

**SHAMIL BANK OF YEMEN AND BAHRAIN  
(ISLAMIC BANK)  
(YEMENI SHAREHOLDING CLOSED COMPANY)  
FINANCIAL STATEMENTS  
31 DECEMBER 2004**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SHAMIL BANK OF YEMEN AND BAHRAIN (ISLAMIC BANK) YSCC**

We have audited the accompanying balance sheet of Shamil Bank of Yemen and Bahrain (Islamic Bank) (Yemen Shareholding Closed Company) as of 31 December 2004 and the related statements of income, cash flows, changes in equity and changes in restricted investments for the year then ended and the notes to the financial statements set out on page 7 to 22. These financial statements and the bank's undertaking to operate in accordance with *Islamic Shar'iah rules and principles* 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 Auditing Standards for Islamic Financial Institutions, International Standards on Auditing and the applicable 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Shamil Bank of Yemen and Bahrain (Islamic Bank) (Yemen Shareholding Closed Company) as of 31 December 2004 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Accounting Standards and the applicable laws and regulations.

We further report that the bank maintains proper accounting records and the financial statements are in agreement therewith. To the best of our knowledge and belief no violation of the Banking law no. 38 of 1998, nor of the Islamic Bank law no. 21 of 1996 nor of the commercial law no.22 of 1997 and its amendments nor of the applicable local regulations have occurred during the financial year ended 31 December 2004 that might have had a material adverse effect on the business of the bank or on its financial position.

Mohamed Taha Hamood & Co.  
**Mohamed Taha Hamood & Co.**  
10 May 2005  
Sana'a

MOHAMED TAHA HAMOOD  
( CERTIFIED ACCOUNTANT )  
SANA'A

**Sh: mil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.**

**BALANCE SHEET**

**31 December 2004**

| ASSETS   | Note | 2004<br>YR            | 2003<br>YR           |
|--|------|-----------------------|----------------------|
| Cash and reserve balances with Central Bank of Yemen                   | 8    | 2,449,634,017         | 1,363,442,702        |
| Balances with banks and financial institutions                         | 9    | 4,791,260,058         | 4,960,251,156        |
| Murahaba contracts   | 10   | 2,935,740,962         | 1,643,286,581        |
| Restricted investments   |      | 306,598,468           | 319,250,358          |
| Investment in land   |      | 21,909,830            | —                    |
| Investment in an associate   | 12   | 136,150,000           | 20,000,000           |
| Receivables and other assets   | 13   | 672,733,752           | 838,585,609          |
| Fixed assets   | 14   | 167,079,753           | 174,139,695          |
| <b>TOTAL ASSETS</b>  | 15   | <u>11,481,106,840</u> | <u>9,318,956,101</u> |
| <b>LIABILITIES, INVESTMENT ACCOUNTS AND EQUITY</b>                     |      |                       |                      |
| <b>LIABILITIES</b>   |      |                       |                      |
| Customers' current accounts and other deposits                         | 16   | 6,806,849,569         | 6,635,556,160        |
| Balances due to banks and financial institutions                       | 17   | 837,955,662           | 5,437,063            |
| Payables and other liabilities   | 18   | 444,948,043           | 84,592,831           |
| Other provisions   | 19   | 137,849,867           | 95,134,595           |
|  |      | <u>8,227,603,141</u>  | <u>6,820,720,649</u> |
| UNRESTRICTED INVESTMENT ACCOUNTS                                       | 20   | 1,212,385,522         | 419,630,683          |
| <b>TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS</b>          |      | <u>9,439,988,663</u>  | <u>7,240,351,332</u> |
| RESTRICTED INVESTMENT ACCOUNTS   |      | <u>306,598,468</u>    | <u>319,250,358</u>   |
| <b>SHAREHOLDERS' EQUITY</b>  |      |                       |                      |
| Share capital  |      | 2,000,000,000         | 2,000,000,000        |
| Accumulated losses   | 21   | (265,480,291)         | (240,645,589)        |
| <b>TOTAL LIABILITIES, INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY</b> |      | <u>11,481,106,840</u> | <u>9,318,956,101</u> |
| <b>CONTINGENT LIABILITIES</b>  |      |                       |                      |
| Letters of Credit, Guarantees And Other Commitments                    | 30   | 14,298,696,427        | 9,167,243,602        |

Mr. Khalid Bamattraf  
Finance Manager

Mr. Mohamed Najeeb  
General Manager

Mr. Ahmad Abubaker Bazar'a  
Chairman

The attached notes 1 to 36 form part of these financial statements.

**Shamil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.****STATEMENT OF INCOME****Year ended 31 December 2004**

|  | <i>Note</i> | <b>2004</b>         | <b>2003</b>  |
|--|-------------|---------------------|--------------|
|  |             | <b>YR</b>           | <b>YR</b>    |
| Revenue from murabaha contracts                      |             | <b>150,047,208</b>  | 64,651,082   |
| Less:  |             |                     |              |
| Allocated to unrestricted investment account holders |             | <b>(68,853,841)</b> | (13,721,030) |
| Bank share from murabaha revenue                     |             | <b>81,193,367</b>   | 50,930,052   |
| Bank income from own investments                     |             | <b>24,046,465</b>   | 28,868,287   |
| Bank share from unrestricted investment              |             | <b>3,118,009</b>    | ---          |
| Fee and commission income                            |             | <b>132,426,306</b>  | 95,644,364   |
| Foreign exchange gain                                |             | <b>63,807,864</b>   | 104,841,259  |
| Other income   |             | <b>59,047,509</b>   | 12,808,445   |
|  |             | <b>363,639,520</b>  | 293,092,407  |
| Less:  |             |                     |              |
| Commissions and fees for banking services            |             | <b>8,752,442</b>    | 7,259,927    |
| Provisions   |             | <b>103,406,624</b>  | 78,208,884   |
| General and administration expenses                  |             | <b>247,223,997</b>  | 238,617,643  |
|  |             | <b>359,383,063</b>  | 324,086,454  |
| NET PROFIT   |             | <b>4,256,457</b>    | (30,994,047) |
| Provision for Zakat                                  |             | <b>(29,091,159)</b> | (31,009,382) |
| NET (LOSS) FOR THE YEAR                              |             | <b>(24,834,702)</b> | (62,003,429) |

The attached notes 1 to 36 form part of these financial statements.

