

TRANSLATION FROM ORIGINAL ARABIC TEXT

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
AND AUDITOR'S REPORT

TRANSLATION FROM ORIGINAL ARABIC TEXT

YEMEN COMMERCIAL BANK
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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 (the Bank), which comprise the balance sheet as at December 31, 2006, and the income statement, cash flow statement and statement of changes in shareholders' equity for the year 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 the accounting requirements of Central Bank of Yemen 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. 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

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In our opinion, the financial statements present fairly, in all material respects, the financial position of Yemen Commercial Bank as at December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with the accounting requirements of Central Bank of Yemen 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, April 8, 2007

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DRAFT FOR DISCUSSION PURPOSES ONLY

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

BALANCE SHEET
AS AT DECEMBER 31, 2006

ASSETS	Note	2006 YR'000	2005 YR'000
Cash on hand & reserve balances with Central Bank of Yemen (CBY)	5	5,311,888	5,486,963
Due from banks	6	6,534,013	5,763,579
Treasury bills (net)	3c/7	11,479,607	12,062,827
CBY certificates of deposits	3d/8	3,950,000	-
Loans and advances (net)	3h/9	10,004,882	8,242,603
Available-for-sale investments	3e/11	79,200	79,200
Investments in subsidiaries and associates	3f/12	174,780	174,780
Debit balances and other assets (net)	13	1,836,791	696,035
Property and equipment (net)	3l/15	<u>1,960,000</u>	<u>901,725</u>
TOTAL ASSETS		<u>41,331,161</u>	<u>33,407,712</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	16	225,878	477,028
Customers' deposits	17	34,720,723	29,030,502
Credit balances and other liabilities	18	364,328	401,286
Other provisions	19	<u>1,327,190</u>	<u>833,194</u>
TOTAL LIABILITIES		<u>36,638,119</u>	<u>30,742,010</u>
SHAREHOLDERS' EQUITY			
Paid-up capital	20		
Statutory reserve	20a	3,650,187	2,200,000
General reserve	20b	237,827	97,976
Retained earnings		<u>12,529</u>	<u>12,529</u>
		<u>792,499</u>	<u>355,197</u>
TOTAL SHAREHOLDERS' EQUITY		<u>4,693,042</u>	<u>2,665,702</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>41,331,161</u>	<u>33,407,712</u>
CONTINGENT LIABILITIES AND COMMITMENTS (NET)			
	3i/21	<u>30,018,997</u>	<u>20,779,042</u>

(The accompanying notes from 1 to 37 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.)

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

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 YR'000	2005 YR'000
Interest on loans and due from banks	22	2,138,029	1,510,797
Interest on treasury bills		<u>1,791,453</u>	<u>1,883,778</u>
		3,929,482	3,394,575
Less: cost of deposits and borrowings	23	(1,993,676)	(1,911,214)
Net interest income		1,935,806	1,483,361
Commissions revenues and banking service charges	24	634,049	487,983
Gain on foreign currency transactions	25	88,717	97,370
Other income	26	<u>264,876</u>	<u>293,048</u>
Net operating income		2,923,448	2,361,762
Less: commissions' expenses and banking service charges		(24,188)	(15,073)
Less: provisions	27	(565,310)	(631,932)
Less: general and administrative expenses and depreciation	28	(1,371,438)	(1,256,275)
NET PROFIT BEFORE TAX		962,512	458,482
Less: income tax for the year	18	(30,172)	(40,944)
NET PROFIT FOR THE YEAR		<u>932,340</u>	<u>417,538</u>
Earnings per share	29	<u>YR 365</u>	<u>YR 220</u>

(The accompanying notes from 1 to 37 form part of these financial statements)

