

YEMEN COMMERCIAL BANK
(Yemeni Joint Stock Company)
Sana'a, Republic of Yemen

FINANCIAL STATEMENTS
AS AT JUNE 30, 2009

AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF YEMEN COMMERCIAL BANK SANA'A, REPUBLIC OF YEMEN

Report on the Financial Statements

We have audited the accompanying financial statements of Yemen Commercial Bank, which comprise the statement of financial position as at June 30, 2009, and the statement of comprehensive income, cash flow statement and statement of changes in shareholders' equity for the six-month then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and prevailing local laws and regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Yemen Commercial Bank as at June 30, 2009, and of its financial performance and its cash flows for the six months then ended in accordance with International Financial Reporting Standards and prevailing local laws and regulations.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books.


M. Zohdi Mejanni
Associated Accountant



Sana'a, August 26, 2009

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2009**

ASSETS	Note	June 30, 2009 YR 000s	Dec. 31, 2008 YR 000s
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	6	8,607,868	7,958,626
Due from banks	7	9,418,444	10,301,817
Treasury bills (net)	8	31,572,050	20,778,061
Certificates of deposits with Central Bank of Yemen (CBY)	9	-	12,050,000
Loans and advances (net)	10	16,059,443	14,111,631
Available-for-sale investments	12	109,459	89,181
Investments in subsidiaries and associates	13	71,323	89,663
Debit balances and other assets (net)	14	5,484,384	5,366,971
Property and equipment (net)	16	<u>2,670,749</u>	<u>2,659,630</u>
TOTAL ASSETS		<u>73,993,720</u>	<u>73,405,580</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	17	1,224,058	16,706
Customers' deposits	18	64,008,684	64,337,627
Credit balances and other liabilities	19	806,818	1,411,906
Other provisions	20	<u>393,641</u>	<u>462,316</u>
TOTAL LIABILITIES		<u>66,433,201</u>	<u>66,228,555</u>
SHAREHOLDERS' EQUITY			
Paid-up capital	21a	6,653,890	6,137,390
Statutory reserve	21b	510,631	419,503
General reserve	21c	12,418	12,529
Retained earnings		<u>86</u>	<u>607,603</u>
TOTAL SHAREHOLDERS' EQUITY		7,177,025	7,177,025
NET PROFIT FOR THE PERIOD AFTER TAX		<u>383,494</u>	<u>-</u>
TOTAL SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD		<u>7,560,519</u>	<u>7,177,025</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>73,993,720</u>	<u>73,405,580</u>
CONTINGENT LIABILITIES AND COMMITMENTS (NET)	22	<u>39,364,109</u>	<u>35,531,566</u>

(The accompanying notes from 1 to 39 form part of these financial statements)

Sheikh / Mohamed Bin Yehya Al Rowaishan
Chairman

Ayed Almashni
General Manager & Chief Executive Officer



Independent auditor's report attached

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)

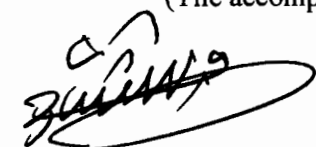


**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM JANUARY 1, 2009 TO JUNE 30, 2009**

	Note	The six months ended June 30, 2009 <u>YR'000</u>	The six months ended June 30, 2008 <u>YR'000</u>
Interest on loans and due from banks	23	1,109,046	1,250,935
Interest on treasury bills and certificates of deposits	24	<u>2,361,053</u>	<u>1,610,974</u>
		3,470,099	2,861,909
Less: cost of deposits and borrowings	25	<u>(2,208,286)</u>	<u>(2,023,732)</u>
Net interest income		1,261,813	838,177
Commissions revenues and banking service charges	26	413,015	412,108
Less: commissions' expenses and banking service charges		<u>(7,279)</u>	<u>(12,155)</u>
Gain on foreign currency transactions	27	49,605	56,267
Other income	28	<u>162,655</u>	<u>188,347</u>
Net operating income		1,879,809	1,482,744
Less: provisions	29	<u>(224,404)</u>	<u>(63,304)</u>
Less: general and administrative expenses and depreciation	30	<u>(1,115,799)</u>	<u>(956,408)</u>
Operating profit		539,606	463,032
Less: losses of investment in subsidiaries and associates	3.6	<u>(18,340)</u>	<u>(20,106)</u>
Net profit for the period before income tax		521,266	442,926
Less: income tax for the period		<u>(137,772)</u>	<u>(142,700)</u>
NET PROFIT FOR THE PERIOD AFTER INCOME TAX		383,494	300,226
Other comprehensive income for the period		<u>-</u>	<u>-</u>
Total comprehensive income for the period		<u>383,494</u>	<u>300,226</u>
EARNINGS PER SHARE	31	<u>YR 576</u>	<u>YR 489</u>

(The accompanying notes from 1 to 39 form part of these financial statements)




**Sheikh / Mohamed Bin Yehya Al Rowaishan
Chairman**

**Ayed Almashni
General Manager & Chief Executive Officer**



Independent auditor's report attached.


**M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)**



**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1, 2009 TO JUNE 30, 2009

		The six months ended June 30, 2009 YR'000	The six months ended June 30, 2008 YR'000
<u>Cash flows from operating activities</u>			
Net profit for the period before tax		521,266	442,926
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of property and equipment	30	164,472	142,434
Provisions	29	224,404	63,304
Provisions used		(110,990)	(37,941)
Income tax paid		(734,933)	(50,914)
Loss of valuation of investment in subsidiaries and associates		18,340	20,106
Net (gains) on sale of property and equipment		(423)	(678)
Operating profit before change in assets and liability used in operating activities		82,136	579,237
<u>Net (increase) decrease in assets</u>			
Reserve balances with Central Bank of Yemen		92,415	148,381
Loans and advances		(2,119,326)	(3,190,425)
Treasury bills		(17,739,044)	870,153
Debit balances and other assets		(127,988)	(261,763)
<u>Net increase (decrease) in liabilities</u>			
Due to banks		1,207,352	(1,510,494)
Customers' deposits		(328,943)	7,510,330
Credit balances and other liabilities		(7,927)	(621,679)
Net cash (used in) from operating activities		(18,941,325)	3,523,740
<u>Cash flows from investing activities</u>			
Purchases of property and equipment		(176,768)	(339,250)
Proceeds from sale of property and equipment		1,600	13,018
Decrease in time deposits (restricted)	7	806,136	-
Increase in available-for-sale investment		(20,278)	(9,982)
Net cash from (used in) investing activities		610,690	(336,214)
<u>Cash flows from financing activities</u>			
Increase in paid-up capital		-	7,884
Net cash from financing activities		-	7,884
Net change in cash and cash equivalents		(18,330,635)	3,195,410
Cash and cash equivalents at the beginning of the period		42,435,577	30,959,155
Cash and cash equivalents at the end of the period		24,104,942	34,154,565
<u>Cash and cash equivalents consist of:</u>			
Cash on hand and at ATM and cheques purchased		2,882,566	2,042,286
Due from banks		9,418,444	10,598,909
Treasury bills maturing within 3 months		11,803,932	18,663,370
CBY certificates of deposit maturing within 3 months		-	2,850,000
		24,104,942	34,154,565

