

SHAMIL BANK OF YEMEN AND BAHRAIN (ISLAMIC BANK) Y.S.C.C.

FINANCIAL STATEMENTS

31 DECEMBER 2003

MOHAMED TAHA HAMOOD & Co.

CORRESPONDENT FOR

 ERNST & YOUNG

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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 2003 and the related statements of income, cash flows and changes in equity 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.

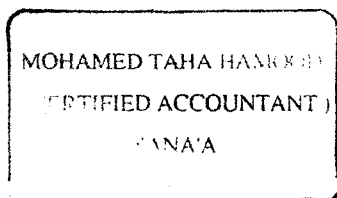
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Shamil Bank of Yemen and Bahrain (Islamic Bank) (Yemen Shareholding Closed Company) as of 31 December 2003 and the results of its operations, its cash flows and changes in equity for the year 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 to the best of our knowledge and belief that no violation of the Commercial Banking law no. 38 of 1998, nor of the Islamic Bank law no. 21 of 1996 nor of the local legislation have occurred during the financial year ended 31 December 2003 that might have had a material adverse effect on the business of the bank or on its financial position.


Mohamed Taha Hamood Al-Hashimi, FCCA (UK)

Sana'a

25 March 2004



Shamil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.

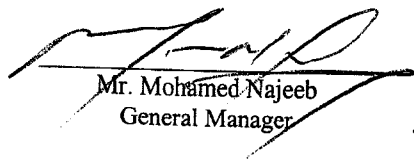
BALANCE SHEET

31 December 2003

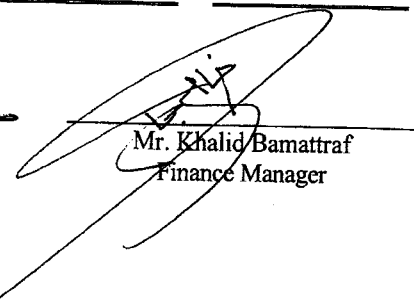
	Note	2003 YR	2002 YR
ASSETS			
Cash and reserve balances with Central Bank of Yemen	8	1,363,442,702	836,023,585
Balances with banks and financial institutions	9	4,960,759,697	4,932,510,143
Murabaha contracts	10	1,643,286,581	433,806,218
Restricted investments		312,801,459	—
Investment in an associate	12	20,000,000	10,000,000
Receivables and other assets	13	844,525,967	342,154,636
Fixed assets	14	174,139,695	180,493,861
		<u>9,318,956,101</u>	<u>6,734,988,443</u>
LIABILITIES, INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customers' current accounts and other deposits	15	6,635,556,160	4,432,122,460
Balances due to banks and financial institutions	16	5,437,063	191,297,818
Payables and other liabilities	17	90,533,189	88,994,307
Other provisions	18	95,134,595	44,671,194
		<u>6,826,661,007</u>	<u>4,757,085,779</u>
UNRESTRICTED INVESTMENT ACCOUNTS	19	<u>419,630,683</u>	<u>156,544,824</u>
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS		<u>7,246,291,690</u>	<u>4,913,630,603</u>
RESTRICTED INVESTMENT ACCOUNTS		<u>313,310,000</u>	<u>—</u>
SHAREHOLDERS' EQUITY			
Share capital	20	2,000,000,000	2,000,000,000
Accumulated losses		(240,645,589)	(178,642,160)
		<u>1,759,354,411</u>	<u>1,821,357,840</u>
TOTAL LIABILITIES, INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY		<u>9,318,956,101</u>	<u>6,734,988,443</u>
CONTINGENT LIABILITIES			
Letters Of Credit, Guarantees And Other Commitments	29	9,167,243,602	6,969,071,060



Mr. Ahmad Abubaker Bazar'a
Chairman



Mr. Mohamed Najeeb
General Manager



Mr. Khalid Bamattraf
Finance Manager

The attached notes 1 to 35 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 2003**

