

**AUDITOR'S REPORT TO THE SHAREHOLDERS  
OF YEMEN COMMERCIAL BANK**

We have audited the accompanying financial statements of Yemen Commercial Bank (YCB) consisting of the balance sheet as at December 31, 2005, the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 the requirements of relevant Yemeni laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have obtained from management the information and clarifications that we deemed necessary for our audit and we believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at December 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting requirements of Central Bank of Yemen and applicable local laws and regulations.

The bank keeps proper books of account, and the accompanying financial statements are in agreement with those books.

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

**Sana'a, April 19, 2006**

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

**BALANCE SHEET  
AS AT DECEMBER 31, 2005**

<b>ASSETS</b>	<b>Note</b>	<b>2005 YR'000</b>	<b>2004 YR'000</b>
Cash on hand & reserve balances with Central Bank of Yemen (CBY)	5	5,603,821	4,329,499
Due from banks	6	5,763,579	6,128,501
Treasury bills (net)	3c/7	12,062,827	11,527,090
Loans and advances (net)	3g/8	8,242,603	8,356,468
Available-for-sale investments	3d/10	79,200	79,200
Investments in subsidiaries and associates	3e/11	174,780	-
Debit balances and other assets (net)	12	579,177	307,685
Property and equipment (net)	3k/14	<u>901,725</u>	<u>891,570</u>
<b>TOTAL ASSETS</b>		<b><u>33,407,712</u></b>	<b><u>31,620,013</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	15	477,028	737,224
Customers' deposits	16	29,030,502	28,351,862
Credit balances and other liabilities	17	401,286	251,982
Other provisions	18	<u>833,194</u>	<u>633,181</u>
<b>TOTAL LIABILITIES</b>		<b><u>30,742,010</u></b>	<b><u>29,974,249</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Paid-up capital	19		
	19a	2,200,000	1,597,600
Statutory reserve	19b	97,976	35,345
General reserve		12,529	12,529
Retained earnings		<u>355,197</u>	<u>290</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>2,665,702</u></b>	<b><u>1,645,764</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>33,407,712</u></b>	<b><u>31,620,013</u></b>
<b>CONTINGENT LIABILITIES AND COMMITMENTS (NET)</b>	3h/20	<u>20,779,042</u>	<u>19,404,844</u>

(The accompanying notes from 1 to 36 form part of these financial statements)

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

**Ayed Almashni  
General Manager & Chief Executive**

**Auditor's report attached.**

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

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

**STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Note</u>	<u>2005 YR'000</u>	<u>2004 YR'000</u>
Interest on loans and due from banks	21	1,510,797	1,496,192
Interest on treasury bills		<u>1,883,778</u>	<u>1,466,628</u>
		3,394,575	2,962,820
Less: cost of deposits and borrowings	22	( 1,911,214)	( 1,750,179)
Net interest income		1,483,361	1,212,641
Commissions revenues and banking service charges	23	487,983	514,052
Gain on foreign currency transactions	24	97,370	46,251
Other income	25	<u>293,048</u>	<u>27,125</u>
Net operating income		2,361,762	1,800,069
Less: commissions' expenses and banking service charges		( 15,073)	( 22,985)
Less: provisions	26	( 631,932)	( 584,764)
Less: general and administrative expenses and depreciation	27	<u>( 1,256,275)</u>	<u>( 1,192,320)</u>
NET PROFIT BEFORE TAX		458,482	-
Less: income tax for the year	17	( 40,944)	-
NET PROFIT FOR THE YEAR		<u>417,538</u>	<u>-</u>
Earnings per share	28	<u>YR 220</u>	<u>-</u>

(The accompanying notes from 1 to 36 form part of these financial statements)