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

CASH FLOWS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 YR'000	2005 YR'000
<i>Cash Flows From Operating Activities</i>			
Net profit before tax		962,512	458,482
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation	15	133,445	122,396
Provisions	27	565,310	631,932
Provisions provided from uncollected interest	10	910	158,641
Provision reversed	26	(221,450)	(268,068)
Provisions used		(95,625)	(96,412)
Corporate tax paid		40,944	-
Net gains on sale of property and equipment		(702)	(222)
		<u>1,385,344</u>	<u>1,006,749</u>
<i>Net decrease (increase) in assets</i>			
Reserve balances with Central Bank of Yemen		423,440	(1,378,864)
Loans to customers		(1,482,889)	(408,030)
Treasury bills		671,028	(716,976)
CBY certificates of deposits		(3,950,000)	-
Investments in subsidiaries and associates		-	(174,780)
Debit balances and other assets		(1,175,295)	(92,535)
<i>Net increase (decrease) in liabilities</i>			
Due to banks		(251,150)	(260,196)
Customers' deposits		5,690,221	678,640
Credit balances and other liabilities		(108,074)	<u>108,360</u>
Net cash provided by (used in) operating activities		<u>1,202,625</u>	<u>(1,237,632)</u>
<i>Cash flows from investing activities</i>			
Purchases of property and equipment		(1,202,187)	(189,914)
Proceeds from sale of property and equipment		<u>11,169</u>	<u>57,585</u>
Net cash (used in) investing activities		<u>(1,191,018)</u>	<u>(132,329)</u>
<u>Cash flows from financing activities</u>			
Increase in paid-up capital		<u>1,095,000</u>	<u>602,400</u>
Net cash provided by financing activities		<u>1,095,000</u>	<u>602,400</u>
		1,106,607	(767,561)
Net change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		<u>14,803,864</u>	<u>15,571,425</u>
Cash and cash equivalents at the end of the year		<u>15,910,471</u>	<u>14,803,864</u>
<u>Cash and cash equivalents consist of:</u>			
Cash on hand & ATM machines		748,453	500,088
Due from banks		6,534,013	5,763,579
Treasury bills maturing within 3 months		<u>8,628,005</u>	<u>8,540,197</u>
		<u>15,910,471</u>	<u>14,803,864</u>

(The accompanying notes from 1 to 37 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 CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Year</u> <u>2006</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, 2006	2,200,000	97,976	12,529	355,197	2,665,702
Transfer to capital	355,187	-	-	(355,187)	-
Capital cash increase	1,095,000	-	-	-	1,095,000
Net profit for the year	-	-	-	932,340	932,340
Transfer to statutory reserve	-	<u>139,851</u>	-	<u>(139,851)</u>	-
Balance at December 31, 2006	<u>3,650,187</u>	<u>237,827</u>	<u>12,529</u>	<u>792,499</u>	<u>4,693,042</u>

<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 cash 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>

(The accompanying notes from 1 to 37 form part of these financial statements)

Sheikh / Mohamed Bin Yehya Al Rowaishan
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Auditor's report attached.

Ayed Almashni
General Manager & Chief Executive

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(KPMG Mejanni, Hazem Hassan & Co.)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 income statement.

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 distributed.
- 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. CBY certificates of deposits

Certificates of deposit are presented at face value, with the related accrued interest outstanding at balance sheet date included under debit balances and other assets.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

e. 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 income statement, in accordance with CBY regulations.

f. 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.

g. 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 income statement.

h. 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%
(including watch list accounts)	
<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.

i. Contingent liabilities and commitments

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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 the balance sheet date.

YEMEN COMMERCIAL BANK (YCB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

j. 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.

k. 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.

l. 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

m. 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.

n. 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.

o. End of service compensation

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End of service bonus were settled to all bank employees based on their service period up to December 31, 2005.

YEMEN COMMERCIAL BANK (YCB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Effective 2006, two months salary were approved for each employee for each year of service instead of end of service bonus according to the Board of Directors resolution dated February 23, 2006. Previously, end of service bonus was calculated and recorded under "credit balances and other liabilities" up to December 31, 2005.