**Shamil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.****STATEMENT OF CASH FLOWS**

Year ended 31 December 2004

|  | <i>Note</i> | <i>2004</i>            | <i>2003</i>            |
|--|-------------|------------------------|------------------------|
|  |             | <i>YR</i>              | <i>YR</i>              |
| <b>OPERATING ACTIVITIES</b>  |             |                        |                        |
| Net loss for the year  |             | (24,834,702)           | (62,003,429)           |
| Adjustments for:   |             |                        |                        |
| Depreciation   |             | 41,507,688             | 34,529,216             |
| Provisions   |             | 103,406,624            | 78,208,884             |
| Profit on disposal of fixed asset  |             | (131,195)              | (3,326,520)            |
| Exchange difference for provisions in foreign currencies (excluding bad debts provision) |             | 174,336                | 613,567                |
| Operating profit before changes in operating assets and liabilities                      |             | <u>120,122,751</u>     | <u>48,021,718</u>      |
| (Increase) in balances with Central Bank of Yemen  |             | (780,770,540)          | (814,237,220)          |
| Decrease(Increase) in receivables and other assets                                       |             | 165,851,857            | (496,430,973)          |
| Increase(Decrease) in payables and other liabilities                                     |             | 360,355,212            | (4,401,476)            |
| Cash (used in) operating activities  |             | <u>(134,440,720)</u>   | <u>(1,267,047,951)</u> |
| <b>INVESTING ACTIVITIES</b>  |             |                        |                        |
| (Increase) in murabaha contracts   |             | (1,353,320,069)        | (1,237,839,413)        |
| Investment in land   |             | (21,909,830)           | ---                    |
| (Increase) in investment in an associate   |             | (116,150,000)          | (10,000,000)           |
| Proceeds from disposal of fixed assets   |             | 282,259                | 3,326,520              |
| Purchases of fixed assets  |             | (34,598,810)           | (28,175,050)           |
| Net cash (used in) investing activities  |             | <u>(1,525,696,450)</u> | <u>(1,272,687,943)</u> |
| <b>FINANCING ACTIVITIES</b>  |             |                        |                        |
| Increase in unrestricted investment accounts   |             | 792,754,839            | 263,085,859            |
| Increase in current accounts and other deposits  |             | 171,293,409            | 2,203,433,700          |
| Increase in balance due to banks and financial institutions                              |             | 832,518,599            | (185,860,755)          |
| Net cash from financing activities   |             | <u>1,796,566,847</u>   | <u>2,280,658,804</u>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |             | <u>136,429,677</u>     | <u>(259,077,090)</u>   |
| Cash and cash equivalents at the beginning of the year                                   |             | <u>5,228,890,358</u>   | <u>5,487,967,448</u>   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                                  |             | <u>5,365,320,035</u>   | <u>5,228,890,358</u>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR ARE MADE UP OF:</b>                      |             |                        |                        |
| Cash in hand   |             | 574,059,977            | 268,639,202            |
| Balances with banks and financial institutions   |             | 4,791,260,058          | 4,960,251,156          |
| Total  |             | <u>5,365,320,035</u>   | <u>5,228,890,358</u>   |

The attached notes 1 to 36 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

|                                    | <i>No</i> | <i>Share capital</i><br><i>YR</i> | <i>Accumulated</i><br><i>losses</i><br><i>YR</i> | <i>Total</i><br><i>YR</i> |
|------------------------------------|-----------|-----------------------------------|--|---------------------------|
| Balance at 1 January 2003          |           | 2,000,000,000                     | (178,642,160)                                    | 1,821,357,840             |
| Net loss for the year              |           | ---                               | (62,003,429)                                     | (62,003,429)              |
| Balance at 31 December 2003        |           | 2,000,000,000                     | (240,645,589)                                    | 1,759,354,411             |
| Net loss for the year              |           | ---                               | (24,834,702)                                     | (24,834,702)              |
| <b>Balance at 31 December 2004</b> |           | <b>2,000,000,000</b>              | <b>(265,480,291)</b>                             | <b>1,734,519,709</b>      |

The attached notes 1 to 36 form part of these financial statements.

**STATEMENT OF CHANGES IN RESTRICTED INVESTMENTS**

Year ended 31 December 2004

|   | <i>Portfolio investment</i> |                    |
|---|-----------------------------|--------------------|
|   | <i>2004</i>                 | <i>2003</i>        |
|   | <i>YR</i>                   | <i>YR</i>          |
| Investment at the beginning of the year           | 319,250,358                 | ----               |
| Deposits  | 241,592,000                 | 313,310,000        |
| Withdrawals                                       | (263,944,027)               | ----               |
| Profit for the year                               | 12,818,146                  | 5,940,385          |
| Bank share from the restricted investments profit | (3,118,009)                 | ---                |
| Balance at the end of the year                    | <u>306,598,468</u>          | <u>319,250,358</u> |

The attached notes 1 to 36 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**At 31 December 2004**

**1 ACTIVITIES**

The bank is a Yemeni Shareholding Closed Company (Y.S.C.C.) registered in Yemen as an Islamic Bank on 17 February 2002 in accordance with Islamic Banking law No. 21 of 1996, Commercial Companies law No. 22 of 1997 and Banking law No. 38 of 1998. It is engaged in all banking, financial, commercial and investment activities, the development and contribution in the construction of industrial and economic development projects within and outside the country according to Islamic principles.