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**YEMEN COMMERCIAL BANK (YCB)  
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**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Note</u>	<u>2005 YR'000</u>	<u>2004 YR'000</u>
<b><u>Cash Flows From Operating Activities</u></b>			
Net profit before tax		458,482	-
<b>Adjustments to reconcile net profit to cash flows from operating activities</b>			
Depreciation	14	122,396	116,247
Provisions	26	631,932	584,764
Provisions provided from uncollected interest	9	158,641	-
Provision reversed	25	( 268,068)	-
Provisions used		( 96,412)	( 36,699)
Net gains on sale of property and equipment		( 222)	( 4,900)
		<u>1,006,749</u>	<u>659,412</u>
<b><u>Net decrease (increase) in assets</u></b>			
Reserve balances with Central Bank of Yemen		( 1,378,864)	220,983
Loans to customers		( 408,030)	( 660,456)
Treasury bills		( 716,976)	387,305
Available for sale investments		-	( 15,000)
Investments in subsidiaries and associates		( 174,780)	-
Debit balances and other assets		24,323	265,653
<b><u>Net increase (decrease) in liabilities</u></b>			
Due to banks		( 260,196)	171,116
Customers' deposits		678,640	( 889,657)
Credit balances and other liabilities		<u>108,360</u>	<u>( 14,996)</u>
<b>Net cash (used in) provided by operating activities</b>		<u>( 1,120,774)</u>	<u>124,360</u>
<b><u>Cash flows from investing activities</u></b>			
Purchases of property and equipment		( 189,914)	( 110,599)
Proceeds from sale of property and equipment		<u>57,585</u>	<u>5,036</u>
<b>Net cash (used in) investing activities</b>		<u>( 132,329)</u>	<u>( 105,563)</u>
<b><u>Cash flows from financing activities</u></b>			
Increase in paid-up capital		<u>602,400</u>	<u>363,550</u>
<b>Net cash provided by financing activities</b>		<u>602,400</u>	<u>363,550</u>
<b>Net change in cash and cash equivalents</b>		( 650,703)	382,347
Cash and cash equivalents at the beginning of the year		<u>15,571,425</u>	<u>15,189,078</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>14,920,722</u>	<u>15,571,425</u>
<b><u>Cash and cash equivalents consist of:</u></b>			
Cash on hand & purchased cheques		616,946	721,488
Due from banks		5,763,579	6,128,501
Treasury bills maturing within 3 months		<u>8,540,197</u>	<u>8,721,436</u>
		<u>14,920,722</u>	<u>15,571,425</u>

(The accompanying notes from 1 to 36 form part of these financial statements)

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General Manager & Chief Executive**

**Auditor's report attached.**

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

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<u>Year</u> <u>2005</u>	<u>Paid-up</u> <u>Capital</u> <u>YR'000</u>	<u>Statutory</u> <u>reserve</u> <u>YR'000</u>	<u>General</u> <u>reserve</u> <u>YR'000</u>	<u>Retained</u> <u>earnings</u> <u>YR'000</u>	<u>Total</u> <u>YR'000</u>
Balance at January 1, 2005	1,597,600	35,345	12,529	290	1,645,764
Capital increase	602,400	-	-	-	602,400
Net profit for the year	-	-	-	417,538	417,538
Transfer to statutory reserve	-	<u>62,631</u>	-	<u>( 62,631)</u>	-
Balance at December 31, 2005	<u>2,200,000</u>	<u>97,976</u>	<u>12,529</u>	<u>355,197</u>	<u>2,665,702</u>

<u>Year</u> <u>2004</u>	<u>Paid-up</u> <u>Capital</u> <u>YR'000</u>	<u>Statutory</u> <u>reserve</u> <u>YR'000</u>	<u>General</u> <u>reserve</u> <u>YR'000</u>	<u>Retained</u> <u>earnings</u> <u>YR'000</u>	<u>Total</u> <u>YR'000</u>
Balance at January 1, 2004	1,234,050	35,345	12,529	290	1,282,214
Capital increase	<u>363,550</u>	-	-	-	<u>363,550</u>
Balance at December 31, 2004	<u>1,597,600</u>	<u>35,345</u>	<u>12,529</u>	<u>290</u>	<u>1,645,764</u>

(The accompanying notes from 1 to 36 form part of these financial statements)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**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 eight branches in the cities of Sana'a (Zubeiry St. and Taiz St. ), Hodeidah, Aden, Taiz, Mukalla, Ibb and Dhamar.

**2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS**

The financial statements are prepared on the historical cost basis, in accordance with the accounting requirements of Central Bank of Yemen (CBY), prevailing local laws and regulations, and rules and instructions issued by CBY.