(The accompanying notes from 1 to 39 form part of these financial statements)

Sheikh / Mohamed Bin Yehya Al Rowaishan
Chairman

Ayed Almashni
General Manager & Chief Executive Officer



Independent auditor's report attached

M. Zohdi Mejanri
(KPMG Mejanri, Hazem Hassan & Co.)



**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM JANUARY 1, 2009 TO JUNE 30, 2009**

<u>The six months ended June 30, 2009</u>	<u>Paid-up Capital YR'000</u>	<u>Statutory reserve YR'000</u>	<u>General reserve YR'000</u>	<u>Retained earnings YR'000</u>	<u>Net profit for the period YR'000</u>	<u>Total YR'000</u>
Balance at January 1, 2009	6,137,390	419,503	12,529	607,603	-	7,177,025
Transfer to statutory reserve	-	91,128	-	(91,128)	-	-
Transfer to capital	516,389	-	-	(516,389)	-	-
Transfer to capital from general reserve	111	-	(111)	-	-	-
Total comprehensive income for the period	-	-	-	-	383,494	383,494
Balance at June 30, 2009	<u>6,653,890</u>	<u>510,631</u>	<u>12,418</u>	<u>86</u>	<u>383,494</u>	<u>7,560,519</u>

<u>The six months ended June 30, 2008</u>	<u>Paid-up Capital YR'000</u>	<u>Statutory reserve YR'000</u>	<u>General reserve YR'000</u>	<u>Retained earnings YR'000</u>	<u>Net profit for the period YR'000</u>	<u>Total YR'000</u>
Balance at January 1, 2008	5,100,000	237,827	12,529	1,211,269	-	6,561,625
Transfer to statutory reserve	-	181,676	-	(181,676)	-	-
Transfer to capital	1,029,506	-	-	(1,029,506)	-	-
Cash capital increase	7,884	-	-	-	-	7,884
Total comprehensive income for the period	-	-	-	-	300,226	300,226
Balance at June 30, 2008	<u>6,137,390</u>	<u>419,503</u>	<u>12,529</u>	<u>87</u>	<u>300,226</u>	<u>6,869,735</u>

(The accompanying notes from 1 to 39 form part of these financial statements)

**Sheikh / Mohamed Bin Yehya Al Rowaishan
Chairman**

**Ayed Almashni
General Manager & Chief Executive Officer**



Independent auditor's report attached.

**M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)**



**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2009**

1. BACKGROUND INFORMATION

The Yemen Commercial Bank (Yemeni Joint Stock Company) was incorporated in Sana'a, Republic of Yemen on February 20, 1993. The Bank engages in banking activities through its head office in Sana'a and branches in the cities of Sana'a (Zubeiry St., Taiz St., Dar Selm, New University and Hadda), Hodeidah, Aden (Queen Arwa and Sheikh Othman), Taiz, Mukalla, Ibb, Dhamar and Radaa.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

a. Statement of compliance

The financial statements are prepared on a going concern basis and on the historical cost basis, except available-for-sale investments and financial instruments (financial assets and liabilities) held at fair value, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force at 30 June 2009 and the interpretations of the International Financial Reporting interpretations committee (IFRIC) of the IASB in force at 30 June 2009, the requirements of the current local prevailing laws and regulations as well as rules and instructions issued by the Central Bank of Yemen (CBY).

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

- The adoption of minimum fixed percentages for loan provisions in accordance with Central Bank of Yemen circular No. 6 of 1996 and No. 5 of 1998,
- The recording of provision for general risks calculated on performing loans under "loans provision" and not under head office equity,
- The recording of provision for contingent liabilities under "other provisions" and not under shareholders' equity.

The effect of these deviations is immaterial to the financial statements of the Bank as on 30 June 2009.

These interim financial statements as at June 30, 2009 are prepared for management purposes.

b. Functional and presentation currency

The financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise indicated.

c. Significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience of the Bank and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

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

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes no. 4, 10, 19 and 20.

d. Presentation of financial statements

The Bank applies revised IAS 1 Presentation of Financial Statements, which became effective as of January 1, 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in these financial statements as of and for the six months period ended on June 30, 2009.

The revised presentation has no impact to the comparative information so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Translation of foreign currencies

- The Bank maintains its records in Yemeni Rial, which is the Bank functional currency. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the income statement.
- The Bank deals in short-term forward contracts only to the extent necessary to cover its needs for foreign currencies or its customers' needs to meet their obligations in foreign currencies as a result of their operations through the Bank.

3.2 Revenue recognition

- Revenues are recognized on the accrual basis. However, in order to comply with the requirements of CBY circular No. (6) of 1996, the Bank does not accrue interest on non-performing loans and credit facilities. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances.
- Income from investments available for sale is recognized when its related dividends are distributed.
- Income from investments in subsidiaries and associates are recorded when the financial statements of these companies are approved.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

3.3 Treasury bills

Treasury bills are recorded at face value and the balance of unearned discount is recorded under credit balances and other liabilities. Treasury bills are presented on the financial statements at face value less balance of unearned discount outstanding at the financial statements date.

3.4 CBY certificates of deposits

Certificates of deposit are recorded at face value at the financial statements date and the related accrued interest outstanding is included under debit balances and other assets at the financial statements date.

3.5 Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category. The Bank's investments in equity securities and certain debt securities are classified as available-for-sale investments. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3.6 Investments in subsidiaries and associates

Investments in subsidiaries, which the Bank has control over, or associates, which the Bank has significant influence over, are recorded at acquisition cost. At the financial statements date the value of these investments are adjusted according to the Bank's share in the equity of subsidiaries and associates based on the approved financial statements of these companies. Such adjustment is taken to the statement of income. In case these financial statements are not available the investments are recorded at cost.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

3.7 Valuation of assets whose titles have been transferred to the bank as a repayment of loans

Assets whose titles have been transferred to the bank are presented in the balance sheet under debit balances and other assets at the values carried by the bank less any impairment in their value at the financial statement date, if any. Impairment losses are charged to the income statement.

3.8 Provision for loans and contingent liabilities

In order to comply with CBY circular No. (6) of 1996 and (5) of 1998, provision is made for specific loans, overdrafts and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities, after deducting balances secured by deposits and bank guarantees issued by credit worthy foreign banks, based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, provision is made at the following rates:

<u>Performing loans and contingent liabilities</u> (including watch list accounts)	1%
<u>Non-performing loans and contingent liabilities:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans are written off if procedures taken towards their collection prove useless, or if directed by the CBY upon their review of the portfolio, by debiting the provision. Proceeds from loans previously written off are credited to the provision.

