all the banks operating in the Republic of Yemen, which states that sensitivity analysis for the effect of foreign currencies fluctuation on the financial statements should be performed and presented, based on the exchange rate of the parallel market and stating the effect of the change in the consolidated statement of comprehensive income, and banks holding short financial positions for foreign currencies should create a provision for losses related to the exposure of the difference between the value of the short positions of the foreign currencies according to the closing rates of CBY instructions and the average market exchange rate.

33.3.2 Interest rates risk

The Bank's operations are exposed to the risk of interest rate to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in different amounts. Risk management activities are aimed to optimize net interest income provided that market interest rate levels are consistent with Group's business strategies. The Group manages mitigate the differences by following policies and guidelines to reduce risks by matching the re-pricing of assets and liabilities. Details are presented concerning the differences of re-pricing and interest rate risk to the assets and liabilities committee during its regular meetings, as well as to the risk committee of the bank's management.

Bank's management follows steps to reduce or limit the effects of the risks arising from interest rates to the minimum level as follows:

- Link the interest rate on borrowing with interest rates on lending.
- Consider different currency discount rates when setting interest rates.
- Monitor compatibility of financial assets and liabilities maturity dates.

Average interest rates applied during the year

The average interest rates on assets and liabilities during the year ended December 31, 2019 is as follow:

	YR %	US Dollar %	EURO %	SAR %
Assets				
Time deposits with banks	-	2	0.10	-
Held to maturity investments	16.98	-	-	-
Overdraft facilities	22	13	-	-
Customers Loans	22	10	-	-
Liabilities				
Time deposits –customers	15	1.5	-	-
Saving accounts	15	1.5	-	-
Time deposits – banks	16.42	5	-	-

The average interest rates on assets and liabilities during the year ended December 31, 2018 follows:

	YR %	US Dollar %	EURO %	SAR %
Assets				
Time deposits with banks	-	2.30	0.10	-
Held to maturity investments	16.98	-	-	-
Overdraft facilities	22	13	-	-
Customers Loans	22	10	-	-
Liabilities				
Time deposits –customers	15	1.5	-	-
Saving accounts	15	1.5	-	-
Time deposits – banks	16.35	5	-	-

34. Financial reports for business sectors

The Bank operates in the following three sectors:

- Retail banking services - including banking services for individuals, current accounts and savings accounts, deposits, investment savings products, credit and debit cards, consumer loans and housing loans.
- Banking services for corporates - including direct debit facilities, current accounts, deposits, loans, overdrafts and other credit facilities.
- Treasury and Investments - Other activities are represented in investment management and corporate finance, which do not represent an independent sector that must be reported.

Transactions between the business sectors are done in accordance with normal commercial terms. Funds are allocated normally between sectors resulting in the disclosure of the cost of funding transfers within the operating income. Interest charged on these funds is based on the cost of the Bank's capital. There are no other material items of income or expense between the business sectors.

Assets and liabilities of the sector are represented by operating assets and liabilities which is the majority of the consolidated statement of financial position, however, it does not include such items as taxes and borrowings.

35. Contingent liabilities

Certain legal cases have been filed against the Bank for the amount of approximately YR 82 million as of December 31, 2019 (2018: YR 41 million) and a provision for contingent liabilities was created to address some of these issues during the year 2019 with an amount of YR 25 million (2018: Nil). According to legal department's opinion, the Group's management believes that the resulting judgments in those cases for which no provision for contingent liabilities has been created will not affect the group's operations.

36. Tax position

- The Bank's management submits it's tax returns annually and pay the taxes accordingly.
- The Bank was notified during the year 2015, for additional tax and delay penalty for the year 2010, according to form (3), with an amount of YR 2,428,179,000, and the bank has objected such amount within the legal time frame. The Bank's management believes that such notification will not result in any additional liabilities.
- Tax settlement has been done for both income tax and payroll tax until the end of 2014, and amounts were paid according to the tax forms received from Tax Authority.
- During the year 2018, settlement was done for both income tax and payroll tax, in addition to the independent pool for the year 2015, and income tax differences amounted to YR 35,884,000, in addition to YR 191,312,000 for both payroll tax and independent pool, in accordance with form (3) additional tax, which was taken into account in the consolidated financial statement for the year 2017.
- During the year 2018, settlement was done for both income tax and payroll tax, in addition to the independent pool for the year 2016, and income tax differences amounted to YR 107,504,000, in addition to YR 239,858,000 for both payroll tax and independent pool, in accordance with form (3) additional tax, which was taken into account in the consolidated financial statement for the year 2017.
- The Bank's management received final settlement from tax authority for the years 2014, 2015, and 2016, where all amounts and differences calculated by Tax Authority were paid.
- The Bank's management submitted it's tax return and paid the amount due for the year 2017 on time, based on the draft financial statement for the year 2017, until the consolidated financial statements are approved by the Central Bank of Yemen, which was delayed until October 2018 for issuance, which resulted in imposed penalty, which was paid by the Bank's management.
- The Bank's management submitted its tax return and paid the amount of the declaration for the year 2018 based on the financial statements approved by the Central Bank of Yemen for the year 2018, and the field examination is ongoing by the Tax Authority, and the bank has not been informed of any additional notification by the authority to date.
- The Bank's management submitted its tax return and paid the amount of the declaration for the year 2019 based on the draft financial statement for the year 2019, until the consolidated financial statements are approved by the Central Bank of Yemen, and no inspection was performed by the tax authority until now and no additional tax assessment was received from Tax Authority until financial statements are approved.