The bank operates in the Republic of Yemen through its head office in Sana'a and its branches in Sana'a and Aden.

**2 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with the Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, the International Accounting Standards, local legislation and Central Bank of Yemen guidelines.

**3 SIGNIFICANT ACCOUNTING POLICIES**

**3-1 Foreign currencies**

The bank maintains its accounting records in Yemeni Riyals and transactions in other currencies are recorded during the year on the basis of exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

**3-2 Revenue recognition**

***Murabaha***

Revenue from murabaha contracts are recorded on accrual basis where income is recognised on a time apportioned basis over the period of the contract based on the principal amount outstanding.

In accordance with Central Bank instructions the revenue from irregular murabaha contracts cease to be recorded in the income statement and when an account is dealt with on the non accrual basis all revenue relating to the previous three months relating to the irregular accounts are not reported in the income statement and are excluded from the investment account holders and are included in payables and other liabilities as deferred revenue.



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3-3 Revaluation of murabaha financing contracts

During the period prior to the completion of the murabah contract the bank records the value of the assets available for sale at historical cost and at the end of each financial year a provision is made for each asset where the fair value of the asset is reduced from the carrying value. These assets are disclosed in the financial statements under the murabaha contracts heading after deducting the related provision.

Receivables relating to murabaha contracts are recorded at cost plus the profit agreed in the murabaha contract. In accordance with Central Bank of Yemen guidelines provision should be made for irregular murabaha contracts or contingent liabilities. In addition a general provision should be made against general risks calculated as a percentage of total value of murabaha contracts and other contingent liabilities after deducting balances secured by deposits or bank guarantees issued by external banks. The provision is to be computed in the light of a detailed periodical study of the balances of murabaha contracts and contingent liabilities according to the following percentages, as a minimum:

|                               |      |
|-------------------------------|------|
| <b>Regular receivables</b>    | 1%   |
| <b>Irregular receivables:</b> |      |
| Receivables below standard    | 15%  |
| Doubtful receivables          | 45%  |
| Bad debts                     | 100% |

Murabaha financing contracts receivables are written off in cases where the bank collection procedures fail to recover the debt or according to the instructions of the Central Bank of Yemen based on its inspection procedures. Amounts written off are deducted from the provision account. Amount recovered from debts previously written off are credited to the provision account. The outstanding balances of murabaha financing contracts, whether short or long term are disclosed in the financial statements at net book value after the deduction of the related provision, the specific and general provision and after the deduction of the amount of deferred revenue which is outstanding on the date of financial statements.

3-4 Revaluation of restricted investment accounts

The revaluation of murabaha contracts which are financed from restricted investment accounts are carried out on the same basis as shown above.

Profit/(loss) and provision relating to these transactions are recorded in the restricted investment accounts after deducting the bank share for managing these investments.

3-5 Investment in land

The investment in land is recorded at the acquisition cost less accumulated depreciation and impairment loss, if any, over the lease period.

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3-6 Contingent liabilities and commitments**

Contingent liabilities and commitments which the bank undertakes on behalf of its customers are disclosed under "contingent liabilities and other commitments" since these do not represent actual assets or liabilities at the balance sheet date.

**3-7 Cash and cash equivalents**

For the purposes of preparing the statement of cash flows cash and cash equivalents include cash, balances with the Central Bank of Yemen excluding the reserve balances and current account balances with banks.

**3-8 Fixed assets and depreciation**

Fixed assets are recorded at historical cost after deducting accumulated depreciation and any impairment in the value of the fixed assets. These assets are depreciated using the straight-line method over the estimated useful life of each asset. The depreciation is taken to the income statement. The rate of depreciation is based upon the following estimated useful lives:

| <i>Asset</i>                      | <i>Depreciation rate</i> |
|-----------------------------------|--------------------------|
| Leasehold improvements            | 8 years                  |
| Equipment, computers and software | 5 to 33 years            |
| Motor vehicles                    | 5 years                  |
| Furniture and fixtures            | 5 to 8 years             |

**3-9 Impairment in fixed assets value**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a fixed assets or group of fixed assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised for the difference between the recoverable amount and the carrying amount taken to the statement of income.

Where there are increases in the assets values, which were previously written down and charged to the income statement then these increases are recognised to the extent of the value of the relevant assets prior to the reduction of their book value.

**3-10 Taxation**

Taxation is provided for in accordance with the laws in the Republic of Yemen.

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***3-11 Statement of changes in restricted investments***

The statement of changes in restricted investments shows the investments which are financed fully from the funds received by the bank from restricted investment accounts or where unit investments are issued from funds which do not relate to the bank.

The bank manages the restricted investment portfolio and the unit investments as an agent and does not participate in the profit of such investments. The transactions for the restricted investments are shown in the statement of changes in restricted investments.

***3-12 Revenue and expenses not compliant with Islamic principles***

Net revenue and expenses not compliant with Islamic principles are recorded in the balance sheet under the heading payables and other liabilities and are used for charities and donations.

***3-13 Letters of credit and guarantee commissions***

The bank records commission income from letters of credit and guarantee when earned.

***3-14 Unrestricted investment account holders income***

At the end of each financial year income for each deposit will be calculated by a percentage of the deposit amount to the total amount invested from net profits for the year. The bank is a mudareb and deducts its fees from such profits.

**4 SUPERVISION OF THE BANK**

The bank activities are subject to the supervision of the Central Bank of Yemen and according to instructions and laws which regulate the banking activity in Yemen such as determining reserve ratio to be deposited with the Central Bank and the basis of the classification of debts and contingent liabilities and also the matters which relate to the Islamic banks.

**5 SHARI'AH COMMITTEE**

The bank activities are subject to the supervision of Shari'ah committee, which consists of three or more members who are appointed annually by the Annual General Meeting (AGM) based on the board of directors' recommendation. They should be selected from Shari'ah scholars and their responsibilities are restricted to the supervision of the bank activities to ensure that the bank operates according to the Islamic Shari'ah rules and to issue an annual report to the Annual General Meeting (AGM) of the bank to provide its opinion as to the operations of the bank.