Loans to customers and banks are presented on the financial statements net of provision (specific and general) and uncollected interest.

3.9 Contingent liabilities and commitments

Contingent liabilities and commitments to which the Bank is a party are presented off balance sheet, net of any margins held for customers, under contingent liabilities and commitments, as they do not represent actual assets or liabilities at the financial statements date.

3.10 Cash and cash equivalents

For the purpose of preparing the cash flow statement, cash and cash equivalents consist of cash on hand, cash balances with CBY other than reserve balances, demand deposits with other banks, investments in treasury bills, and certificates of deposit with the CBY, which are due within three months from the issuance date.

3.11 Impairment of assets

The Bank reviews the carrying amounts of the assets according to their materiality at each financial statements date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated and compared with the carrying amount and any excess in the carrying amount is charged to the income statement.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

Any increase in the value of the assets previously impaired is also recognized in the statement of income provided that the increase does not exceed the original recoverable value of the asset before impairment.

3.12 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the income statement on the straight-line basis over the estimated useful lives of items of property and equipment. The depreciation method, useful lives and residual value, if any, are reassessed annually by the Bank's management. The Bank has amended the depreciation rate and the estimated useful lives for equipment and machinery became 10 years instead of 8 years according to the Board of Directors decision no. (7) dated December 31, 2008. The estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Buildings	20 years
Equipment & Machinery	10 years
Computers	5 years
Vehicles	5 years
Furniture and Decoration	10 years

3.13 Other provisions

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

3.14 Taxation

Corporate tax due is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

A provision is made for tax liabilities after appropriate review of tax assessments received.

3.15 Zakat due on shareholders accounts

The Bank remits the Zakat due from the shareholders annually to the relevant government authority, which decides on its allocation in accordance with Shari'a.

3.16 Applicable new standards and interpretations issued but not yet adopted

For the avoidance of doubt, the following applicable new standards, amendments to standards and interpretations, which were issued by IASB before June 30, 2009 and are not yet in effect, have not been adopted early.

- Amended IAS 27 Consolidated and Separate Financial Statements, which is to be applied from July 1, 2009.
- Amended IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items, the amendments become effective from July 1, 2009.
- IFRS 1 "First-time adoption of International Financial Reporting Standards" which is to be applied from July 1, 2009.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

- IFRS 3 Business combination (as revised during 2008) which is to be applied from July 1, 2009.
- IFRIC 17 “Distributions of non-cash assets to owners” which is to be applied from July 1, 2009.

The Bank does not foresee that the application of these standards / interpretations will result in a significant impact on figures and disclosures on the reporting period they will be adopted.

4. FINANCIAL INSTRUMENTS AND THEIR RELATED RISKS MANAGEMENT

4.1 Financial instruments

- a. The Bank’s financial instruments consist of financial assets and liabilities. Financial assets include cash balances, current accounts, and deposits with banks, financial investments, treasury bills, certificates of deposit (CBY) and loans to customers. Financial liabilities include customers’ deposits, and due to banks. Also, financial instruments include rights and obligations in the form of contingent liabilities and commitments.

Note (3) to the financial statements includes significant accounting policies applied for recognition and measurement of significant financial instruments and their related revenues and expenses.

- b. Fair value of financial instruments

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

4.2 Risk management of financial instruments

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Board of Directors (ultimately responsible for identifying and controlling risks), the Risk Committee, and the head of each business division.

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

The Bank is exposed to credit risk, liquidity risk, interest rate risk, exchange rate risk, operational risk and other risks.

(a) Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to fully or partially meet their obligations when they fall due. In order to comply with CBY circular No. 10 of 1997 regarding to the credit risk exposure, the bank applies some procedures in order to properly manage its credit risk. The following are the major procedures applied by the Bank:

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

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

	June 30, 2009 <u>YR 000s</u>	Dec. 31, 2008 <u>YR 000s</u>
Cash on hand and reserve balances with CBY (excluding cash on hand)	6,312,774	5,875,833
Due from bank	9,418,444	10,301,817
Treasury bill (net)	31,572,050	20,778,061
Certificate of deposits with CBY	-	12,050,000
Loans and advances to customers (net)	16,059,443	14,111,631
Available-for-sale investments	109,459	89,181
Investments in subsidiaries and associates	71,323	89,663
Debit balances and other assets (net)	<u>5,484,384</u>	<u>5,366,971</u>
	69,027,877	68,663,157
Contingent liabilities and commitments	<u>44,933,191</u>	<u>41,604,808</u>
Total credit risk exposure	<u>113,961,068</u>	<u>110,267,965</u>

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 34 shows the distribution of financial instruments over different economic sectors and Note no. 35 shows the distribution of financial instruments based on geographical locations.

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(b) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the bank's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

	June 30, 2009				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	1,224,058	-	-	-	1,224,058
Customers' deposits	41,637,019	10,177,013	11,319,100	875,552	64,008,684
Income tax for the period	-	-	137,772	-	137,772
	<u>42,861,077</u>	<u>10,177,013</u>	<u>11,456,872</u>	<u>875,552</u>	<u>65,370,514</u>
	Dec. 31, 2008				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	16,706	-	-	-	16,706
Customers' deposits	57,371,064	5,191,796	360,445	1,414,322	64,337,627
Income tax for the year	294,159	-	-	-	294,159
Total liabilities	<u>57,681,929</u>	<u>5,191,796</u>	<u>360,445</u>	<u>1,414,322</u>	<u>64,648,492</u>

In addition to the above, Note no. 32 shows the maturity analysis of assets and liabilities and the net gap between them.

(c) Interest rate risk

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

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

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The table below shows the Bank's exposure to interest rate risks:

	June 30, 2009						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	8,607,868	8,607,868		
Due from banks	2,499,469	-	-	-	6,918,975	9,418,444	15.00	1.00
Treasury bills (net)	11,803,932	10,660,177	9,107,941	-	-	31,572,050	14.45	-
Loans and advances (net)	12,062,188	1,889,530	1,579,205	528,520	-	16,059,443	18.50	8.00
Available-for-sale investment	-	-	-	-	109,459	109,459		
Investment in subsidiaries and associates	-	-	-	-	71,323	71,323		
Debit balances and other assets (net)	-	-	-	-	5,484,384	5,484,384		
Property and equipments (net)	-	-	-	-	<u>2,670,749</u>	<u>2,670,749</u>		
Total Assets	<u>26,365,589</u>	<u>12,549,707</u>	<u>10,687,146</u>	<u>528,520</u>	<u>23,862,758</u>	<u>73,993,720</u>		
Liabilities and Shareholders' Equity								
Due to banks	1,216,620	-	-	-	7,438	1,224,058	15.00	0.85
Customers' deposits	20,272,226	10,177,021	11,319,008	875,555	21,364,874	64,008,684	10.50	1.00
Credit balances and other liabilities	-	-	-	-	806,818	806,818		
Other provisions	-	-	-	-	393,641	393,641		
Shareholders' equity	-	-	-	-	<u>7,560,519</u>	<u>7,560,519</u>		
Total Liabilities and Shareholders' Equity	<u>21,488,846</u>	<u>10,177,021</u>	<u>11,319,008</u>	<u>875,555</u>	<u>30,133,290</u>	<u>73,993,720</u>		
Interest rate sensitivity gap	<u>4,876,743</u>	<u>2,372,686</u>	<u>(631,862)</u>	<u>(347,035)</u>	<u>(6,270,532)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>4,876,743</u>	<u>7,249,429</u>	<u>6,617,567</u>	<u>6,270,532</u>	<u>-</u>	<u>-</u>		