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:

- 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 (30) and (31) 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

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

5. CASH ON HAND AND RESERVE BALANCES WITH CBY

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Cash on hand and ATM machines– local currency	332,155	190,497
Cash on hand and ATM machines – foreign currency	<u>416,298</u>	<u>309,591</u>
	<u>748,453</u>	<u>500,088</u>
Reserve balances at CBY – local currency	2,243,647	1,866,961
Reserve balances at CBY – foreign currency	<u>2,319,788</u>	<u>3,119,914</u>
	<u>4,563,435</u>	<u>4,986,875</u>
	<u>5,311,888</u>	<u>5,486,963</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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

6. DUE FROM BANKS

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
<u>Central Bank of Yemen</u>		
Current accounts – local currency	901,474	1,229,965
Current accounts – foreign currency	<u>171,697</u>	<u>360,610</u>
	<u>1,073,171</u>	<u>1,590,575</u>
<u>Foreign banks</u>		
Current accounts	<u>2,032,821</u>	<u>1,442,165</u>
Short term deposits – local currency	-	1,000,000
Short time deposits – foreign currency	<u>3,428,021</u>	<u>1,730,839</u>
	<u>3,428,021</u>	<u>2,730,839</u>
	<u>6,534,013</u>	<u>5,763,579</u>

7. TREASURY BILLS (NET)

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Treasury bills due within 90 days	8,790,000	8,700,000
Treasury bills due within 180 days	1,380,000	2,150,000
Treasury bills due within 360 days	<u>1,730,000</u>	<u>1,550,000</u>
	11,900,000	12,400,000
Less: Unearned discount balance	(420,393)	(337,173)
	<u>11,479,607</u>	<u>12,062,827</u>

8. CBY CERTIFICATES OF DEPOSITS

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
CBY certificates of deposits within 90 days	<u>3,950,000</u>	<u>-</u>

9. LOANS AND ADVANCES (NET)

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Overdrafts		11,402,844	13,616,661
Loans		8,412,312	5,689,124
LC facilities		115,122	97,701
Staff loans		397,166	74,851
Others		<u>12,781</u>	<u>3,121</u>
		20,340,225	19,481,458
Less: Doubtful loans provision	10	(5,151,205)	(5,430,595)
Less: Uncollected interest		(5,184,138)	(5,808,260)
		<u>10,004,882</u>	<u>8,242,603</u>

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- Non-performing loans and overdrafts amounted to YR 6,327,425 Thousand at December 31, 2006 (after deducting the uncollected interest) (YR 8,150,695 Thousand at December 31, 2005).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

- 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 tax deductible expenses for income tax purposes.

10. LOANS PROVISION (PERFORMING AND NON-PERFORMING)

	<u>Note</u>	<u>2006</u>		
		<u>Specific YR'000</u>	<u>General YR'000</u>	<u>Total YR'000</u>
Balance at beginning of the year		5,386,598	43,997	5,430,595
Transferred to general provision		(39,633)	39,633	-
Add: provided during the year from uncollected interest		910	-	910
Less: provision used		(58,850)	-	(58,850)
Less: provision reversed	26	(221,450)	-	(221,450)
Balance at the end of the year		<u>5,067,575</u>	<u>83,630</u>	<u>5,151,205</u>

	<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	27	363,361	-	363,361
Provided from uncollected interest		158,641	-	158,641
Used during the year		(107)	-	(107)
Balance at the end of the year		<u>5,386,598</u>	<u>43,997</u>	<u>5,430,595</u>

11. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2006 YR'000</u>	<u>2005 YR'000</u>
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.