**3. SIGNIFICANT ACCOUNTING POLICIES**

*a. Translation of foreign currencies*

The Bank maintains its records in Yemeni Rial. 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 statement of income.

*b. Revenue recognition*

- Revenues are recognized on the accrual basis. However, in order to comply with the requirements of CBY circular No. (6) of 1996 and (5) of 1998, 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 declared.
- Income from investments in subsidiaries and associates are recorded when the financial statements of these companies are approved.

*c. 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 balance sheet at face value less balance of unearned discount outstanding at the balance sheet date.

*d. Valuation of available-for-sale investments*

Available-for-sale investments are recorded at cost upon acquisition. At the financial statements date, each investment is revalued at its fair value, with any change in value taken to the statement of income, in accordance with CBY regulations.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

*e. 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.

*f. 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. Impairment losses are charged to the statement of income.

*g. 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>	1%
<u>(including watch list accounts)</u>	
<u>Non-performing loans:</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 balance sheet net of provision (specific and general) and uncollected interest.

*h. Contingent liabilities and commitments*

Contingent liabilities and commitments to which the Bank is a party are presented off balance sheet under contingent liabilities and commitments, as they do not represent actual assets or liabilities at balance sheet date.

*i. Cash and cash equivalents*

For the purpose of preparing the statement of cash flows, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

*j. Impairment of assets*

The Bank reviews the carrying amounts of the assets according to their materiality at each balance sheet 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 statement of income.

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.

*k. Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the statement of income on a straight line basis over the estimated useful life of each asset as follows:

	<u>Estimated Useful Lives</u>
Buildings	20 years
Equipment & Machinery	8 years
Vehicles	5 years
Computers	5 years
Decoration and Furniture	10 years

*l. 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. Due to the nature of Yemeni tax accounting, provision is made for tax liabilities relating to deferred tax. If deferred tax assets exist, their clearance is not usually definite in the foreseeable future. Accordingly, such assets are not recorded.

*m. 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.

*n. End of service compensation*

End of service bonus are calculated and recorded under "credit balances and other liabilities" as follows:

1. Deduction ratios stated in Social Security Law no. 20 of 1991 are applied.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

2. Additionally, the Bank management grants end of service bonus to employees as follows:
  - From one to three years of service, on the basis of half month salary for each year of service.
  - From three to ten years of service, on the basis of a month salary for each year of service.
  - From ten to twenty five years of service, on the basis of a month and half salary of each year of service.
3. For labor contract employees, the end of service bonus and benefits are settled based on these contracts without violating the law.

**4. FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS**

*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

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

- c. Forward contracts

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.

*4.2 Managing related risks*

- a. Interest rate risk

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

Notes (29) and (30) to the financial statements state the maturity dates of the Bank's financial assets and liabilities and average interest rates applied by the Bank during the year respectively.

b. Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due. In order to comply with CBY circular No. (10) of 1997 regarding credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk such as:

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

Note (31) to the financial statements indicates the sectoral distribution of assets, liabilities and contingent liabilities at the balance sheet date.

c. 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 attempts to maintain balanced foreign currencies positions in compliance with CBY instructions in circular No. (6) of 1998, which specifies that individual net foreign currency positions should not exceed 15% of the Bank's capital and reserves, and that the aggregate net open position for all foreign currencies should not exceed 25% of the Bank's capital and reserves.

Note (32) to the financial statements indicates the significant foreign currency positions at the balance sheet date.

**YEMEN COMMERCIAL BANK (YCB)  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**5. CASH ON HAND AND RESERVE BALANCES WITH CBY**

	<b>2005</b>	<b>2004</b>
	<b><u>YR'000</u></b>	<b><u>YR'000</u></b>
Cash on hand – local currency	190,497	203,202
Cash on hand – foreign currency	<u>309,591</u>	<u>414,444</u>
	<u>500,088</u>	<u>617,646</u>
Reserve balances at CBY – local currency	1,866,961	1,810,009
Reserve balances at CBY – foreign currency	<u>3,119,914</u>	<u>1,798,002</u>
	<u>4,986,875</u>	<u>3,608,011</u>
Purchased cheques	<u>116,858</u>	<u>103,842</u>
	<u><u>5,603,821</u></u>	<u><u>4,329,499</u></u>

The reserve balances with Central Bank of Yemen 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.