	<i>Note</i>	2003	2002
		YR	(Nine months)
			YR
Revenue from murabaha contracts		64,651,082	17,221,385
Less:			
Allocated to unrestricted investment account holders	23	(13,721,030)	(2,347,898)
Bank share from murabaha revenue		50,930,052	14,873,487
Bank income from own investments	24	28,868,287	80,040,461
Fee and commission income	25	95,644,364	125,298,823
Foreign exchange gain	26	104,841,259	32,553,025
Other income		12,808,445	336,410
		293,092,407	253,102,206
Less:			
Commissions and fee for banking services		7,259,927	2,043,117
Provisions	27	78,208,884	49,153,412
General and administration expenses	28	238,617,643	357,787,234
		324,086,454	408,983,763
NET LOSS FOR THE YEAR BEFORE ZAKAT		(30,994,047)	(155,881,557)
Provision for Zakat	17	(31,009,382)	---
NET LOSS FOR THE YEAR AFTER ZAKAT		(62,003,429)	(155,881,557)

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2003

	<i>Note</i>	2003	2002 <i>(Nine months)</i>
		YR	YR
OPERATING ACTIVITIES			
Net loss for the year		(62,003,429)	(155,881,557)
Adjustments for:			
Depreciation		34,529,216	20,899,027
Provisions		78,208,884	44,671,194
Profit on disposal of fixed asset		(3,326,520)	---
Exchange difference for provisions in foreign currencies (except bad debts)		613,567	---
Operating profit /(loss) before changes in operating assets and liabilities		<u>48,021,718</u>	<u>(90,311,336)</u>
(Increase) in reserves with Central Bank of Yemen		(814,237,220)	(280,566,280)
(Increase) in receivables and other assets		(502,371,331)	(342,154,636)
Increase in payables and other liabilities		1,538,882	88,994,307
Cash (used in) operating activities		<u>(1,267,047,951)</u>	<u>(624,037,945)</u>
INVESTING ACTIVITIES			
(Increase) in murabaha contracts		(1,237,839,413)	(433,806,218)
(Increase) in investment in an associate		(10,000,000)	(10,000,000)
(Increase) in restricted investments		(312,801,459)	---
Proceeds from disposal of fixed assets		3,326,520	---
Equipment purchases and branch improvements		(28,175,050)	(201,392,888)
Net cash (used in) investing activities		<u>(1,585,489,402)</u>	<u>(645,199,106)</u>
FINANCING ACTIVITIES			
Increase in unrestricted investment accounts		263,085,859	156,544,824
Increase in restricted investment accounts		313,310,000	---
Increase in current accounts and other deposits		2,203,433,700	4,432,122,460
Increase in balance due to banks and financial institutions		(185,860,755)	191,297,818
Share capital		---	2,000,000,000
Distribution to shareholders		---	(22,760,603)
Net cash from financing activities		<u>2,593,968,804</u>	<u>6,757,204,499</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(258,568,549)	5,487,967,448
Cash and cash equivalents at the beginning of the year		<u>5,487,967,448</u>	<u>---</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>5,229,398,899</u>	<u>5,487,967,448</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR ARE MADE UP OF:			
Cash in hand	8	268,639,202	555,457,305
Balances with banks and financial institutions	9	4,960,759,697	4,932,510,143
Total		<u>5,229,398,899</u>	<u>5,487,967,448</u>

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	<i>Share capital YR</i>	<i>Accumulated losses YR</i>	<i>Total YR</i>
Share capital introduced	2,000,000,000	---	2,000,000,000
Net loss for the period (nine months)	---	(155,881,557)	(155,881,557)
Distribution to shareholders	---	(22,760,603)	(22,760,603)
Balance at 31 December 2002	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

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENTS

Year ended 31 December 2003

	<i>Note</i>	<i>Portfolio investment</i>	
		<i>2003</i>	<i>2002</i>
		<i>YR</i>	<i>YR</i>
Investment at the beginning of the year		---	---
Deposits		313,310,000	---
Profit for the year	17	5,940,385	---
Balance at the end of the year		319,250,358	---

The attached notes 1 to 35 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

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 and branch in Sana'a.