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12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	<u>2006</u> <u>YR'000</u>	<u>Shareholding</u> <u>Percentage</u>	<u>2005</u> <u>YR'000</u>	<u>Shareholding</u> <u>Percentage</u>
Yemени Company for financial services (under incorporatin)	174,780	90%	174,780	90%
	<u>174,780</u>		<u>174,780</u>	

13. DEBIT BALANCES AND OTHER ASSETS (NET)

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Taxes withheld	35	115,404	115,404
Accrued interest		48,015	11,838
Prepaid expenses		39,211	114,041
Assets which have been transferred to the bank's ownership	3g	341,506	89,317
Balances related to BCCI with CBY		197,477	197,346
Bank of New York balances*		744,035	-
Project in process		130,057	-
Stationery stock		8,137	12,720
Refund deposits		-	20,956
Sundry debit balances		<u>269,238</u>	<u>156,163</u>
		1,893,080	717,785
Less: Doubtful debts provision	14	(56,289)	(21,750)
		<u>1,836,791</u>	<u>696,035</u>

*Balances with Bank of New York are restricted. The Bank is currently taking the necessary legal procedures to release these balances. The Bank management and lawyer believe that the Bank has valid legal position.

14. DOUBTFUL DEBTS PROVISION

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Balance at the beginning of the year		21,750	317,565
Add: provided during the year	27	38,239	-
Less: provision used		(3,700)	(27,747)
Less: provision reversed	26	<u>-</u>	<u>(268,068)</u>
Balance at the end of the year		<u>56,289</u>	<u>21,750</u>

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15. PROPERTY AND EQUIPMENT (NET)

	2006			2005
	Cost	Accumulated	Net	Net
	YR'000	Depreciation	Book Value	Book Value
	YR'000	YR'000	YR'000	YR'000
Land	707,185	-	707,185	229,467
Buildings	644,227	102,743	541,484	231,135
Equipment & machinery	164,838	75,764	89,074	100,424
Computers	428,783	170,743	258,040	184,308
Vehicles	171,598	90,133	81,465	53,714
Furniture & decoration	<u>464,494</u>	<u>181,742</u>	<u>282,752</u>	<u>102,677</u>
	<u>2,581,125</u>	<u>621,125</u>	<u>1,960,000</u>	<u>901,725</u>

Depreciation expense for the year ended December 31, 2006 is YR thousand 133,445 (YR thousand 122,396 for the year ended December 31, 2005), note no. 28.

Property and equipment cost include land and buildings of YR thousand 804,518 which the Bank is currently taking the necessary legal procedures to register them with the official authorities.

16. DUE TO BANKS

	2006	2005
	YR'000	YR'000
Foreign Banks - current accounts	225,878	86,868
Local Banks - time deposits in foreign currency	<u>-</u>	<u>390,160</u>
	<u>225,878</u>	<u>477,028</u>

17. CUSTOMERS' DEPOSITS

	2006	2005
	YR'000	YR'000
Current accounts	9,617,218	7,172,749
Time and call deposits	13,373,263	10,892,361
Saving accounts	6,111,383	6,259,462
LCs and LGs margins and others	4,837,302	3,413,842
Other deposits	<u>781,557</u>	<u>1,292,088</u>
	<u>34,720,723</u>	<u>29,030,502</u>

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18. CREDIT BALANCES AND OTHER LIABILITIES

	Note	2006 YR'000	2005 YR'000
Income tax for the year	35a	30,172	40,944
Interest payable		142,428	132,564
Accrued expenses		12,375	13,493
Income received in advance		113,972	56,399
End of service compensation	3-o	-	125,000
Inter-branch balances		592	3,778
Sundry credit balances		<u>64,789</u>	<u>29,108</u>
		<u>364,328</u>	<u>401,286</u>