**6 ZAKAT**

Zakat calculation is in accordance with the fatwa issued by the Shari'ah committee of the bank. Zakat is collected from the shareholders and is paid to the relevant government authority which will distribute it in accordance with Shari'ah.

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**7 FINANCIAL INSTRUMENTS AND RELATED RISKS MANAGEMENT**

**7-1 Financial instruments**

a) Financial instruments of the bank consist of financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with banks, murabaha financing transactions and related receivables. Financial liabilities include customers' current accounts, saving accounts, unrestricted investment account holders and due to banks. Also included in financial instruments are right and obligations included under contingent liabilities and commitments. Note (3) to the financial statements include the accounting policies adopted for the recording and measurement of the important financial instruments and the related revenue and expenses.

b) According to the basis used for the revaluation of the bank assets and liabilities as specified in the notes to the financial statements, the fair value of the financial instruments are not materially different from their book values at the balance sheet date.

**7-2 Risks management related to financial instruments**

**a) Credit risk**

Murabaha financing transactions and their related receivables, current account balances, deposits with banks, rights and obligations from others are financial assets which are subject to credit risk in the form of the inability of the customers for settling part or the whole of the outstanding amounts on the due dates.

In accordance with the instruction no. 10 of 1997 issued by the Central Bank of Yemen regarding credit risks the bank is required to maintain the minimum standards to enable it to manage the credit risks.

As mentioned in note (3-3) to the financial statements the bank follows the Central Bank of Yemen instructions regarding the computation of provision for the murabaha receivables and applies the following procedures:

- Preparation of credit assessments for customers and determining their credit rating.
- Prior to providing any facilities obtaining adequate securities to minimise the credit risk which may arise in cases where the customers default.
- Regular follow up and study of customers with the objective of evaluation of their financial and credit position and determining the provision required for irregular facilities.
- Distribution of operations and investment to different sectors to avoid the concentration of risk.

Note (34) to the financial statements shows the distribution of assets, liabilities and contingent liabilities and commitments at balance sheet date.

**b) Foreign exchange rate fluctuations risk**

The bank deals with a number of foreign currencies, which may expose it to the risk of fluctuation of the exchange rates. For the purposes of minimising the risk, the bank attempts to balance the foreign currency positions according to the Central Bank of Yemen instruction no. 6 of 1998 whereby the excess in each currency position does not exceed 15% of the total value of capital and reserves. Also the bank ensures that the excess in the cumulative currency position of the bank does not exceed 25% of the total value of its capital and reserves.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

## 8 CASH AND RESERVE BALANCES WITH CENTRAL BANK OF YEMEN

|   | 2004<br>YR           | 2003<br>YR           |
|---|----------------------|----------------------|
| Cash in hand                                | 574,059,977          | 268,639,202          |
| Reserve balances with Central Bank of Yemen | <u>1,875,574,040</u> | <u>1,094,803,500</u> |
|   | <u>2,449,634,017</u> | <u>1,363,442,702</u> |

## 9 BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

|                                       | 2004<br>YR           | 2003<br>YR           |
|---------------------------------------|----------------------|----------------------|
| <b>(i) Central bank of Yemen</b>      |                      |                      |
| Current accounts                      | <u>430,024,050</u>   | <u>544,453,494</u>   |
| <b>(ii) Local banks</b>               |                      |                      |
| Current accounts                      | <u>16,487,232</u>    | <u>33,019,904</u>    |
| <b>(iii) Foreign banks</b>            |                      |                      |
| Current accounts                      | 3,706,033,980        | 3,678,002,488        |
| Deposits with Islamic banks           | 401,486,816          | 312,454,772          |
| Portfolio investment in Islamic banks | <u>237,227,980</u>   | <u>392,320,498</u>   |
|                                       | <u>4,344,748,776</u> | <u>4,382,777,758</u> |
|                                       | <u>4,791,260,058</u> | <u>4,960,251,156</u> |

## 10 MURABAHA CONTRACTS

|  | 2004<br>YR           | 2003<br>YR           |
|--|----------------------|----------------------|
| Murabaha contracts                         | 3,085,094,504        | 1,725,078,102        |
| Provision for murabaha contracts (note 11) | <u>(93,706,956)</u>  | <u>(32,841,268)</u>  |
|  | 2,991,387,548        | 1,692,236,834        |
| Unpaid revenues                            | (3,042,045)          | (2,862,704)          |
| Deferred revenues                          | <u>(52,604,541)</u>  | <u>(46,087,549)</u>  |
|  | <u>2,935,740,962</u> | <u>1,643,286,581</u> |

## 11 PROVISION FOR MURABAHA CONTRACTS

|  | 2004<br>YR        | 2003<br>YR        |
|--|-------------------|-------------------|
| Balance at the beginning of the year     | 32,841,268        | 4,482,218         |
| Charge for the year (note 28)            | 60,865,688        | 28,359,050        |
| Balance at the end of the year (note 10) | <u>93,706,956</u> | <u>32,841,268</u> |

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**12 INVESTMENT IN LAND**

This represents the cost of 238 Fadan of agriculture land for a lease of 30 years in Lahj governorate for the purpose of investment in the name of one of the board of directors. Legal procedures are in progress to complete the registration of the land in the name of the bank.