The bank also obtained approval on 22 December 2003 from Central Bank of Yemen for the opening of a new branch in Aden. The branch did not commence its operations as of the balance sheet date.

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, 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3-3 Revaluation 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:

Regular receivables	1%
Irregular receivables:	
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 restricted investment

The revaluation of murabaha which financed from restricted investment is based on the basis shown above.

Profit/(loss) and provision related to these transactions are taken to owners of restricted investment account after deducting the bank share for managing these investments.

3-5 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3-6 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.

3-7 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

3-8 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.

3-9 Taxation

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

3-10 Statement of changes in restricted investments

Statement of changes in restricted investment shows the investments, which financed fully from the money received by the bank from restricted investments accounts and issue unit investment without participated by the bank from its funds.

The bank managed restricted investment portfolio unit investments as an agent and not participate the result of its investment, the transactions for the restricted investment are shown in statement of changes in restricted investments.

3-11 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3-12 Letters of credit and guarantee commissions

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

3-13 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

7 FINANCIAL INSTRUMENTS AND RELATED RISKS MANAGEMENT (continued)

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 (33) 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.

Note (31) to the financial statements shows the currency positions of the bank at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

8 CASH AND RESERVE BALANCES WITH CENTRAL BANK OF YEMEN

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Cash in hand	268,639,202	555,457,305
Reserve balances with Central Bank of Yemen	<u>1,094,803,500</u>	<u>280,566,280</u>
	<u>1,363,442,702</u>	<u>836,023,585</u>

9 BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
(i) Central bank of Yemen		
Current accounts	<u>544,453,494</u>	<u>1,159,235,131</u>
(ii) Local banks		
Current accounts	<u>33,019,904</u>	<u>3,076,212</u>
(iii) Foreign banks		
Current accounts	3,678,511,029	1,200,833,149
Deposits with Islamic banks	312,454,772	1,988,005,651
Portfolio investment in Islamic banks	<u>392,320,498</u>	<u>581,360,000</u>
	<u>4,383,286,299</u>	<u>3,770,198,800</u>
	<u>4,960,759,697</u>	<u>4,932,510,143</u>

10 MURABAHA CONTRACTS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Murabaha contracts	1,725,078,102	448,221,798
Provision for murabaha contracts (note 11)	<u>(32,841,268)</u>	<u>(4,482,218)</u>
	1,692,236,834	443,739,580
Deferred revenues	<u>(48,950,253)</u>	<u>(9,933,362)</u>
	<u>1,643,286,581</u>	<u>433,806,218</u>

11 PROVISIONS FOR MURABAHA CONTRACTS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Balance at the beginning of the year	4,482,218	---
Charge for the year	<u>28,359,050</u>	<u>4,482,218</u>
Balance at the end of the year	<u>32,841,268</u>	<u>4,482,218</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

12 INVESTMENT IN AN ASSOCIATE

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Yemen Islamic Insurance Company (Y.S.C.)	<u>20,000,000</u>	<u>10,000,000</u>

The bank owns 20,000 shares of YR 1,000 each.

13 RECEIVABLES AND OTHER ASSETS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Accrued revenue	8,065,156	13,228,730
Prepaid expenses	3,852,925	11,957,860
Staff advances	15,500,401	9,542,398
Stationery stock	3,841,485	2,130,682
Letters of credit	256,153,333	251,786,824
Overdrafts	448,064,687	47,653,444
Sundry debtors	109,047,980	5,854,698
	<u>844,525,967</u>	<u>342,154,636</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