**6. DUE FROM BANKS**

	<b>2005</b>	<b>2004</b>
	<b><u>YR'000</u></b>	<b><u>YR'000</u></b>
<b>Central Bank of Yemen</b>		
Current accounts – local currency	1,229,965	1,472,168
Current accounts – foreign currency	<u>360,610</u>	<u>371,208</u>
	<u>1,590,575</u>	<u>1,843,376</u>
<b>Foreign banks – current accounts</b>	<u>1,442,165</u>	<u>824,351</u>
Short term deposits – local currency	1,000,000	-
Short time deposits – foreign currency	<u>1,730,839</u>	<u>3,460,774</u>
	<u>2,730,839</u>	<u>3,460,774</u>
	<u><u>5,763,579</u></u>	<u><u>6,128,501</u></u>

**7. TREASURY BILLS (NET)**

	<b>2005</b>	<b>2004</b>
	<b><u>YR'000</u></b>	<b><u>YR'000</u></b>
Treasury bills due within 90 days	8,700,000	8,834,187
Treasury bills due within 180 days	2,150,000	1,300,000
Treasury bills due within 360 days	<u>1,550,000</u>	<u>1,657,610</u>
	12,400,000	11,791,797
Less: Unearned discount balance	( 337,173)	( 264,707)
	<u><u>12,062,827</u></u>	<u><u>11,527,090</u></u>

**YEMEN COMMERCIAL BANK (YCB)  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**8. LOANS AND ADVANCES (NET)**

	<u>Note</u>	<u>2005 YR'000</u>	<u>2004 YR'000</u>
Overdrafts		13,616,661	12,972,322
Loans		5,689,124	5,011,670
LC facilities		97,701	444,078
Staff loans		74,851	57,499
Others		<u>3,121</u>	<u>6,715</u>
		19,481,458	18,492,284
Less: Doubtful loans provision	9	( 5,430,595)	( 4,908,700)
Less: Uncollected interest		<u>( 5,808,260)</u>	<u>( 5,227,116)</u>
		<u>8,242,603</u>	<u>8,356,468</u>

- Non-performing loans and overdraft amounted to YR 12,978,461 Thousand at December 31, 2005 (YR 13,319,424 Thousand at December 31, 2004).
- The shortfall in the provision for loans of YR 1,425 Million as at December 31, 2004 was covered during 2005.
- 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.

**9. LOANS PROVISION (NON-PERFORMING)**

	<u>Note</u>	<u>2005</u>		
		<u>Specific YR'000</u>	<u>General YR'000</u>	<u>Total YR'000</u>
Balance at beginning of the year		4,908,700	-	4,908,700
Transferred to general provision		( 43,997)	43,997	-
Provided during the year				
from income statement	26	363,361	-	363,361
Provided from uncollected interest		158,641		158,641
Used during the year		<u>( 107)</u>	<u>-</u>	<u>( 107)</u>
Balance at the end of the year		<u>5,386,598</u>	<u>43,997</u>	<u>5,430,595</u>
		<u>2004</u>		
		<u>Specific YR'000</u>	<u>General YR'000</u>	<u>Total YR'000</u>
Balance at beginning of the year		4,366,920	-	4,366,920
Provided during the year from income statement		570,324	-	570,324
Used during the year		<u>( 28,544)</u>	<u>-</u>	<u>( 28,544)</u>
Balance at the end of the year		<u>4,908,700</u>	<u>-</u>	<u>4,908,700</u>

**YEMEN COMMERCIAL BANK (YCB)  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**10. AVAILABLE-FOR-SALE INVESTMENTS**

	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
Saba'a Airway Co. (under incorporation)	39,000	39,000
Yemen International Public Transportation Company	25,200	25,200
Al-Amal Bank for lending (under incorporation)	<u>15,000</u>	<u>15,000</u>
	<u>79,200</u>	<u>79,200</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.