19. OTHER PROVISIONS

		2006			
<i>Description</i>	<i>Note</i>	Provision for contingent claims YR'000	Provision for contingent liabilities YR'000	Other provisions YR'000	Total YR'000
Balance at beginning of the year		589,404	207,790	36,000	833,194
Provided during the year from income statement	27	237,596	92,400	197,075	527,071
Used during the year		<u>-</u>	<u>-</u>	<u>(33,075)</u>	<u>(33,075)</u>
Balance at the end of the year		<u>827,000</u>	<u>300,190</u>	<u>200,000</u>	<u>1,327,190</u>
		2005			
<i>Description</i>	<i>Note</i>	Provision for contingent claims YR'000	Provision for contingent liabilities YR'000	Other provisions YR'000	Total YR'000
Balance at beginning of the year		589,404	-	43,777	633,181
Provided during the year from income statement	27	54,417	207,790	6,364	268,571
Used during the year		<u>(54,417)</u>	<u>-</u>	<u>(14,141)</u>	<u>(68,558)</u>
Balance at the end of the year		<u>589,404</u>	<u>207,790</u>	<u>36,000</u>	<u>833,194</u>

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20. 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 2009) divided into 8 million shares of par value of YR 1,000 each to be paid over annual equal installments of YR Million 1,450 including appropriated profits.

The following shows the paid-up capital at December 31, 2006:

	<u>2006</u> <u>YR'000</u>
Capital at beginning of the year	2,200,000
Transfer from retained earning	355,187
Capital paid during the year	<u>1,095,000</u>
Capital at end of the year	<u>3,650,187</u>

The Bank is taking the necessary procedures to record the increase in the commercial register and articles of association.

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.

21. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Letters of credit	16,307,111	10,732,945
Letters of guarantee	18,198,006	13,048,259
Others	<u>351,182</u>	<u>411,680</u>
	34,856,299	24,192,884
Less: margins held	<u>(4,837,302)</u>	<u>(3,413,842)</u>
	<u>30,018,997</u>	<u>20,779,042</u>

22. INTEREST ON LOANS AND DUE FROM BANKS

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
<u>Interest on loans and overdrafts to customers</u>		
Interest earned on overdrafts	527,297	629,228
Interest earned on loans	<u>1,158,711</u>	<u>553,898</u>
	<u>1,686,008</u>	<u>1,183,126</u>
<u>Interest on due from banks</u>		
Foreign banks	148,191	62,666
Local banks	<u>303,830</u>	<u>265,005</u>
	<u>452,021</u>	<u>327,671</u>
	<u>2,138,029</u>	<u>1,510,797</u>

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23. COST OF DEPOSITS AND BORROWINGS

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
<u>Interest on customers' deposits</u>		
Interest on time deposits	1,292,247	1,145,391
Interest on call deposits	39,913	40,471
Interest on saving accounts	597,094	633,400
Other interest	<u>58,005</u>	<u>89,494</u>
	<u>1,987,259</u>	<u>1,908,756</u>
<u>Interest on balances due to banks</u>		
Interest paid to local banks	6,417	2,308
Interest paid to foreign banks	<u>-</u>	<u>150</u>
	<u>6,417</u>	<u>2,458</u>
	<u>1,993,676</u>	<u>1,911,214</u>

24. COMMISSION REVENUES AND BANKING SERVICE CHARGES

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Commissions on documentary credits	221,108	153,150
Commissions on letters of guarantee	301,050	224,657
Commissions on transfer of funds	40,700	34,909
Commissions on cheques collection	2,274	4,992
Commissions on banking services	<u>68,917</u>	<u>70,275</u>
	<u>634,049</u>	<u>487,983</u>

25. GAIN ON FOREIGN CURRENCY TRANSACTIONS

	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Gains on dealing in and translation of foreign currencies	<u>88,717</u>	<u>97,370</u>

26. OTHER INCOME

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Provisions reversed	10	221,450	268,068
Investments income		-	10,155
Rent		8,077	5,231
Others		<u>35,349</u>	<u>9,594</u>
		<u>264,876</u>	<u>293,048</u>

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27. PROVISIONS MADE DURING THE YEAR