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	Dec. 31, 2008						Average interest rates	
	Less than 3 months YR 000s	From 3 months to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Non- interest sensitive YR 000s	Total YR 000s	Local Currency %	Foreign Currency %
Assets								
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	7,958,626	7,958,626		
Due from banks	2,383,292	-	-	-	7,918,525	10,301,817	15.00	0.75
Treasury bills (net)	18,748,987	493,500	1,535,574	-	-	20,778,061	14.87	-
Certificates of deposits with CBY	12,050,000	-	-	-	-	12,050,000	14.87	-
Loans and advances (net)	3,601,715	2,867,954	3,961,206	3,680,756	-	14,111,631	18.50	8.00
Available-for-sale investment	-	-	-	-	89,181	89,181		
Investment in subsidiaries and associates	-	-	-	-	89,663	89,663		
Debit balances and other assets (net)	-	-	-	-	5,366,971	5,366,971		
Property and equipments (net)	-	-	-	-	2,659,630	2,659,630		
Total Assets	<u>36,783,994</u>	<u>3,361,454</u>	<u>5,496,780</u>	<u>3,680,756</u>	<u>24,082,596</u>	<u>73,405,580</u>		
Liabilities and Shareholders' Equity								
Due to banks	16,706	-	-	-	-	16,706	15.00	-
Customers' deposits	30,830,352	625,034	211,011	1,012,057	31,659,173	64,337,627	13.00	1.06
Credit balances and other liabilities	-	-	-	-	1,411,906	1,411,906		
Other provisions	-	-	-	-	462,316	462,316		
Shareholders' equity	-	-	-	-	7,177,025	7,177,025		
Total Liabilities and Shareholders' Equity	<u>30,847,058</u>	<u>625,034</u>	<u>211,011</u>	<u>1,012,057</u>	<u>40,710,420</u>	<u>73,405,580</u>		
Interest rate sensitivity gap	<u>5,936,936</u>	<u>2,736,420</u>	<u>5,285,769</u>	<u>2,668,699</u>	<u>(16,627,824)</u>	<u>-</u>		
Cumulative interest rate sensitivity gap	<u>5,936,936</u>	<u>8,673,356</u>	<u>13,959,125</u>	<u>16,627,824</u>	<u>-</u>	<u>-</u>		

Note no. 33 shows the average interest rates on assets and liabilities applied during the period ended 30 June 2008 and 31 December 2007.

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(d) Exchange rate risk

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

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

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

	June 30, 2009					
	US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Other currencies YR 000s	Total YR 000s
Assets	20,433,807	1,443,171	1,258,141	3,556,079	129,245	26,820,443
Liabilities	(19,085,955)	(1,085,606)	(1,569,433)	(3,568,135)	(112,334)	(25,421,463)
Net currency position	<u>1,347,852</u>	<u>357,565</u>	<u>(311,292)</u>	<u>(12,056)</u>	<u>16,911</u>	<u>1,398,980</u>
	Dec. 31, 2008					
	US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Other currencies YR 000s	Total YR 000s
Assets	25,427,722	2,189,263	1,022,077	132,724	217,496	28,989,282
Liabilities	(26,804,217)	(2,163,534)	(1,689,979)	(132,691)	(180,177)	(30,970,598)
Net currency position	<u>(1,376,495)</u>	<u>25,729</u>	<u>(667,902)</u>	<u>33</u>	<u>37,319</u>	<u>(1,981,316)</u>

Note 36 to the financial statements indicate the significant foreign currencies' positions at the financial statements date.

(e) Operational risk

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

(f) Other risks

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

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5. CAPITAL MANAGEMENT

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

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

The capital adequacy ratio calculated by comparing between the Bank core and supplementary capital with risk weighted total assets and liabilities at the balance sheet date, is as follows:

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Core capital	7,474,196	7,072,362
Supplementary capital	<u>516,546</u>	<u>467,871</u>
	<u>7,990,742</u>	<u>7,540,233</u>
<u>Risk-weighted assets and contingent liabilities and commitments:</u>		
Total assets	25,827,284	23,537,018
Contingent liabilities and commitments	<u>20,228,436</u>	<u>18,987,211</u>
Total risk-weighted assets and contingent liabilities and commitments	<u>46,055,720</u>	<u>42,524,229</u>
Capital adequacy ratio	<u>17.35%</u>	<u>17.73%</u>

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

6. CASH ON HAND AND RESERVE BALANCES WITH CBY

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Cash on hand and ATM machines– local currency	902,911	1,035,790
Cash on hand and ATM machines – foreign currency	<u>1,392,183</u>	<u>1,047,003</u>
	<u>2,295,094</u>	<u>2,082,793</u>
Reserve balances at CBY – local currency	2,977,566	2,718,878
Reserve balances at CBY – foreign currency	<u>2,747,736</u>	<u>3,098,839</u>
	<u>5,725,302</u>	<u>5,817,717</u>
Cheques purchased	<u>587,472</u>	<u>58,116</u>
	<u>8,607,868</u>	<u>7,958,626</u>

The reserve balances with CBY represent the minimum reserve requirements against customers' accounts in Yemeni Rial and foreign currencies. These funds are not available for the Bank's daily business.

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In accordance with CBY instruction, circular no. (1) of 2008 with effect from 1 April 2008, the percentage on reserve balances at CBY – local currency was reduced from 10% TO 7%. In addition, no interest is being paid on these deposits. The rate of foreign currencies of 20% remains unchanged.

7. DUE FROM BANKS

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
<u>Central Bank of Yemen</u>		
Current accounts – local currency	534,879	1,702,349
Current accounts – foreign currency	<u>1,062,360</u>	<u>2,492,676</u>
	<u>1,597,239</u>	<u>4,195,025</u>
<u>Foreign banks</u>		
Current accounts	5,321,736	3,723,500
Time deposits – foreign currency*	<u>2,499,469</u>	<u>2,383,292</u>
	<u>7,821,205</u>	<u>6,106,792</u>
	<u>9,418,444</u>	<u>10,301,817</u>

*Time deposits – foreign currency at December 31, 2008 included YR 806,136 thousand equivalent to US\$ 4,029 thousand restricted at the Bank of New York. These deposits are released and added to the current accounts of the Bank at February 9, 2009.