**11. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES**

	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b>Shareholding</b> <b>Percentage</b>	<b><u>2004</u></b> <b><u>YR'000</u></b>	<b>Shareholding</b> <b>Percentage</b>
Yemeni Company for financial services (under incorporatin)	<u>174,780</u>	90%	<u>-</u>	-
	<u>174,780</u>		<u>-</u>	

**12. DEBIT BALANCES AND OTHER ASSETS (NET)**

	<b>Note</b>	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
Taxes withheld	34	115,404	115,404
Accrued interest		11,838	6,388
Prepaid expenses		114,041	33,681
Assets which have been transferred to the bank's ownership	3f	89,317	59,378
BCCI balances		197,346	197,306
Stationery stock		12,720	30,942
Inter-branch balances		-	87,014
Refund deposits		20,956	20,800
Sundry debit balances		<u>39,305</u>	<u>74,337</u>
		600,927	625,250
Less: Doubtful debts provision	13	<u>( 21,750)</u>	<u>( 317,565)</u>
		<u>579,177</u>	<u>307,685</u>

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**13. DOUBTFUL DEBTS PROVISION**

	<u>Note</u>	<u>2005 YR'000</u>	<u>2004 YR'000</u>
Balance at the beginning of the year		317,565	565,364
Less: provision used		( 27,747)	-
Less: provision reversed	25	( 268,068)	-
Less: Transferred to other provisions		<u>-</u>	<u>( 247,799)</u>
Balance at the end of the year		<u>21,750</u>	<u>317,565</u>

**14. PROPERTY AND EQUIPMENT (NET)**

	<u>2005</u>			<u>Net Book Value 2004 YR'000</u>
	<u>Cost YR'000</u>	<u>Accumulated Depreciation YR'000</u>	<u>Net Book Value YR'000</u>	
Land	254,467	-	254,467	254,467
Buildings	305,107	98,972	206,135	217,140
Equipment & machinery	272,232	171,808	100,424	117,358
Computers	260,333	76,025	184,308	119,022
Vehicles	149,789	96,075	53,714	70,149
Furniture & decoration	<u>357,711</u>	<u>255,034</u>	<u>102,677</u>	<u>113,434</u>
	<u>1,599,639</u>	<u>697,914</u>	<u>901,725</u>	<u>891,570</u>

Depreciation expense for the year ended December 31, 2005 is YR thousand 122,396 (YR thousand 116,247 for the year ended December 31, 2004), note no. 27.

**15. DUE TO BANKS**

	<u>2005 YR'000</u>	<u>2004 YR'000</u>
Foreign Banks - current accounts	86,868	49,616
Local Banks - time deposits in foreign currency	390,160	-
Foreign Banks - time deposits in foreign currency	<u>-</u>	<u>687,608</u>
	<u>477,028</u>	<u>737,224</u>

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**16. CUSTOMERS' DEPOSITS**

	<u>2005</u> <u>YR'000</u>	<u>2004</u> <u>YR'000</u>
Current accounts	7,172,749	8,509,666
Time and call deposits	10,892,361	9,464,267
Saving accounts	6,259,462	6,472,303
LCs and LGs margins and others	3,413,842	3,133,592
Other deposits	<u>1,292,088</u>	<u>772,034</u>
	<u>29,030,502</u>	<u>28,351,862</u>

**17. CREDIT BALANCES AND OTHER LIABILITIES**

	<u>2005</u> <u>YR'000</u>	<u>2004</u> <u>YR'000</u>
Income tax for the year	40,944	-
Interest payable	132,564	126,707
Accrued expenses	13,493	23,142
Income received in advance	56,399	21,950
End of service compensation	125,000	35,000
Inter-branch balances	3,778	-
Sundry credit balances	<u>29,108</u>	<u>45,183</u>
	<u>401,286</u>	<u>251,982</u>