**13 INVESTMENT IN AN ASSOCIATE**

|   | <i>2004</i><br><i>YR</i> | <i>Share</i><br><i>holding</i><br><i>%</i> | <i>2003</i><br><i>YR</i> | <i>Share</i><br><i>holding</i><br><i>%</i> |
|---|--------------------------|--|--------------------------|--|
| Yemen Islamic Insurance Company (Y.S.C.)    | 20,000,000               | 10%  | 20,000,000               | 10%  |
| Arabian Company for Steel and Iron (Y.S.C.) | 116,150,000              | 5%   | ----                     | ---  |
|   | <u>136,150,000</u>       |  | <u>20,000,000</u>        |  |

**14 RECEIVABLES AND OTHER ASSETS**

|                      | <i>2004</i><br><i>YR</i> | <i>2003</i><br><i>YR</i> |
|----------------------|--------------------------|--------------------------|
| Accrued revenue      | 18,899,693               | 2,124,798                |
| Prepaid expenses     | 27,306,817               | 3,852,925                |
| Staff advances       | 22,218,822               | 15,500,401               |
| Stationery stock     | 4,499,831                | 3,841,485                |
| Letters of credit    | ---                      | 256,153,333              |
| Current accounts     | 353,580,013              | 448,064,687              |
| Murabaha in progress | 138,643,419              | 6,916,052                |
| Sundry debtors       | 107,585,157              | 102,131,928              |
|                      | <u>672,733,752</u>       | <u>838,585,609</u>       |

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

## 15 FIXED ASSETS

|                            | <i>Leasehold<br/>Improvements</i> |                    | <i>Equipment,<br/>computers and<br/>software</i> |                   | <i>Motor vehicles</i> |    | <i>Furniture and<br/>fixtures</i> |    | <i>Total</i> |    |
|----------------------------|-----------------------------------|--------------------|--|-------------------|-----------------------|----|-----------------------------------|----|--------------|----|
|                            | YR                                | YR                 | YR   | YR                | YR                    | YR | YR                                | YR | YR           | YR |
| <b>Cost:</b>               |                                   |                    |  |                   |                       |    |                                   |    |              |    |
| At 1 January 2004          | 68,142,268                        | 107,058,360        | 34,288,947                                       | 16,751,843        | 226,241,418           |    |                                   |    |              |    |
| Additions                  | 50,000                            | 23,802,716         | ---  | 10,746,094        | 34,598,810            |    |                                   |    |              |    |
| Disposals                  | ---                               | (550,054)          | ---  | ---               | (550,054)             |    |                                   |    |              |    |
| <b>At 31 December 2004</b> | <b>68,192,268</b>                 | <b>130,311,022</b> | <b>34,288,947</b>                                | <b>27,497,937</b> | <b>260,290,174</b>    |    |                                   |    |              |    |
| <b>Depreciation:</b>       |                                   |                    |  |                   |                       |    |                                   |    |              |    |
| At 1 January 2004          | 14,889,818                        | 26,077,087         | 7,307,332  | 3,827,486         | 52,101,723            |    |                                   |    |              |    |
| Provided during the year   | 8,520,908                         | 22,016,685         | 6,857,789  | 4,112,306         | 41,507,688            |    |                                   |    |              |    |
| Disposals                  | ---                               | (398,990)          | ---  | ---               | (398,990)             |    |                                   |    |              |    |
| <b>At 31 December 2004</b> | <b>23,410,726</b>                 | <b>47,694,782</b>  | <b>14,165,121</b>                                | <b>7,939,792</b>  | <b>93,210,421</b>     |    |                                   |    |              |    |
| <b>Net book value:</b>     |                                   |                    |  |                   |                       |    |                                   |    |              |    |
| At 31 December 2004        | 44,781,542                        | 82,616,240         | 20,123,826                                       | 19,558,145        | 167,079,753           |    |                                   |    |              |    |
| At 31 December 2003        | 53,252,450                        | 80,981,273         | 26,981,615                                       | 12,924,357        | 174,139,695           |    |                                   |    |              |    |

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**16 CUSTOMERS' CURRENT ACCOUNTS AND OTHER DEPOSITS**

|                  | <i>2004</i><br><i>YR</i> | <i>2003</i><br><i>YR</i> |
|------------------|--------------------------|--------------------------|
| Current accounts | 3,727,430,438            | 4,115,702,601            |
| Saving accounts  | 162,153,466              | 86,676,266               |
| Margin accounts  | 2,917,265,665            | 2,433,177,293            |
|                  | <u>6,806,849,569</u>     | <u>6,635,556,160</u>     |

**17 BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS**

|                      | <i>2004</i><br><i>YR</i> | <i>2003</i><br><i>YR</i> |
|----------------------|--------------------------|--------------------------|
| <b>Foreign banks</b> |                          |                          |
| Current accounts     | <u>837,955,662</u>       | <u>5,437,063</u>         |

**18 PAYABLES AND OTHER LIABILITIES**

|                          | <i>2004</i><br><i>YR</i> | <i>2003</i><br><i>YR</i> |
|--------------------------|--------------------------|--------------------------|
| Accrued expenses         | 1,940,881                | 1,463,001                |
| Accrued zakat            | 29,552,991               | 31,009,382               |
| Due to shareholders      | 3,170,000                | 3,170,000                |
| Due to employees         | 531,660                  | 602,836                  |
| Cheques under collection | 55,392,554               | 12,278,898               |
| Unpaid accrued profit    | 32,118,425               | 6,128,479                |
| Letters of credit        | 269,016,729              | ---                      |
| Other payables           | 53,224,803               | 29,940,235               |
|                          | <u>444,948,043</u>       | <u>84,592,831</u>        |

**19 OTHER PROVISIONS**

|                                  | <i>Balance at</i><br><i>1 January 2004</i> | <i>Provided during</i><br><i>the</i><br><i>year</i> | <i>Foreign excha</i> | <i>Balance at</i><br><i>31</i><br><i>December 200</i><br><i>4</i> |
|----------------------------------|--|---|----------------------|---|
|                                  | <i>YR</i>                                  | <i>YR</i>   | <i>YR</i>            | <i>YR</i>   |
| Contingent liabilities provision | 64,452,044                                 | 20,303,492  | 174,336              | 84,929,872  |
| Other provisions                 | 30,682,551                                 | 22,237,444  | ---                  | 52,919,995  |
|                                  | <u>95,134,595</u>                          | <u>42,540,936</u>                                   | <u>174,336</u>       | <u>137,849,867</u>  |