14 FIXED ASSETS

	<i>Leasehold improvements</i>		<i>Equipment, computers and software</i>		<i>Motor vehicles</i>		<i>Furniture and fixtures</i>		<i>Total</i>	
	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>
Cost:										
At 1 January 2003	68,142,268	94,821,561	22,144,267	16,284,792	201,392,888					
Additions	---	12,236,799	22,649,480	467,051	35,353,330					
Disposal	---	---	(10,504,800)	---	(10,504,800)					
At 31 December 2003	68,142,268	107,058,360	34,288,947	16,751,843	226,241,418					
Depreciation:										
At 1 January 2003	6,372,035	9,708,481	3,216,106	1,602,405	20,899,027					
Provided during the year	8,517,783	16,368,606	7,417,746	2,225,081	34,529,216					
Disposal	---	---	(3,326,520)	---	(3,326,520)					
At 31 December 2003	14,889,818	26,077,087	7,307,332	3,827,486	52,101,723					
Net book value:										
At 31 December 2003	53,252,450	80,981,273	26,981,615	12,924,357	174,139,695					
At 31 December 2002	61,770,233	85,113,080	18,928,161	14,682,387	180,493,861					

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

15 CUSTOMERS' CURRENT ACCOUNTS AND OTHER DEPOSITS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Current accounts	4,115,702,601	2,041,227,950
Saving accounts	86,676,266	31,713,095
Margin accounts	2,433,177,293	2,359,181,415
	<u>6,635,556,160</u>	<u>4,432,122,460</u>

16 BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Foreign banks		
Current accounts	<u>5,437,063</u>	<u>191,297,818</u>

17 PAYABLES AND OTHER LIABILITIES

	<i>2003</i> <i>YR</i>	<i>2002</i> <i>YR</i>
Accrued expenses	1,463,001	1,419,449
Accrued zakat	31,009,382	---
Due to shareholders	3,170,000	8,606,800
Due to employees	602,836	2,482,656
Cheques under collection	12,278,898	2,569,747
Unpaid profit for restricted investment	5,940,358	---
Unpaid accrued profit	6,128,479	494,906
Other payables	29,940,235	73,420,749
	<u>90,533,189</u>	<u>88,994,307</u>

18 OTHER PROVISIONS

	<i>Balance at</i> <i>1 January 2003</i> <i>YR</i>	<i>Provided</i> <i>during the</i> <i>year</i> <i>YR</i>	<i>Foreign</i> <i>exchange</i> <i>difference</i> <i>YR</i>	<i>Balance at</i> <i>31 December 2003</i> <i>YR</i>
Contingent liabilities provision	42,601,006	21,237,471	613,567	64,452,044
Other provisions	2,070,188	28,612,363	---	30,682,551
	<u>44,671,194</u>	<u>49,849,834</u>	<u>613,567</u>	<u>95,134,595</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

19 UNRESTRICTED INVESTMENT ACCOUNTS

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Deposits payable within one year	227,937,236	60,680,791
Deposits payable within six months	32,499,620	11,265,000
Deposits payable within three months	143,878,827	30,935,033
Deposits payable within one month	15,315,000	53,664,000
	<u>419,630,683</u>	<u>156,544,824</u>

20 SHARE CAPITAL AND RESERVES

a) SHARE CAPITAL

	<i>Authorised, issued and fully paid capital</i>		
	<i>No of</i>	<i>Value per</i>	<i>Total</i>
	<i>shares</i>	<i>share</i>	
		<i>YR</i>	<i>YR</i>
Paid in capital	2,000,000	1,000	2,000,000,000

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.

21 CALCULATION OF REVENUE SHARE TO UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

The shares 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 savings account or investment account. The average shares of the unrestricted investment accounts during the year were as follows:

	<i>2003</i>		<i>2002</i>	
	<i>YR</i>	<i>Foreign</i>	<i>YR</i>	<i>Foreign</i>
		<i>currency</i>		<i>currency</i>
Deposits payable within one year	13%	3.5%	13%	3.5%
Deposits payable within six months	9.5%	2.7%	9.5%	2.5%
Deposits payable within three months	8%	2%	8%	2%
Deposits payable within one month	6.8%	1.5%	7%	1.5%
Saving accounts	6%	1%	6%	1%