**18. OTHER PROVISIONS**

		<u>2005</u>			
<u>Description</u>	<u>Note</u>	<u>Provision for contingent claims YR'000</u>	<u>Provision for contingent liabilities YR'000</u>	<u>Other provisions YR'000</u>	<u>Total YR'000</u>
Balance at beginning of the year		589,404	-	43,777	633,181
Provided during the year from income statement	26	54,417	207,790	6,364	268,571
Used during the year		( 54,417)	-	( 14,141)	( 68,558)
Balance at the end of the year		<u>589,404</u>	<u>207,790</u>	<u>36,000</u>	<u>833,194</u>
		<u>2004</u>			
<u>Description</u>	<u>Note</u>	<u>Provision for contingent claims YR'000</u>	<u>Other provisions YR'000</u>	<u>Total YR'000</u>	
Balance at beginning of the year			338,103	40,994	379,097
Provided during the year from income statement			4,440	10,000	14,440
Transferred from debit balances provision	13	247,799	-	-	247,799
Used during the year		( 938)	-	( 7,217)	( 8,155)
Balance at the end of the year		<u>589,404</u>	<u>43,777</u>	<u>36,000</u>	<u>633,181</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**19. SHAREHOLDERS' EQUITY**

*a. Issued and paid-up capital*

The issued and fully paid-up capital of the Bank is YR 2.2 Billion divided into 2.2 million shares of YR one thousand each as follows:

	<u><b>YR'000</b></u>
Issued and paid-up capital as at January 1, 2005	1,597,600
Add: Amounts paid during the year	<u>602,400</u>
Paid up capital at December 31, 2005	<u><u>2,200,000</u></u>

The Bank is currently taking the necessary procedures to register the capital in commercial registration.

*b. Statutory reserve*

According to provisions of the Law, 15% of the net profit for the year is transferred to the statutory reserve until it equals twice the paid-up capital.

**20. CONTINGENT LIABILITIES AND COMMITMENTS (NET)**

	<u><b>2005 YR'000</b></u>	<u><b>2004 YR'000</b></u>
Letters of credit	10,732,945	6,341,511
Letters of guarantee	13,048,259	15,819,881
Others	<u>411,680</u>	<u>377,044</u>
	24,192,884	22,538,436
Less: margins held	<u>( 3,413,842)</u>	<u>( 3,133,592)</u>
	<u><u>20,779,042</u></u>	<u><u>19,404,844</u></u>

**21. INTEREST ON LOANS AND DUE FROM BANKS**

	<u><b>2005 YR'000</b></u>	<u><b>2004 YR'000</b></u>
<u>Interest on loans and overdrafts to customers</u>		
Interest earned on overdrafts	629,228	781,808
Interest earned on loans	<u>553,898</u>	<u>413,570</u>
	<u>1,183,126</u>	<u>1,195,378</u>
<u>Interest on due from banks</u>		
Foreign banks	62,666	55,638
Local banks	<u>265,005</u>	<u>245,176</u>
	<u>327,671</u>	<u>300,814</u>
	<u><u>1,510,797</u></u>	<u><u>1,496,192</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**22. COST OF DEPOSITS AND BORROWINGS**

	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
<u>Interest on customers' deposits</u>		
Interest on time deposits	1,145,391	1,081,614
Interest on call deposits	40,471	31,169
Interest on saving accounts	633,400	610,683
Other interest	89,494	22,094
	<u>1,908,756</u>	<u>1,745,560</u>
<u>Interest on balances due to banks</u>		
Interest paid to local banks	2,308	4,149
Interest paid to foreign banks	150	470
	<u>2,458</u>	<u>4,619</u>
	<u>1,911,214</u>	<u>1,750,179</u>

**23. COMMISSION REVENUES AND BANKING SERVICE CHARGES**

	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
Commissions on documentary credits	153,150	141,300
Commissions on letters of guarantee	224,657	257,207
Commissions on transfer of funds	34,909	29,341
Commissions on cheques collection	4,992	8,496
Commissions on banking services	70,275	77,708
	<u>487,983</u>	<u>514,052</u>

**24. GAIN ON FOREIGN CURRENCY TRANSACTIONS**

	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
Gains on dealing in and translation of foreign currencies	<u>97,370</u>	<u>46,251</u>

**25. OTHER INCOME**

	<b>Note</b>	<b><u>2005</u></b> <b><u>YR'000</u></b>	<b><u>2004</u></b> <b><u>YR'000</u></b>
Provisions reversed	13	268,068	-
Income from subsidiaries and associates		10,155	5,527
Rent		5,231	2,604
Others		9,594	18,994
		<u>293,048</u>	<u>27,125</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**26. PROVISIONS MADE DURING THE YEAR**