**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**20 UNRESTRICTED INVESTMENT ACCOUNTS**

|                                      | <i>2004</i>          | <i>2003</i>        |
|--------------------------------------|----------------------|--------------------|
|                                      | <i>YR</i>            | <i>YR</i>          |
| Deposits payable within one year     | 726,288,682          | 227,937,236        |
| Deposits payable within six months   | 86,064,198           | 32,499,620         |
| Deposits payable within three months | 376,538,002          | 143,878,827        |
| Deposits payable within one month    | 23,494,640           | 15,315,000         |
|                                      | <u>1,212,385,522</u> | <u>419,630,683</u> |

**21 SHARE CAPITAL AND RESERVES**

**a) SHARE CAPITAL**

The authorised, issued and fully paid capital is YR 2 Billion ( 2003: YR 2 billion ) represented in 2 million shares with nominal value of YR 1,000 each.

**b) RESERVES**

In accordance with the law, 10 % of the profit for the year should be transferred to the statutory reserve, until it reaches to 100% of the value of the share capital.

There was no transfer to statutory reserve due to the loss for the year.

**22 CALCULATION OF REVENUE SHARE TO UNRESTRICTED INVESTMENT ACCOUNT HOLDERS**

The share of the unrestricted investment account holders and that of the bank are calculated from the net revenue generated from the investment and the different trade transactions on the basis of the contract signed between the customer and the bank at the time of opening the deposit or saving account or investment account. The average shares of the unrestricted investment accounts during the year were as follows:

|                                      | <i>2004</i> |                             | <i>2003</i> |                             |
|--------------------------------------|-------------|-----------------------------|-------------|-----------------------------|
|                                      | <i>YR</i>   | <i>Foreign<br/>currency</i> | <i>YR</i>   | <i>Foreign<br/>currency</i> |
| Deposits payable within one year     | 13%         | 3%                          | 13%         | 3.5%                        |
| Deposits payable within six months   | 9%          | 2.5%                        | 9.5%        | 2.7%                        |
| Deposits payable within three months | 8%          | 2%                          | 8%          | 2%                          |
| Deposits payable within one month    | 7%          | 1%                          | 6.8%        | 1.5%                        |
| Saving accounts                      | 6%          | 1%                          | 6%          | 1%                          |

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**23 REVENUE NON COMPLIANT WITH ISLAMIC PRINCIPLES**

|                                   | <i>2004</i>        | <i>2003</i>        |
|-----------------------------------|--------------------|--------------------|
|                                   | <i>YR</i>          | <i>YR</i>          |
| At 1 January 2004                 | 3,045,372          | 520,363            |
| Income received during the year   | 13,053,824         | 4,155,125          |
| Other revenues                    | 712,146            | ---                |
| Expenses incurred during the year | <u>(2,305,814)</u> | <u>(1,630,116)</u> |
|                                   | <u>14,505,528</u>  | <u>3,045,372</u>   |

**24 REVENUE ALLOCATED TO UNRESTRICTED INVESTMENT ACCOUNT HOLDERS**

|  | <i>2004</i>         | <i>2003</i>        |
|--|---------------------|--------------------|
|  | <i>YR</i>           | <i>YR</i>          |
| Income for unrestricted investment account holders | 91,063,251          | 16,228,900         |
| Less: Bank fee                                     | <u>(22,209,410)</u> | <u>(2,507,870)</u> |
|  | <u>68,853,841</u>   | <u>13,721,030</u>  |

**25 BANK INCOME FROM OWN INVESTMENTS**

|                                   | <i>2004</i>       | <i>2003</i>       |
|-----------------------------------|-------------------|-------------------|
|                                   | <i>YR</i>         | <i>YR</i>         |
| Income from investment portfolios | 13,776,115        | 11,471,779        |
| Income from investment deposits   | <u>10,270,350</u> | <u>17,396,508</u> |
|                                   | <u>24,046,465</u> | <u>28,868,287</u> |

**26 FEE AND COMMISSION INCOME**

|  | <i>2004</i>        | <i>2003</i>       |
|--|--------------------|-------------------|
|  | <i>YR</i>          | <i>YR</i>         |
| Commission from letters of credit          | 85,393,279         | 63,503,040        |
| Commission from letters of guarantee       | 29,172,795         | 19,580,884        |
| Commission from cash transfers             | 7,000,157          | 5,149,864         |
| Commission from cheque collections         | 544,359            | 1,735,634         |
| Bank service fees                          | 9,607,355          | 5,390,305         |
| Commission from sold and certified cheques | <u>708,361</u>     | <u>284,637</u>    |
|  | <u>132,426,306</u> | <u>95,644,364</u> |

**27 FOREIGN EXCHANGE GAIN**

|  | <i>2004</i>       | <i>2003</i>        |
|--|-------------------|--------------------|
|  | <i>YR</i>         | <i>YR</i>          |
| Gain from trading in foreign currencies            | 5,699,087         | 3,226,217          |
| Gain from revaluation of foreign currency balances | <u>58,108,777</u> | <u>101,615,042</u> |
|  | <u>63,807,864</u> | <u>104,841,259</u> |

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**28 PROVISIONS**

|  | <i>2004</i>               | <i>2003</i>              |
|--|---------------------------|--------------------------|
|  | <i>YR</i>                 | <i>YR</i>                |
| Provision for murabaha contracts (note 11)     | <b>60,865,688</b>         | 28,359,050               |
| Provision for contingent liabilities (note 19) | <b>20,303,492</b>         | 21,237,471               |
| Other provisions (note 19)                     | <b>22,237,444</b>         | 28,612,363               |
|  | <b><u>103,406,624</u></b> | <b><u>78,208,884</u></b> |