8. TREASURY BILLS (NET)

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Treasury bills due within 90 days	11,997,262	19,121,947
Treasury bills due within 180 days	10,900,000	496,600
Treasury bills due within 360 days	<u>9,945,640</u>	<u>1,620,640</u>
	32,842,902	21,239,187
Less: Unearned discount balance	(1,270,852)	(461,126)
	<u>31,572,050</u>	<u>20,778,061</u>

9. CERTIFICATES OF DEPOSITS WITH CENTRAL BANK OF YEMEN (CBY)

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
CBY certificates of deposits within 90 days	<u>-</u>	<u>12,050,000</u>

10. LOANS AND ADVANCES (NET)

a. By type

	Note	June 30, 2009	Dec. 31, 2008
		<u>YR 000s</u>	<u>YR 000s</u>
Overdrafts		4,206,160	3,097,923
Loans to customers		9,502,585	7,248,608
LC facilities		2,027,913	3,129,271
Staff loans		2,554,568	2,843,102
Others		<u>466,272</u>	<u>219,296</u>
		18,757,498	16,538,200
Less: Doubtful loans provision	11	(1,994,559)	(1,823,045)
Less: Uncollected interest		<u>(703,496)</u>	<u>(603,524)</u>
		<u>16,059,443</u>	<u>14,111,631</u>

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- Non-performing loans and advances amounted to YR 2,860,060 thousand at June 30, 2009 (after deducting the uncollected interest) (YR 2,060,498 thousand at December 31, 2008) is as follows:

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Substandard debts	1,022,484	287,796
Doubtful debts	233,327	191,601
Bad debts	<u>1,604,249</u>	<u>1,581,101</u>
	<u>2,860,060</u>	<u>2,060,498</u>

b. By sector

	Overdraft	Loans to	L/C	Staff	Others	Total
	<u>YR 000s</u>	<u>customers</u>	<u>facilities</u>	<u>loans</u>	<u>YR 000s</u>	<u>YR 000s</u>
<u>As at June 30, 2009</u>						
Individuals	101,425	273,090	35,112	2,554,568	466,272	3,430,467
Trade	1,914,700	6,289,112	1,787,980	-	-	9,991,792
Industry	181,618	1,530,783	43,389	-	-	1,755,790
Contractors	<u>2,008,417</u>	<u>1,409,600</u>	<u>161,432</u>	<u>-</u>	<u>-</u>	<u>3,579,449</u>
Total	<u>4,206,160</u>	<u>9,502,585</u>	<u>2,027,913</u>	<u>2,554,568</u>	<u>466,272</u>	<u>18,757,498</u>
<u>As at Dec. 31, 2008</u>						
Individuals	778,308	835,320	222,453	2,843,102	219,296	4,898,479
Trade	1,294,539	3,313,078	2,795,592	-	-	7,403,209
Industry	186,402	507,111	111,226	-	-	804,739
Contractors	<u>838,674</u>	<u>2,593,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,431,773</u>
Total	<u>3,097,923</u>	<u>7,248,608</u>	<u>3,129,271</u>	<u>2,843,102</u>	<u>219,296</u>	<u>16,538,200</u>

11. LOANS PROVISION (PERFORMING AND NON-PERFORMING)

	Note	June 30, 2009		
		<u>Specific</u>	<u>General</u>	<u>Total</u>
		<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Balance at first of January 2009		1,710,490	112,555	1,823,045
Provided during the period		156,120		175,504
29			19,384	
Less: provision used		(3,990)	-	(3,990)
Balance at the end of June 2009		<u>1,862,620</u>	<u>131,939</u>	<u>1,994,559</u>
Dec. 31, 2008				
		<u>Specific</u>	<u>General</u>	<u>Total</u>
		<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
Provision balance at first of Jan. 2008		1,452,624	97,961	1,550,585
Add: provided during the year		284,663	14,594	299,257
Less: provision used		(26,797)	-	(26,797)
Provision balance at end of Dec. 2008		<u>1,710,490</u>	<u>112,555</u>	<u>1,823,045</u>

According to the Banks Law no. 38 of 1998, Article 85, and Minister of Finance Decree no. 255 of 1999, the allowances and provisions for loans, advances and contingent liabilities are a tax deductible expense for income tax purposes.

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12. AVAILABLE-FOR-SALE INVESTMENTS

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Saba'a Airway Co. (under incorporation)	39,000	39,000
Yemen International Public Transportation Company	55,459	35,181
Al-Amal Bank for lending (under incorporation)	<u>15,000</u>	<u>15,000</u>
	<u>109,459</u>	<u>89,181</u>

All available for sale investments are local investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices, these investments were recorded at cost.

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	June 30, 2009	Shareholding	Dec. 31, 2008	Shareholding
	<u>YR 000s</u>	<u>Percentage</u>	<u>YR 000s</u>	<u>Percentage</u>
Yemen Payment and Cards Co.	<u>71,323</u>	90%	<u>89,663</u>	90%

14. DEBIT BALANCES AND OTHER ASSETS (NET)

	Note	June 30, 2009	Dec. 31, 2008
		<u>YR 000s</u>	<u>YR 000s</u>
Accrued interest		47,786	124,747
Prepaid expenses		315,848	203,604
Assets which have been transferred to the bank's ownership	3.7	4,601,502	4,447,034
Balances related to BCCI with CBY		197,430	197,316
Project in process		261,524	302,108
Stationery stock		12,417	14,399
Sundry debit balances		<u>103,234</u>	<u>122,545</u>
		5,539,741	5,411,753
Less: Doubtful debts provision	15	(55,357)	(44,782)
		<u>5,484,384</u>	<u>5,366,971</u>

15. DOUBTFUL DEBTS PROVISION

	Note	June 30, 2009	Dec. 31, 2008
		<u>YR 000s</u>	<u>YR 000s</u>
Balance at the beginning of the period / year		44,782	53,251
Add: provided during the period / year	29	10,575	14,263
Less: provision used		<u>-</u>	<u>(22,732)</u>
Balance at the end of the period / year		<u>55,357</u>	<u>44,782</u>

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16. PROPERTY AND EQUIPMENT (NET)