	<u>Note</u>	<u>2005</u> <u>YR'000</u>	<u>2004</u> <u>YR'000</u>
Provision for non-performing loans	9	363,361	570,324
Provision for contingent liabilities	18	207,790	-
Provision for contingent claims	18	54,417	4,440
Other provisions	18	<u>6,364</u>	<u>10,000</u>
		<u>631,932</u>	<u>584,764</u>

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>Note</u>	<u>2005</u> <u>YR'000</u>	<u>2004</u> <u>YR'000</u>
Wages, salaries and related costs		568,657	444,031
Board of directors' allowances		2,089	2,450
Stationery and printing supplies		38,416	25,665
Water and electricity		17,013	16,216
Insurance		19,507	16,066
Fuel & maintenance		48,229	31,319
Communications		22,113	26,211
Governmental dues		6,736	9,550
Rent		50,710	50,909
Transportation		39,717	25,358
Depreciation	14	122,396	116,247
Professional fees		111,172	74,917
Donations		12,974	2,040
Hospitality expenses		14,344	12,737
Subscriptions		53,879	17,860
Security		11,288	7,918
Computer expenses		18,735	10,462
Training expenses		17,734	5,637
Medical		7,058	11,036
Bad debts		21,089	251,128
Other expenses		<u>52,419</u>	<u>34,563</u>
		<u>1,256,275</u>	<u>1,192,320</u>

**28. EARNING PER SHARE**

	<u>2005</u>	<u>2004</u>
Net profit for the year (YR thousand)	<u>417,538</u>	<u>-</u>
Weighted average of number of shares (in thousand)	<u>1,899</u>	<u>-</u>
Earning per share (in Yemeni Rial)	<u>220</u>	<u>-</u>

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**29. MATURITIES OF ASSETS AND LIABILITIES**

<u>Description</u>	<u>Due within 3 months YR Million</u>	<u>Due within 6 months YR Million</u>	<u>Due within 9 months YR Million</u>	<u>Due within one year YR Million</u>	<u>Due more than year YR Million</u>	<u>Total YR Million</u>
<b>a. Assets</b>						
Due from banks	5,764	-	-	-	-	5,764
Treasury bills	9,050	1,813	900	300	-	12,063
Investments available-for sale	-	-	-	-	79	79
Investments in subsidiaries and associates	-	-	-	-	175	175
Loans and advances	<u>13,257</u>	<u>1,714</u>	<u>-</u>	<u>935</u>	<u>3,575</u>	<u>19,481</u>
	<u>28,071</u>	<u>3,527</u>	<u>900</u>	<u>1,235</u>	<u>3,829</u>	<u>37,562</u>
<b>b. Liabilities</b>						
Due to banks	477	-	-	-	-	477
Current accounts	7,173	-	-	-	-	7,173
Time deposits	9,603	594	5	690	-	10,892
Saving accounts	6,259	-	-	-	-	6,259
Other deposits	<u>144</u>	<u>599</u>	<u>549</u>	<u>-</u>	<u>-</u>	<u>1,292</u>
	<u>23,656</u>	<u>1,193</u>	<u>554</u>	<u>690</u>	<u>-</u>	<u>26,093</u>

**30. AVERAGE INTEREST RATES APPLIED DURING THE YEAR**

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

<u>Description</u>	<u>Yemeni Rial %</u>	<u>SR %</u>	<u>US Dollar %</u>	<u>Sterling Pound %</u>	<u>Euro %</u>
<b>Assets</b>					
Reserve balances at CBY	13	-	-	-	-
Loans to customers	18	5	7	5	4.5
Overdrafts	19	5	7	5	4.5
Time deposits with banks	-	-	1.75	-	-
Treasury bills	14.5	-	-	-	-
<b>Liabilities</b>					
Time deposits – customers	13	-	-	-	-
Saving accounts	13	-	5	-	-
Time deposits-banks	15	-	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**31. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS**