37. Zakat position

- The group reached to a final settlement with the General Zakat Authority, in respect of the years 2014, 2015 and 2016 amounted to YR 206,166,023, which was paid on March 28, 2018.
- The Group submitted its zakat declaration and paid the due zakat for the year 2017 in accordance with the financial statements. The group was notified during the year 2019 with a note for an additional amount of YR 1,670,365,527, in addition to delay penalties. The Group objected on this additional amount, and the Group's management believes that this matter will not result to any additional liabilities.
- The Group submitted its zakat declaration and paid the due zakat for the years 2017 and 2018 in accordance with the consolidated financial statements.

38. Comparative figures

Some comparative figures were reclassified to conform with this year's financial statements classification. The reclassifications did not impact the previously reported net profit or equity.

The following are the details of reclassifications:

	Audited Financial Statements - 2018 YR'000	Reclassification Amount YR'000	Adjusted Balances 2018 YR'000
Other expenses	5,635,750	1,704,245	7,339,995
Depreciation of property and equipment	-	323,977	323,977
Zakat	2,028,222	(2,028,222)	-
	7,663,972	**-**	**7,663,972**

39. Current events in the Republic of Yemen

As a result of the political crisis, the economic situation, and the current security events in the Republic of Yemen, it constitutes a challenge to the management to predict the effects of these conditions on the group's activity, patterns of future flows, their results, and its consolidated financial position for the coming period, and the management is still continuing to study the effects of this crisis in the near term on the Group and make the necessary reserves in order to ensure continuity.

40. Subsequent events

The impact of Corona virus (Covid-19) in the beginning of the year 2020 and it's spread in several geographical regions around the world causing disturbances to economic activities and businesses, which may have an effect on the foreign bank's investments and transactions in the event of business interruption. The Group believes that this event is one of the events which occurred after the date of the financial statements and is not subject to change. Considering that there are no indications of the spread of the Corona virus (Covid-19) in the Republic of Yemen to date or in the countries where its subsidiaries operate, the management of the Group believes that there is as yet no material impact or quantitative estimate of the potential effects on future financial statements at this stage.

41. Approval of the financial statements

The consolidated financial statements were approved by the board of Directors and authorized for issuing on March 20, 2021.

42. The separate financial statements for IBY bank - parent company

42.1 Statement of financial position

	Dec. 31, 2019 YR'000	Dec. 31, 2018 YR'000
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	**48,610,099**	51,978,760
Due from banks	**126,216,603**	111,626,487
Held to maturity investments	**504,711,273**	443,358,305
Customers loans and advances	**19,245,194**	32,891,771
Available for sale financing investments	**120,000**	120,000
Debit balances and other assets	**592,244**	2,782,426
Property and equipment	**2,317,657**	1,884,686
Right to use leased assets	**682,878**	-
Total assets	**702,495,948**	**644,642,435**
Liabilities and equity		
Liabilities		
Due to banks	**58,419,286**	40,076,442
Customers' deposits	**496,095,603**	489,041,266
Credit balances and other liabilities	**19,552,054**	12,641,237
Other provisions	**75,681,448**	57,824,758
Total liabilities	**649,748,391**	**599,583,703**
Equity		
Share capital	**16,500,000**	16,500,000
Statutory reserve	**15,348,121**	12,992,822
Retained earnings	**20,899,436**	15,565,910
Total equity	**52,747,557**	**45,058,732**
Total liabilities and equity	**702,495,948**	**644,642,435**
Contingent liabilities and commitments	**12,007,660**	**19,623,737**

42.2 pStatement of comprehensive income for the years ended December 31

	2019 YR'000	2018 YR'000
Interest income	**7,396,083**	7,543,056
Interest income from held to maturity investments	**78,406,330**	69,048,828
Total interest income	**85,802,413**	**76,591,884**
Interest expenses	**(33,776,273)**	(34,034,017)
Net interest income	**52,026,140**	**42,557,867**
Fee and commission income from banking services	**2,111,636**	1,499,058
Fee and commission expenses from banking services	**(350,761)**	(415,630)
Gains from foreign exchange transactions	**5,528,358**	11,130,283
Income from available for sale financing investments	**12,000**	23,040
Other incomes	**1,015,458**	1,663,859
Net operating income	**60,342,831**	**56,458,477**
Less: Impairment loss on financial assets (provision)	**(26,301,442)**	(33,747,065)
Less: Depreciation of property, equipment and right to use leased assets	**(331,175)**	(323,977)
Less: Staff costs	**(1,993,570)**	(1,882,890)
Less: Other expenses	**(9,499,986)**	(7,337,207)
Net profit for the year before tax	**22,216,658**	**13,167,338**
Income tax for the year	**(6,513,317)**	(4,265,982)
Net profit for the year after tax	**15,703,341**	**8,901,356**
Other comprehensive income	**-**	-
Total comprehensive income for the year	**15,703,341**	**8,901,356**
Earnings per share (Yemeni Riyal)	**95.17**	**53.95**