**29 GENERAL AND ADMINISTRATION EXPENSES**

|  | <i>2004</i>               | <i>2003</i>               |
|--|---------------------------|---------------------------|
|  | <i>YR</i>                 | <i>YR</i>                 |
| Staff cost                             | <b>121,995,522</b>        | 94,792,965                |
| Stationery                             | <b>4,396,424</b>          | 1,680,788                 |
| Utilities                              | <b>8,319,774</b>          | 5,543,125                 |
| Transportation                         | <b>8,408,444</b>          | 5,904,077                 |
| Advertisement                          | <b>9,596,317</b>          | 15,722,689                |
| Training                               | <b>3,486,308</b>          | 1,714,198                 |
| Zakat                                  | ---                       | 31,500,288                |
| Taxation                               | <b>2,418,531</b>          | 504,351                   |
| Professional services and consultancy  | <b>5,239,856</b>          | 19,636,658                |
| Rent and maintenance                   | <b>19,314,796</b>         | 11,231,141                |
| Depreciation                           | <b>41,507,688</b>         | 34,529,216                |
| Amortisation of establishment expenses | <b>6,463,475</b>          | ---                       |
| Donations                              | <b>2,231,375</b>          | 4,315,700                 |
| Other expenses                         | <b>13,845,487</b>         | 11,542,447                |
|  | <b><u>247,223,997</u></b> | <b><u>238,617,643</u></b> |

**30 LETTERS OF CREDIT, GUARANTEES AND OTHER COMMITMENTS**

|                                       | <i>2004</i>                  | <i>2003</i>                 |
|---------------------------------------|------------------------------|-----------------------------|
|                                       | <i>YR</i>                    | <i>YR</i>                   |
| Letters of guarantee                  | <b>3,325,768,562</b>         | 2,738,397,059               |
| Letters of credit (import and export) | <b>10,612,557,636</b>        | 6,327,251,340               |
| Others                                | <b>360,370,229</b>           | 101,595,203                 |
|                                       | <b><u>14,298,696,427</u></b> | <b><u>9,167,243,602</u></b> |

**31 TAXATION**

According to the article no. 26 of Islamic Banking Law no 21 of 1996 and article no. 20-1-A of Investment Law no 22 of 2002, the bank is exempted for all taxes for the specified period from the date of its inception.

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**32 CURRENCY POSITIONS**

According to the Central Bank of Yemen instruction no. 6 of 1998 the bank imposes limits for each currency position in addition to imposing a limit to the accumulated currency position. Surplus in each currency position should not exceed 15 % of the total value of the capital and reserves of the bank. Surplus for the accumulated currency position should not exceed 25 % of the total value of the share capital and reserves of the bank.

The bank had the following significant net exposure denominated in foreign currency:

|                        | <i>2004<br/>Surplus<br/>(Deficit)<br/>YR</i> | <i>Percentage of<br/>bank share<br/>capital and<br/>reserves</i> | <i>2003<br/>Surplus<br/>(Deficit)<br/>YR</i> | <i>Percentage<br/>of bank<br/>share<br/>capital and<br/>reserves</i> |
|------------------------|--|--|--|--|
| US dollar              | 299,402,314                                  | 14.97%   | 296,000,000                                  | 14.80%   |
| British pound sterling | (27,583,077)                                 | (1.38%)  | (44,000,000)                                 | (2.20%)  |
| Euro                   | 18,990,900                                   | .95%   | (112,000,000)                                | (5.60%)  |
| United Arab dirham     | 410,547                                      | .02%   | 2,000,000                                    | 0.10%  |
| Japanese yen           | (250,031,983)                                | (12.5%)  | 110,000,000                                  | 5.50%  |
| Saudi riyal            | 70,377,457                                   | 3.52%  | 34,000,000                                   | 1.70%  |
| Swedish krona          | ---  | ---  | (6,000,000)                                  | (0.30%)  |
| <b>Total:</b>          | <b>111,566,158</b>                           | <b>5.58%</b>   | <b>280,000,000</b>                           | <b>14.00%</b>  |

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

## 33 MATURITY OF ASSETS AND LIABILITIES

|  | <i>Maturity within three months</i> |                    | <i>Maturity within six months</i> |                    | <i>Maturity within nine months</i> |            | <i>Maturity within one year</i> |            | <i>Maturity more than one year</i> |            | <i>2004 Total</i> |                      |
|--|-------------------------------------|--------------------|-----------------------------------|--------------------|------------------------------------|------------|---------------------------------|------------|------------------------------------|------------|-------------------|----------------------|
|  | YR                                  | YR                 | YR                                | YR                 | YR                                 | YR         | YR                              | YR         | YR                                 | YR         | YR                | YR                   |
| <b>A) Assets</b>                                 |                                     |                    |                                   |                    |                                    |            |                                 |            |                                    |            |                   |                      |
| Balances with banks and financial institutions   | 4,695,296,928                       | ---                | ---                               | ---                | ---                                | ---        | 95,963,130                      | ---        | ---                                | ---        | ---               | 4,791,260,058        |
| Murabaha contracts                               | 2,233,762,284                       | 427,909,352        | 239,983,568                       | 102,268,150        | ---                                | ---        | 81,171,150                      | ---        | ---                                | ---        | ---               | 3,085,094,504        |
| Restricted investment accounts                   | 65,006,468                          | 55,752,000         | ---                               | ---                | ---                                | ---        | 185,840,000                     | ---        | ---                                | ---        | ---               | 306,598,468          |
|  | <b>6,994,065,680</b>                | <b>483,661,352</b> | <b>239,983,568</b>                | <b>102,268,150</b> | <b>---</b>                         | <b>---</b> | <b>362,974,280</b>              | <b>---</b> | <b>---</b>                         | <b>---</b> | <b>---</b>        | <b>8,182,953,030</b> |
| <b>B) Liabilities</b>                            |                                     |                    |                                   |                    |                                    |            |                                 |            |                                    |            |                   |                      |
| Customers current and saving accounts            | 3,767,968,805                       | 40,538,366         | 40,538,366                        | 40,538,367         | ---                                | ---        | ---                             | ---        | ---                                | ---        | ---               | 3,889,583,904        |
| Balances due to banks and financial institutions | 837,955,662                         | ---                | ---                               | ---                | ---                                | ---        | ---                             | ---        | ---                                | ---        | ---               | 837,955,662          |
| Restricted deposit accounts                      | 65,006,468                          | 55,752,000         | ---                               | ---                | ---                                | ---        | 185,840,000                     | ---        | ---                                | ---        | ---               | 306,598,468          |
| Unrestricted deposit accounts                    | 580,686,681                         | 172,822,170        | 255,541,816                       | 200,746,103        | ---                                | ---        | 2,588,752                       | ---        | ---                                | ---        | ---               | 1,212,385,522        |
|  | <b>5,251,617,616</b>                | <b>269,112,536</b> | <b>296,080,182</b>                | <b>241,284,470</b> | <b>---</b>                         | <b>---</b> | <b>188,428,752</b>              | <b>---</b> | <b>---</b>                         | <b>---</b> | <b>---</b>        | <b>6,246,523,556</b> |