	June 30, 2009						
	Land	Buildings	Equipment & Machinery	Computers	Vehicles	Furniture & Decoration	Total
	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>	<u>YR 000s</u>
<u>Cost</u>							
Balance at beginning of the period	740,228	636,120	305,484	836,754	319,611	913,185	3,751,382
Additions during the period	11,766	-	13,244	81,440	-	70,318	176,768
Disposals during the period	-	-	(5,177)	(278)	-	(2,209)	(7,664)
Balance at the end of the period	<u>751,994</u>	<u>636,120</u>	<u>313,551</u>	<u>917,916</u>	<u>319,611</u>	<u>981,294</u>	<u>3,920,486</u>
<u>Accumulated depreciation</u>							
Balance at beginning of the period	-	161,913	111,834	393,007	150,783	274,215	1,091,752
Depreciation	-	15,004	13,620	70,054	23,486	42,308	164,472
Disposals	-	-	(5,069)	(26)	-	(1,392)	(6,487)
Balance at the end of the period	<u>-</u>	<u>176,917</u>	<u>120,385</u>	<u>463,035</u>	<u>174,269</u>	<u>315,131</u>	<u>1,249,737</u>
<u>Net book value</u>							
June 30, 2009	<u>751,994</u>	<u>459,203</u>	<u>193,166</u>	<u>454,881</u>	<u>145,342</u>	<u>666,163</u>	<u>2,670,749</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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	December 31, 2008						
	Land YR 000s	Buildings YR 000s	Equipment & Machinery YR 000s	Computers YR 000s	Vehicles YR 000s	Furniture & Decoration YR 000s	Total YR 000s
<u>Cost</u>							
Balance as at January 1, 2008	725,155	636,120	239,559	606,434	211,534	575,857	2,994,659
Additions during the year	15,073	-	74,590	231,433	131,652	350,531	803,279
Disposals during the year	-	-	(8,665)	(1,113)	(23,575)	(13,203)	(46,556)
Balance as at December 31, 2008	<u>740,228</u>	<u>636,120</u>	<u>305,484</u>	<u>836,754</u>	<u>319,611</u>	<u>913,185</u>	<u>3,751,382</u>
<u>Accumulated depreciation</u>							
Balance as at January 1, 2008	-	131,906	94,959	261,664	118,467	211,358	818,354
Depreciation	-	30,007	25,484	132,369	47,624	69,756	305,240
Disposals	-	-	(8,609)	(1,026)	(15,308)	(6,899)	(31,842)
Balance as at December 31, 2008	<u>-</u>	<u>161,913</u>	<u>111,834</u>	<u>393,007</u>	<u>150,783</u>	<u>274,215</u>	<u>1,091,752</u>
<u>Net book value</u>							
December 31, 2008	<u>740,228</u>	<u>474,207</u>	<u>193,650</u>	<u>443,747</u>	<u>168,828</u>	<u>638,970</u>	<u>2,659,630</u>

**YEMEN COMMERCIAL BANK (YCB)
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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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17. DUE TO BANKS

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Foreign banks - current accounts	7,438	16,706
Short-term loans – foreign currency*	<u>1,216,620</u>	<u>-</u>
	<u>1,224,058</u>	<u>16,706</u>

Short-term loans – foreign currency presented in the equivalent amount to US\$ 6 Million, which was given to the Bank during the period from foreigner banks abroad with annual rate of 0.85%. The loan is due on September 8, 2009.

18. CUSTOMERS' DEPOSITS

a. By type

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Current accounts	21,360,874	22,893,332
Time and call deposits	26,195,054	25,190,490
Saving accounts	7,805,141	7,487,964
LCs and LGs margins and others	5,573,944	6,077,390
Other deposits	<u>3,073,671</u>	<u>2,688,451</u>
	<u>64,008,684</u>	<u>64,337,627</u>

b. By sector

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Trade	8,306,641	8,229,474
Industry	1,372,089	4,181,106
Agricultural	845,129	411,302
Service	18,286,220	23,427,620
Financial	487,654	-
Individuals and others	<u>34,710,951</u>	<u>28,088,125</u>
	<u>64,008,684</u>	<u>64,337,627</u>

19. CREDIT BALANCES AND OTHER LIABILITIES

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Income tax for the period / year	137,772	294,159
Due to Tax Authority	-	440,774
Interest payable	257,727	292,875
Accrued expenses	78,080	20,350
Income received in advance	92,685	79,763
Inter-branch balances	53,107	11,682
Sundry credit balances	<u>187,447</u>	<u>272,303</u>
	<u>806,818</u>	<u>1,411,906</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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20. OTHER PROVISIONS

<u>Description</u>	<u>Note</u>	<u>June 30, 2009</u>		
		<u>Provision for contingent liabilities YR 000s</u>	<u>Other provisions YR 000s</u>	<u>Total YR 000s</u>
Balance at first of January 2009		355,316	107,000	462,316
Provided during the year from income statement	29	38,325	-	38,325
Used during the year		-	(107,000)	(107,000)
Balance at the end of June 2009		<u>393,641</u>	<u>-</u>	<u>393,641</u>

<u>Description</u>		<u>Dec. 31, 2008</u>		
		<u>Provision for contingent liabilities YR 000s</u>	<u>Other provisions YR 000s</u>	<u>Total YR 000s</u>
Balance at first of January 2008		380,915	109,000	489,915
Provided during the year from income statement		-	106,692	106,692
Used during the year		-	(108,692)	(108,692)
Provision reversed		(25,599)	-	(25,599)
Balance at the end of December 2008		<u>355,316</u>	<u>107,000</u>	<u>462,316</u>

21. SHAREHOLDERS' EQUITY

a. Issued and paid-up capital

The Bank's extraordinary general assembly approved on May 13, 2006 the capital increase to YR Billion 8 (by the year 2009) divided into 800 thousand shares of par value of YR 10,000 each (according to the extraordinary general assembly decision on April 28, 2009 which change the nominal value from YR 1,000 to YR 10,000 per share) to be paid over annual equal installments of YR Million 1,450 including appropriated profits.

The following shows the paid-up capital at June 30, 2009:

	<u>June 30, 2009 YR 000s</u>	<u>Dec. 31, 2008 YR 000s</u>
Capital at the beginning of the period / year	6,137,390	5,100,000
Add: transfer from retained earning according to the extraordinary general assembly decision	516,389	1,029,506
Add: transfer from general reserve according to extraordinary general assembly decision	111	-
Capital paid during the period / year	<u>-</u>	<u>7,884</u>
Paid-up capital at the end of the period / year	<u>6,653,890</u>	<u>6,137,390</u>

b. Statutory reserve

According to provisions of the Law, 15% of the annual net profit, based on the approved annual financial statements, is transferred to the statutory reserve until it equals twice the paid-up capital.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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c. General reserve

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Balance at the beginning of the period / year	12,529	12,529
Less: transfer to capital according to the extraordinary general assembly decision	(111)	-
Balance at the end of the period / year	<u>12,418</u>	<u>12,529</u>

22. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	June 30, 2009	Dec. 31, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Letters of credit	22,170,650	17,236,218
Less: margins held	(1,715,902)	(1,926,269)
	<u>20,454,748</u>	<u>15,309,949</u>
Letters of guarantee	22,762,541	24,368,590
Less: margins held	(3,853,180)	(4,146,973)
	<u>18,909,361</u>	<u>20,221,617</u>
	<u>39,364,109</u>	<u>35,531,566</u>