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

22 REVENUE NON COMPLIANT WITH ISLAMIC PRINCIPLES

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
At 1 January	520,363	---
Income received during the year	4,155,125	944,633
Expenses incurred during the year	<u>(1,630,116)</u>	<u>(424,270)</u>
At 31 December	<u>3,045,372</u>	<u>520,363</u>

23 REVENUE ALLOCATED TO UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Income for unrestricted investment account holders	16,228,900	2,896,078
Less: Bank fee	<u>(2,507,870)</u>	<u>(548,180)</u>
	<u>13,721,030</u>	<u>2,347,898</u>

24 BANK INCOME FROM OWN INVESTMENTS

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Income from investment portfolios	11,471,779	4,423,876
Income from investment deposits	<u>17,396,508</u>	<u>75,616,585</u>
	<u>28,868,287</u>	<u>80,040,461</u>

25 FEES AND COMMISSION INCOME

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Commission from letters of credit	63,503,040	61,514,915
Commission from letters of guarantee	19,580,884	57,399,769
Commission from cash transfers	5,149,864	2,746,802
Commission from cheque collections	1,735,634	421,452
Bank service fees	5,390,305	3,170,285
Commission from sold and certified cheques	<u>284,637</u>	<u>45,600</u>
	<u>95,644,364</u>	<u>125,298,823</u>

26 FOREIGN EXCHANGE GAIN

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Gain from trading in foreign currencies	3,226,217	7,884,423
Gain from revaluation of foreign currency balances	<u>101,615,042</u>	<u>24,668,602</u>
	<u>104,841,259</u>	<u>32,553,025</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

27 PROVISIONS

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Provision for murabaha contracts	28,359,050	4,482,218
Provision for contingent liabilities	21,237,471	42,601,006
Other provisions	28,612,363	2,070,188
	<u>78,208,884</u>	<u>49,153,412</u>

28 GENERAL AND ADMINISTRATION EXPENSES

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Staff cost	94,792,965	64,746,200
Stationery	1,680,788	2,231,881
Utilities	5,543,125	5,000,606
Transportation	5,904,077	3,962,968
Advertisement	15,722,689	3,216,446
Training	1,714,198	470,665
Zakat and taxation	32,004,639	88,321
Professional services and consultancy	19,636,658	2,787,121
Rent and maintenance	11,231,141	8,913,477
Depreciation	34,529,216	20,899,028
Amortisation of establishment expenses	---	229,789,067
Donations	4,315,700	2,966,600
Other expenses	11,542,447	12,714,854
	<u>238,617,643</u>	<u>357,787,234</u>

29 LETTERS OF CREDIT, GUARANTEE AND OTHER COMMITMENTS

	<i>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Letters of guarantee	2,738,397,059	2,567,532,572
Letters of credit (import and export)	4,069,136,875	2,653,408,265
Others	2,359,709,668	1,748,130,213
	<u>9,167,243,602</u>	<u>6,969,071,060</u>

30 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 specified period from the date of its inception.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

31 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>2003 Surplus (Deficit) YR</i>	<i>Percentage of bank share capital and reserves</i>	<i>2002 Surplus (Deficit) YR</i>	<i>Percentage of bank share capital and reserves</i>
US dollar	296,000,000	14.80%	294,800,000	14.74%
British pound sterling	(44,000,000)	(2.20%)	(2,456,000)	(0.12%)
Euro	(112,000,000)	(5.60%)	(140,771,000)	(7.04%)
United Arab dirham	2,000,000	0.10%	(6,765,000)	(0.34%)
Japanese yen	110,000,000	5.50%	75,970,000	3.80%
Saudi riyal	34,000,000	1.70%	(2,456,000)	(0.12%)
Swedish krona	(6,000,000)	(0.30%)	---	---
Total:	280,000,000	14.00%	218,322,000	10.92%