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

## 34 DISTRIBUTION OF ASSETS, CONTINGENT AND OTHER LIABILITIES

| Details   | Industrial  |             | Agricultural<br>and<br>fishing |             | Commercial |     | Services |     | Financial     |     | Undistributed |     | 2004<br>Total |                |
|---|-------------|-------------|--------------------------------|-------------|------------|-----|----------|-----|---------------|-----|---------------|-----|---------------|----------------|
|   | YR          | YR          | YR                             | YR          | YR         | YR  | YR       | YR  | YR            | YR  | YR            | YR  | YR            | YR             |
| <b>First: Assets</b>                                    |             |             |                                |             |            |     |          |     |               |     |               |     |               |                |
| Balances with banks                                     | ---         | ---         | ---                            | ---         | ---        | --- | ---      | --- | 4,791,260,058 | --- | ---           | --- | ---           | 4,791,260,058  |
| Murabaha contracts                                      | 291,585,202 | 112,131,699 | 1,146,654,879                  | 13,089,896  | ---        | --- | ---      | --- | ---           | --- | 1,521,632,828 | --- | ---           | 3,085,094,504  |
| Restricted investment<br>accounts                       | ---         | ---         | ---                            | ---         | ---        | --- | ---      | --- | ---           | --- | 306,598,468   | --- | ---           | 306,598,468    |
| <b>Second: Liabilities</b>                              |             |             |                                |             |            |     |          |     |               |     |               |     |               |                |
| Current and saving<br>accounts                          | 995,823,357 | 28,072,123  | 106,013,953                    | 108,381,029 | ---        | --- | ---      | --- | ---           | --- | 2,651,293,442 | --- | ---           | 3,889,583,904  |
| Balances due to banks<br>Restricted deposit<br>accounts | ---         | ---         | ---                            | ---         | ---        | --- | ---      | --- | 837,955,662   | --- | ---           | --- | ---           | 837,955,662    |
| Unrestricted deposit<br>accounts                        | 59,705,707  | 37,168,000  | 106,624,120                    | 18,398,160  | ---        | --- | ---      | --- | ---           | --- | 306,598,468   | --- | ---           | 306,598,468    |
| <b>Third: Contingent<br/>Liabilities</b>                |             |             |                                |             |            |     |          |     |               |     |               |     |               |                |
| Letters of credit                                       | 291,887,114 | ---         | 1,360,994,558                  | ---         | ---        | --- | ---      | --- | 146,713,085   | --- | ---           | --- | ---           | 10,612,557,636 |
| Letters of guarantee                                    | 74,935,041  | 669,024     | 607,578,371                    | 59,969,070  | ---        | --- | ---      | --- | 69,404,178    | --- | ---           | --- | ---           | 3,325,768,562  |
| Others  | ---         | ---         | ---                            | ---         | ---        | --- | ---      | --- | ---           | --- | 360,370,229   | --- | ---           | 360,370,229    |

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2004

**35 RELATED PARTY TRANSACTIONS**

These represent transactions with major shareholders, directors, management and companies of which they are principal owners. The bank enters into transactions with related parties in the ordinary course of business at commercial rates in accordance with the instruction no 4 of 1999 issued by the Central Bank of Yemen, which imposed limits for the transactions with the related parties.

The balances and major transactions with the related parties included in the financial statements are as follows:

|  | <i>2004</i><br><i>YR</i> | <i>2003</i><br><i>YR</i> |
|--|--------------------------|--------------------------|
| Murabaha contracts                           | <u>1,969,482,443</u>     | <u>900,769,321</u>       |
| Overdrafts                                   | <u>224,699,950</u>       | <u>204,776,960</u>       |
| Current and saving accounts                  | <u>1,126,527,670</u>     | <u>2,026,279,555</u>     |
| Payables and other liabilities               | <u>146,439,645</u>       | <u>277,642,652</u>       |
| Unrestricted investment accounts             | <u>41,814,000</u>        | <u>63,860,000</u>        |
| Contingent liabilities                       | <u>1,214,951,094</u>     | <u>1,915,690,213</u>     |
| Revenue from murabaha contracts              | <u>59,596,759</u>        | <u>18,150,000</u>        |
| Revenue from letters of guarantee and credit | <u>58,840,898</u>        | <u>43,892,645</u>        |
| Bank commissions and fees                    | <u>1,800,034</u>         | <u>11,606,808</u>        |

**36 COMPARATIVE AMOUNTS**

The corresponding figures for 2003 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect shareholders equity which was previously reported.