23. INTEREST ON LOANS AND DUE FROM BANKS

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
<u>Interest on loans and overdrafts to customers</u>		
Interest earned on overdrafts	319,828	301,970
Interest earned on loans	768,763	676,772
	<u>1,088,591</u>	<u>978,742</u>
<u>Interest on due from banks</u>		
Foreign banks	20,455	161,976
Local banks	-	110,217
	<u>20,455</u>	<u>272,193</u>
	<u>1,109,046</u>	<u>1,250,935</u>

24. INTEREST ON TREASURY BILLS AND CERTIFICATES OF DEPOSITS

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Interest on treasury bills	2,185,111	1,555,230
Interest on CBY certificates of deposits	175,942	55,744
	<u>2,361,053</u>	<u>1,610,974</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

25. COST OF DEPOSITS AND BORROWINGS

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
<u>Interest on customers' deposits</u>		
Interest on time deposits	1,461,073	1,266,862
Interest on call deposits	40,277	93,009
Interest on saving accounts	336,319	338,155
Other and miscellaneous	<u>365,728</u>	<u>322,008</u>
	<u>2,203,397</u>	<u>2,020,034</u>
<u>Interest on balances due to banks</u>		
Interest paid to local banks	4,719	3,447
Interest paid to foreign banks	<u>170</u>	<u>251</u>
	<u>4,889</u>	<u>3,698</u>
	<u>2,208,286</u>	<u>2,023,732</u>

26. COMMISSION REVENUES AND BANKING SERVICE CHARGES

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Commissions on documentary credits	160,276	188,857
Commissions on letters of guarantee	183,653	154,936
Commissions on transfer of funds	24,145	25,236
Commissions on cheques collection	963	2,080
Commissions on banking services	<u>43,978</u>	<u>40,999</u>
	<u>413,015</u>	<u>412,108</u>

27. GAIN ON FOREIGN CURRENCY TRANSACTIONS

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Gains on dealing in foreign currencies and translation	<u>49,605</u>	<u>56,267</u>

28. OTHER INCOME

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Income from financial investments	-	3,089
Rental	31,208	9,934
Cash received from written off debts	129,284	169,970
Others	<u>2,163</u>	<u>5,354</u>
	<u>162,655</u>	<u>188,347</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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29. PROVISIONS MADE DURING THE PERIOD

		The six months ended	
	Note	June 30, 2009	June 30, 2008
		<u>YR 000s</u>	<u>YR 000s</u>
Provision for loans and advances	11	175,504	5,812
Provision for doubtful debit balances	15	10,575	6,138
Provision for contingent liabilities	20	<u>38,325</u>	<u>51,354</u>
		<u>224,404</u>	<u>63,304</u>

30. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

		The six months ended	
	Note	June 30, 2009	June 30, 2008
		<u>YR 000s</u>	<u>YR 000s</u>
Wages, salaries and related costs		405,763	351,232
Board of directors' allowances		1,932	1,920
Depreciation	16	164,472	142,434
Subscriptions		112,360	64,989
Advertisement and publication		58,865	59,074
Fuel & maintenance		38,285	25,567
Professional fees		35,805	31,900
Rent		35,423	36,413
Transportation		33,277	36,549
Security		32,310	22,970
Stationery and printing supplies		31,510	23,919
Water and electricity		28,762	15,436
Insurance		24,502	21,451
Communications		23,868	27,455
Computer expenses		19,464	29,069
Training expenses		14,298	11,996
Hospitality expenses		10,669	16,007
Medical		10,393	11,841
Donations		5,366	2,036
Governmental dues		3,448	4,411
Bad debts		640	763
Other expenses		<u>24,387</u>	<u>18,976</u>
		<u>1,115,799</u>	<u>956,408</u>

31. EARNINGS PER SHARE

	The six months ended	
	June 30, 2009	June 30, 2008
	<u>YR 000s</u>	<u>YR 000s</u>
Net profit for the period (YR thousand)	<u>383,494</u>	<u>300,226</u>
Weighted average for number of shares (in thousands)	<u>665</u>	<u>613</u>
Earnings per share (in Yemeni Rials)	<u>576</u>	<u>489</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

32. MATURITIES OF ASSETS AND LIABILITIES

<u>Description</u>	June 30, 2009				
	Due within 3 months YR Million	Due From 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash on hand & reserve balances					
with CBY	8,608	-	-	-	8,608
Due from banks	9,418	-	-	-	9,418
Treasury bills (net)	11,804	10,660	9,108	-	31,572
Loans and advances (net)	12,062	1,889	1,579	529	16,059
Available-for sale investments	-	-	-	109	109
Investments in subsidiaries and associates	-	-	-	71	71
	<u>41,892</u>	<u>12,549</u>	<u>10,687</u>	<u>709</u>	<u>65,837</u>
Liabilities					
Due to banks	1,224	-	-	-	1,224
Customers deposits	41,637	10,177	11,319	876	64,009
	<u>42,861</u>	<u>10,177</u>	<u>11,319</u>	<u>876</u>	<u>65,233</u>
Net gap	(969)	2,372	(632)	(167)	604
	Dec. 31, 2008				
<u>Description</u>	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances					
with CBY	7,658	137	164	-	7,959
Due from banks	10,302	-	-	-	10,302
Treasury bills (net)	18,394	1,472	912	-	20,778
Certificates of deposits	12,050	-	-	-	12,050
Loans and advances (net)	9,741	1,693	1,675	1,003	14,112
Available-for sale investments	-	-	-	89	89
Investments in subsidiaries and associates	-	-	-	90	90
	<u>58,145</u>	<u>3,302</u>	<u>2,751</u>	<u>1,182</u>	<u>65,380</u>
b. Liabilities					
Due to banks	17	-	-	-	17
Customers deposits	57,371	5,192	360	1,415	64,338
	<u>57,388</u>	<u>5,192</u>	<u>360</u>	<u>1,415</u>	<u>64,355</u>
Net gap	757	(1,890)	2,391	(233)	1,025

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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33. AVERAGE INTEREST RATES APPLIED DURING THE YEAR

Average interest rates on assets and liabilities during the period / year were as follows:

<u>Description</u>	June 30, 2009				
	Yemeni Rial %	SR %	US Dollar %	Sterling Pound %	Euro %
Assets					
Banks – time deposits	15.00	1	1.10	1.0	1
Loans to customers	18.00	-	8.00	-	-
Overdrafts	19.00	-	-	-	-
Treasury bills	14.45	-	-	-	-
CBY certificates of deposit	14.87	-	-	-	-
Liabilities					
Time deposits – customers	10.50	1	1.50	0.5	1
Saving accounts	10.00	-	-	-	-
Time deposits-banks	15.00	-	-	-	-
Due to banks	-	-	0.85	-	-
<u>Description</u>	Dec. 31, 2008				
	Yemeni Rial %	SR %	US Dollar %	Sterling Pound %	Euro %
Assets					
Reserve balances at CBY	-	-	-	-	-
Banks – time deposits	15.00	0.25	0.75	-	-
Loans to customers	18.00	-	8.00	-	-
Overdrafts	19.00	-	-	-	-
Treasury bills	14.87	-	-	-	-
CBY certificates of deposit	14.87	-	-	-	-
Liabilities					
Time deposits – customers	13.00	0.80	1.50	0.9	1
Saving accounts	13.00	-	-	-	-
Time deposits-banks	15.00	-	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