Shamil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

32 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>2003 Total</i>
	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	<i>YR</i>	
A) Assets											
Balances with banks and financial institutions	4,799,322,740	95,167,913	---	66,269,044	---	---	4,960,759,697				
Murabaha contracts	1,093,009,774	208,736,635	113,217,292	45,868,710	264,245,691	1,725,078,102					
Restricted investment accounts	---	184,300,000	73,720,000	36,860,000	17,921,459	312,801,459					
	5,892,332,514	488,204,548	186,937,292	148,997,754	282,167,150	6,998,639,258					
B) Liabilities											
Customers current and saving accounts	4,134,974,885	21,669,066	21,669,066	24,065,850	---	4,202,378,867					
Balances due to banks and financial institutions	5,437,063	---	---	---	---	5,437,063					
Restricted deposit accounts	55,290,000	184,300,000	18,430,000	36,860,000	18,430,000	313,310,000					
Unrestricted deposit accounts	252,168,687	35,098,300	65,711,082	66,652,614	---	419,630,683					
	4,447,870,635	241,067,366	105,810,148	127,578,464	18,430,000	4,940,756,613					

Shamil Bank of Yemen and Bahrain (Islamic Bank) Y.S.C.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

33 DISTRIBUTION OF ASSETS, CONTINGENT AND OTHER LIABILITIES

Details	Industrial		Agricultural and fishing		Commercial		Services		Financial		Undistributed		2003 Total	
	YR	YR	YR	YR	YR	YR	YR	YR	YR	YR	YR	YR	YR	YR
First: Assets														
Balances with banks	---	---	---	---	---	---	---	---	4,960,759,697	---	---	---	---	4,960,759,697
Murabaha contracts	219,698,231	---	60,888,298	---	453,302,255	---	17,629,227	---	---	---	973,560,090	---	---	1,725,078,102
Restricted investment	---	---	---	---	---	---	---	---	---	---	---	312,801,459	---	312,801,459
Second: Liabilities														
Current and saving accounts	16,154,305	---	43,819,092	---	2,328,757,541	---	201,762,938	---	427,228	---	---	---	---	4,202,378,867
Balances due to banks	---	---	---	---	---	---	---	---	5,437,063	---	---	---	---	5,437,063
Restricted deposit accounts	---	---	---	---	---	---	---	---	---	---	313,310,000	---	---	313,310,000
Unrestricted deposit accounts	---	---	36,860,000	---	2,500,000	---	---	---	18,480,700	---	---	361,789,983	---	419,630,683
Third: Contingent Liabilities														
Letters of credit	527,764	---	---	---	1,251,913,606	---	---	---	---	---	---	2,410,386,398	---	3,662,827,768
Letters of guarantee	4,002,996	---	---	---	443,674,042	---	32,397,626	---	---	---	---	2,259,982,016	---	2,740,056,680
Others	---	---	---	---	---	---	---	---	---	---	---	2,764,359,154	---	2,764,359,154

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

34 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>2003</i>	<i>2002</i>
	<i>YR</i>	<i>YR</i>
Murabaha contracts	<u>900,769,321</u>	<u>222,738,277</u>
Overdrafts	<u>204,776,960</u>	<u>46,582,844</u>
Current and saving accounts	<u>2,026,279,555</u>	<u>1,237,075,346</u>
Payables and other liabilities	<u>277,642,652</u>	<u>180,354,494</u>
Unrestricted investment accounts	<u>63,860,000</u>	<u>35,776,000</u>
Contingent liabilities	<u>1,915,690,213</u>	<u>1,677,223,629</u>
Revenue from murabaha contracts	<u>18,150,000</u>	<u>3,765,242</u>
Revenue from letters of guarantee and credit	<u>43,892,645</u>	<u>13,965,157</u>
Bank commissions and fees	<u>11,606,808</u>	<u>5,990,861</u>

35 COMPARATIVE AMOUNTS

The corresponding figures for 2002 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect in shareholders equity which previously reported.