	<b>Financial YR Million</b>	<b>Trade YR Million</b>	<b>Manufac -turing YR Million</b>	<b>Agricul -tural YR Million</b>	<b>Services YR Million</b>	<b>Individuals &amp; Others YR Million</b>	<b>Total YR Million</b>
<b>ASSETS</b>							
Due from banks	5,764	-	-	-	-	-	5,764
Treasury bills	12,063	-	-	-	-	-	12,063
Investments							
available-for-sale	-	-	-	-	79	-	79
Investments in subsidiaries and associates	-	-	-	-	175	-	175
Loans and advances	-	2,647	13	-	339	16,482	19,481
<b>LIABILITIES</b>							
Due to banks	477	-	-	-	-	-	477
Current accounts	1,480	-	-	-	11	5,682	7,173
Time deposits	823	-	-	-	326	9,743	10,892
Saving accounts	-	-	-	-	-	6,259	6,259
Other deposits	631	-	-	-	14	647	1,292
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>							
Letters of credit	-	4,560	3,700	-	620	1,853	10,733
Letters of guarantee	-	3,420	2,010	200	-	7,418	13,048
Other	-	-	-	-	-	412	412

**32. SIGNIFICANT 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:

	<b>2005</b>		<b>2004</b>	
	<b>Surplus (deficit) YR'000's</b>	<b>% of capital &amp; reserves</b>	<b>Surplus (deficit) YR'000's</b>	<b>% of capital &amp; reserves</b>
US Dollar	192,230	8%	2,528,978	154%
Sterling Pound	( 24,559)	( 1%)	21,401	1%
UAE Dirham	1,288	-	22,059	1%
Saudi Arabia Rial	171,029	7%	( 129,809)	( 8%)
Japanese Yen	7,664	-	1,131	-
Euro	( 31,714)	( 1%)	138,762	8%
Swiss Franc	5,667	-	1,204	-
Others	1,264	-	55,098	3%
Surplus	<u>379,142</u>	<u>16%</u>	<u>2,768,633</u>	<u>168%</u>
Deficit	<u>( 56,273)</u>	<u>( 2%)</u>	<u>( 129,809)</u>	<u>( 8%)</u>

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**33. TRANSACTIONS WITH RELATED 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 balance sheet date.

	<b>2005</b> <b><u>YR' million</u></b>	<b>2004</b> <b><u>YR' million</u></b>
Loans and advances (before provisions)	4,791	5,642
Current accounts & time deposits	1,544	1,193
Indirect facilities	7,372	3,423

**34. TAXATION**

- The Bank has settled and remitted the tax for the years 2001 - 2004 based on notification no. "5 Final".
- The appeal committee issued its decision no. (3) on January 20, 2004 for corporate tax due for 2000. The agreed-upon tax differences were paid and the dispute is settled.
- For corporate tax for 1999, the appeal committee issued its decision no. (4) on January 20, 2004 for a claim of YR 455 million. The Bank has filed an appeal to the Public Fund Court and the dispute is still outstanding.
- The Bank has received the initial tax assessment for corporate tax for 1998 amounting to YR 493 million. The Bank filed an appeal to the Tax Department and the dispute is still outstanding.
- For corporate tax for 1997, the appeal committee has issued its decision no. (3) on March 25, 2000 for an assessment of YR 137 million. The Bank has filed an appeal against the said decision to the court after payment (50%) of the appealed tax as a deposit.
- For corporate tax for 1996, the appeal committee issued its decision no. (3) on April 10, 1999 for an assessment of YR 94 million. The Bank has filed an appeal against the said decision to the court after payment (50%) of the appealed tax as a deposit.
- Corporate tax has been cleared through 1995.

**35. ZAKAT**

The Bank submits its Zakat declarations on time. The Bank was notified of additional assessments for the years 2000 to 2004 totaling YR thousand 499,777. The Bank objected to these assessments on time and submitted an appeal to the Public Funds Court for the years 2000 to 2002 at July 30, 2003. The court decided on May 23, 2004 to deliberate the verdict. Management believes that the Bank has strong legal position in this case.

**36. COMPARATIVE FIGURES**

Certain comparative figures were reclassified to conform with this year's financial statements classification.