**34. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND
COMMITMENTS BASED ON ECONOMIC SECTORS**

	June 30, 2009						
	Financial YR Million	Trade YR Million	Manufac -turing YR Million	Agricul -tural YR Million	Services YR Million	Individuals & Others YR Million	Total YR Million
ASSETS							
Cash on hand & reserve balances with CBY	8,608	-	-	-	-	-	8,608
Due from banks	9,418	-	-	-	-	-	9,418
Treasury bills (net)	31,572	-	-	-	-	-	31,572
Loans and advances (net)	-	9,539	1,157	973	1,315	3,057	16,059
Available-for-sale Investments	-	-	-	-	109	-	109
Investments in subsidiaries and associates	-	-	-	-	71	-	71
LIABILITIES							
Due to banks	1,224	-	-	-	-	-	1,224
Customers deposits	488	8,307	1,372	845	18,286	34,711	64,009
CONTINGENT LIABILITIES AND COMMITMENTS (NET)							
Letters of credit	-	10,867	650	7,025	-	1,913	20,455
Letters of guarantee	-	8,443	465	158	8,183	1,660	18,909
	Dec. 31, 2008						
	Financial YR Million	Trade YR Million	Manufac -turing YR Million	Agricul -tural YR Million	Services YR Million	Individuals & Others YR Million	Total YR Million
ASSETS							
Cash on hand and reserve	7,959	-	-	-	-	-	7,959
Due from banks	10,302	-	-	-	-	-	10,302
Treasury bills (net)	20,778	-	-	-	-	-	20,778
Certificates of deposits	12,050	-	-	-	-	-	12,050
Loans and advances (net)	-	4,724	526	89	4,386	4,387	14,112
Available-for-sale Investments	-	-	-	-	89	-	89
Investments in subsidiaries and associates	-	-	-	-	90	-	90
LIABILITIES							
Due to banks	17	-	-	-	-	-	17
Customers deposits	1,972	10,048	2,100	123	1,763	48,332	64,338
CONTINGENT LIABILITIES AND COMMITMENTS (NET)							
Letters of credit	-	9,772	453	3,684	-	1,401	15,310
Letters of guarantee	-	9,126	598	205	8,244	2,048	20,221

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**35. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND
COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS**

	June 30, 2009					
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
ASSETS						
Cash on hand & reserve balances with CBY	8,608	-	-	-	-	8,608
Due from banks	848	1,705	5,969	887	9	9,418
Treasury bills (net)	31,572	-	-	-	-	31,572
Loans and advances (net)	16,059	-	-	-	-	16,059
Available-for-sale Investments	109	-	-	-	-	109
Investments in subsidiaries and associates	71	-	-	-	-	71
LIABILITIES						
Due to banks	7	-	-	1,217	-	1,224
Customers deposits	64,009	-	-	-	-	64,009
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	1,591	4,150	14,414	300	20,455
Letters of guarantee	17,097	-	300	1,512	-	18,909
2008						
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
ASSETS						
Cash on hand and reserve	7,959	-	-	-	-	7,959
Due from banks	5,401	1,246	2,743	902	10	10,302
Treasury bills (net)	20,778	-	-	-	-	20,778
Certificates of deposits	12,050	-	-	-	-	12,050
Loans and advances (net)	14,112	-	-	-	-	14,112
Available-for-sale Investments	89	-	-	-	-	89
Investments in subsidiaries and associates	90	-	-	-	-	90
LIABILITIES						
Due to banks	17	-	-	-	-	17
Customers deposits	64,338	-	-	-	-	64,338
CONTINGENT LIABILITIES AND COMMITMENTS (NET)						
Letters of credit	-	-	3,062	11,636	612	15,310
Letters of guarantee	18,198	-	-	2,023	-	20,221

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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36. SIGNIFICANT FOREIGN CURRENCIES POSITIONS

To comply with CBY circular No. (6) of 1998, the Bank establishes limits for positions in individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of capital and reserves respectively. The following schedule shows the Bank's significant foreign currency positions at the balance sheet date:

	June 30, 2009		December 31, 2007	
	Surplus (deficit) <u>YR 000s</u>	% of capital & reserves	Surplus (deficit) <u>YR 000s</u>	% of capital & reserves
US Dollar	1,347,852	18.8%	(1,376,495)	(21.0%)
Euro	357,565	5.0%	25,729	0.4%
Saudi Arabia Rial	(311,292)	(4.3%)	(667,902)	(10.1%)
Sterling Pound	(12,056)	(0.2%)	33	-
Others	<u>16,911</u>	<u>0.2%</u>	<u>37,319</u>	<u>0.6%</u>
Net (deficit) surplus	<u>1,398,980</u>	<u>19.5%</u>	<u>(1,981,316)</u>	<u>(30.1%)</u>

37. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if the party has the ability to control or exercise significant influence over the Bank in making financial or operating decisions.

The Bank deals with related parties on the same basis applied to third parties.

The Banks Law as implemented by CBY circular no. 4 of 1999, limits credit transactions with related parties and requires that the Bank should apply the same terms and conditions that are applied with unrelated parties.

The nature of the bank's activity requires dealing with some of its shareholders, members of the board of directors and companies owned by them. These transactions represent granting loans and facilities, issuing letters of guarantee, letters of credit, and other services among the bank's ordinary activities. The following are the balances of these transactions at the financial statements date:

	June 30, 2009 <u>YR Million</u>	Dec. 31, 2008 <u>YR Million</u>
Loans and advances	4,917	4,065
Current accounts & time deposits	3,856	1,101
Indirect facilities (net)	11,792	8,675
Investments in subsidiaries and associates	71	90
Executive management salaries	35	59
Board of Directors' allowances	2	4

**YEMEN COMMERCIAL BANK (YCB)
(YEMENI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE PERIOD ENDED JUNE 30, 2009**

38. TAXATION

- The difference between accounting and tax profit for the period from January 1, 2009 to June 30, 2009 represents the deduction of YR 127,633 thousand resulting from the adjustment of accounting profit with the provisions provided during the period and charged to the income statement and used provisions during the period and also revenues for rent on the basis of tax rate of 35%.
- Corporate and salary tax has been cleared up to 2006.
- The Bank has submitted tax declaration for the years 2007 and 2008 and paid the amount due according to the declaration. The tax review is currently in process and the bank has not been notified by assessment up to now.

39. ZAKAT

- The Bank submits its Zakat declaration annually and remits the amount due based on the declaration.
 - The Bank has paid the Zakat up to the end of 2008 according to the Zakat declaration. No assessment notification was issued by the Zakat Department.
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