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Provision for non-performing loans	10	-	363,361
Provision for debit balances	14	38,239	-
Provision for contingent liabilities	19	92,400	207,790
Provision for contingent claims	19	237,596	54,417
Other provisions	19	<u>197,075</u>	<u>6,364</u>
		<u>565,310</u>	<u>631,932</u>

28. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	<u>Note</u>	<u>2006</u> <u>YR'000</u>	<u>2005</u> <u>YR'000</u>
Wages, salaries and related costs		540,915	568,657
Board of directors' allowances		5,193	2,089
Stationery and printing supplies		33,829	38,416
Water and electricity		17,732	17,013
Insurance		27,933	19,507
Fuel & maintenance		46,903	48,229
Communications		24,649	22,113
Governmental dues		3,811	6,736
Rent		58,747	50,710
Transportation		45,257	39,717
Depreciation	15	133,445	122,396
Professional fees		95,618	111,172
Donations		7,874	12,974
Hospitality expenses		16,653	14,344
Subscriptions		153,997	53,879
Security		16,666	11,288
Computer expenses		25,533	18,735
Training expenses		33,740	17,734
Medical		13,350	7,058
Bad debts		3,255	21,089
Other expenses		<u>66,338</u>	<u>52,419</u>
		<u>1,371,438</u>	<u>1,256,275</u>

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29. EARNING PER SHARE

	<u>2006</u>	<u>2005</u>
Net profit for the year (YR thousand)	<u>932,340</u>	<u>417,538</u>
Weighted average of number of shares (in thousand)	<u>2,555</u>	<u>1,899</u>
Earning per share (in Yemeni Rial)	<u>365</u>	<u>220</u>

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30. MATURITIES OF ASSETS AND LIABILITIES

<i>Description</i>	Due within 3 months <u>YR Million</u>	Due within 6 months <u>YR Million</u>	Due within 9 months <u>YR Million</u>	Due within one year <u>YR Million</u>	Due more than year <u>YR Million</u>	Total <u>YR Million</u>
a. Assets						
Cash on hand & reserve balances with CBY	5,111	91	-	110	-	5,312
Due from banks	6,534	-	-	-	-	6,534
Treasury bills	8,628	1,293	-	1,559	-	11,480
CBY certificates of deposit	3,950	-	-	-	-	3,950
Loans and advances	16,246	894	1,326	-	1,874	20,340
Available-for sale investments	-	-	-	-	79	79
Investments in subsidiaries and associates	-	-	-	-	175	175
	<u>40,469</u>	<u>2,278</u>	<u>1,326</u>	<u>1,669</u>	<u>2,128</u>	<u>47,870</u>
b. Liabilities						
Due to banks	226	-	-	-	-	226
Current accounts	9,617	-	-	-	-	9,617
Time deposits	12,030	608	-	-	735	13,373
Saving accounts	6,111	-	-	-	-	6,111
Other deposits	782	-	-	-	-	782
	<u>28,766</u>	<u>608</u>	<u>-</u>	<u>-</u>	<u>735</u>	<u>30,109</u>

31. AVERAGE INTEREST RATES APPLIED DURING THE YEAR

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

<i>Description</i>	Yemeni Rial %	SR %	US Dollar %	Sterling Pound %	Euro %
Assets					
Reserve balances at CBY	13	-	-	-	-
Banks – time deposits	-	4.7	5	5	4.5
Loans to customers	18	-	8	5	4.5
Overdrafts	19	-	8	5	4.5
Treasury bills	15.65	-	-	-	-
CBY certificates of deposit	15.65	-	-	-	-
Liabilities					
Time deposits – customers	13	5	3.5	3.5	2.5
Saving accounts	13	-	-	-	-
Time deposits-banks	15	-	-	-	-

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32. DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS

	<u>Financial</u> <u>YR Million</u>	<u>Trade</u> <u>YR Million</u>	<u>Manufac</u> <u>-turing</u> <u>YR Million</u>	<u>Agricul</u> <u>-tural</u> <u>YR Million</u>	<u>Services</u> <u>YR Million</u>	<u>Individuals</u> <u>& Others</u> <u>YR Million</u>	<u>Total</u> <u>YR Million</u>
ASSETS							
Due from banks	6,534	-	-	-	-	-	6,534
Treasury bills	11,480	-	-	-	-	-	11,480
CBY certificates of deposit	3,950	-	-	-	-	-	3,950
Loans and advances	-	838	267	75	4	19,156	20,340
Available-for-sale							
Investments	-	-	-	-	79	-	79
Investments in subsidiaries and associates	-	-	-	-	175	-	175
LIABILITIES							
Due to banks	226	-	-	-	-	-	226
Current accounts	389	7	220	4	2	8,995	9,617
Time deposits	83	-	736	59	-	12,495	13,373
Saving accounts	-	1	107	2	-	6,001	6,111
Other deposits	34	1	-	-	-	747	782
CONTINGENT LIABILITIES AND COMMITMENTS							
Letters of credit	-	4,116	21	-	-	12,170	16,307
Letters of guarantee	-	852	375	-	1346	15,625	18,198
Other	-	35	-	-	-	316	351

33. 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:

	<u>2006</u>		<u>2005</u>	
	Surplus (deficit) YR'000's	% of capital & reserves	Surplus (deficit) YR'000's	% of capital & reserves
US Dollar	640,914	16%	192,230	8%
Sterling Pound	9,076	-	(24,559)	(1%)
UAE Dirham	2,063	-	1,288	-
Saudi Arabia Rial	53,932	1%	171,029	7%
Japanese Yen	15,074	-	7,664	-
Euro	(74,595)	(2%)	(31,714)	(1%)
Swiss Franc	12,151	-	5,667	-
Others	11,933	-	1,264	-
Surplus	<u>745,143</u>	<u>19%</u>	<u>379,142</u>	<u>16%</u>
Deficit	<u>(74,595)</u>	<u>(2%)</u>	<u>(56,273)</u>	<u>(2%)</u>

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34. 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.

	2006	2005
	<u>YR' million</u>	<u>YR' million</u>
Loans and advances (before provisions)	4,983	4,918
Current accounts & time deposits	1,130	810
Indirect facilities (net)	8,744	6,237

35. TAXATION

- a. The difference between accounting and tax profit for the year 2006 represents the deduction of YR 876,305 thousand resulting from the adjustment of accounting profit with provisions provided during the year charged to the income statement and used suspense interest and provisions which were subject to tax in the years 1996 to 1998 as the Bank did not deduct these used amounts in prior years on the basis of tax rate of 35%.
- b. Corporate tax
 - The Bank has paid the tax for year 2005 (part of corporate and sales tax) based on notification no. (4). The Bank filed an appeal to the Tax Department on some of the modifications made by the Tax Authority. The tax committee issued its decision no. (9) of the year 2006 to the Bank to pay YR 31.10 million.
 - 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 and also the committee issued its decision and assess to the Bank YR 472 million. The Bank and the tax authority appeal to the court 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.

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- 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.
- On April 1, 2007, the Bank reconciled with the Tax Authority regarding corporate tax for the disputed years from 1996 to 2000 and 2005. The tax due from the Bank is determined to be YR 827 million with the Bank entitled to deduct the used suspense interest and doubtful loans provision used which was subject to tax during the years 1996, 1997 and 1998 from taxable profits in the years following 2005 as the Bank did not deduct the used amounts in prior years. The Bank has provided for these taxes.

36. 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 September 4, 2006 to reject the Bank appeal. The Bank has provided for the expected amount to be settled.
- The Bank submitted its 2005 Zakat declaration and paid the amount due. No assessment notification was issued by the Zakat department for 2005.

37. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with this year's financial statements classification. Such reclassification does no impact the previously reported net profit or shareholders' equity.
