

بنك الخرطوم
Bank of Khartoum
— YOU FIRST —



بنك الخرطوم
Bank of Khartoum
— أنت أولاً —

CONSOLIDATED STATEMENT

For the period ended December 31, 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK OF KHARTOUM

We have audited the accompanying consolidated financial statements of Bank of Khartoum, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated cash flows statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility


Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Audit Standards Issued by (AAOIFI). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards of The Accounting and Auditing Organization for Islamic Financial Institutions.


Mubarak Ali Ibrahim – Partner
April 05, 2012



**BANK OF KHARTOUM****CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At December 31, 2011*

	Notes	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
<u>Assets</u>			
Cash and cash equivalents	5	625,942	366,597
Investment accounts with bank	6	39,333	170,310
Investment in trading securities	7	297,171	318,533
Sale receivables	8	2,272,764	1,725,448
Investment in Mudaraba and Musharaka	9	350,708	217,894
Available for sale investments	10	412,076	362,909
Real estate investments	11	6,349	57,808
Other investments	12	53,631	67,892
Other assets	13	182,696	172,583
Intangible assets	14	87,942	80,285
Fixed assets	15	653,190	494,435
Total Assets		4,981,802	4,034,693
<u>Liabilities, Unrestricted Investment Accounts and Shareholders' Equity</u>			
Liabilities			
Current accounts	16	1,569,009	1,409,705
Cash margins	17	108,795	88,927
Other liabilities	18	169,433	143,318
Provisions	19	17,412	17,883
Total Liabilities		1,864,649	1,659,833
Equity of unrestricted investment account holders	20	2,425,958	1,785,511
Non-controlling interest		36,723	36,723
Shareholders' Equity			
Paid up capital	21	381,000	381,000
Share premium		50,473	50,473
Reserves	22	188,500	79,233
Retained earnings		34,499	41,920
Total Shareholders' Equity		654,472	552,626
<u>Total Liabilities, Unrestricted Investment Accounts and Shareholders' Equity</u>		4,981,802	4,034,693

Hussam Al Masri
CFO

Fadi Al Faqih
CEO

Tariq Humaid Al Tayer
CHAIRMAN

The attached notes 1 to 40 form part of these consolidated financial statements



BANK OF KHARTOUM

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2011

	Notes	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
Income			
Income from deferred sales	23	192,092	133,343
Income from investments	24	61,682	54,960
Total income from finance and investments		253,774	188,303
Financing and investing risk provision (8/1)		(22,800)	(23,854)
Less: Return on unrestricted investment accounts		(104,111)	(81,188)
Bank's share in income from investments (as Mudarib and fund owner)		126,863	83,261
Income from banking services	25	82,285	78,469
Exchange gains and losses		14,663	18,957
Other income	26	24,135	23,034
Total Bank's income		247,946	203,721
Foreign currency revaluation		(4,969)	27,452
Total income		242,977	231,173
Expenses			
Staff cost	27	(81,338)	(77,423)
General and administration expenses	28	(90,689)	(80,351)
Total expenses		(172,027)	(157,774)
Profit before Zakah and Tax		70,950	73,399
Zakah	29	(2,598)	(4,670)
Business profit tax	30	(8,731)	(7,804)
Net profit for the year		59,621	60,925
Earning per share	31	0.207	0.211



BANK OF KHARTOUM

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
Operating activities		
Net profit for the year	59,621	60,925
<u>Adjustment for non cash items:</u>		
Zakah provision	2,598	4,670
Tax provision	8,731	7,804
Amortization and depreciation	15,574	12,508
Gain on assets disposal	(1,844)	(195)
	<u>84,680</u>	<u>85,712</u>
Changes in operating assets, liabilities and unrestricted investment accounts		
Investment accounts with bank	130,978	(96,347)
Sale receivables	(547,316)	(265,797)
Investment in trading securities	21,362	(42,854)
Investment in Mudaraba and Musharaka	(132,814)	(21,164)
Real estate investments	51,459	(350)
Other investments	14,261	10,257
Other assets	(10,113)	129,765
Current accounts	159,304	298,478
Equity of unrestricted investment account holders	640,447	78,393
Cash margins	19,868	3,898
Other liabilities	26,115	14,037
Provisions	(11,800)	(13,650)
Prior year adjustments	(80)	-
Cash from operations	<u>361,671</u>	<u>94,666</u>
Net cash from operating activities	<u>446,350</u>	<u>180,378</u>
Investing activities		
Purchases of fixed assets	(104,610)	(102,093)
Disposal of fixed assets	4,950	-
Available for sale investments	(49,245)	(153,202)
Net cash used in investing activities	<u>(148,905)</u>	<u>(255,295)</u>
Financing activities		
Dividends	(38,100)	-
Net cash used in financing activities	<u>(38,100)</u>	<u>-</u>
Increase / (Decrease) in cash and cash equivalents for the year	259,345	(74,917)
Cash and cash equivalents at the beginning of the year	366,597	441,514
Cash and cash equivalents at the end of the year	<u>625,942</u>	<u>366,597</u>

The attached notes 1 to 40 form part of these consolidated financial statements


BANK OF KHARTOUM**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the period ended December 31, 2011

	Capital	Share premium	Statutory reserve	Bank risk reserve	Fair value revaluation reserve	Fixed assets revaluation reserve	Foreign currency translation reserve	General reserve	Accumulated profits and losses	Total
	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
Balance at January 1, 2010	381,000	50,473	25,263	-	17,196	-	-	-	13,691	487,623
Profit for the year	-	-	-	-	-	-	-	-	60,925	60,925
Transfer to reserves	-	-	6,042	16,978	-	-	-	9,063	(32,083)	-
Unrealized losses	-	-	-	-	(2,027)	-	-	-	(613)	(2,640)
Transfer to risk finance reserve	-	-	-	6,718	-	-	-	-	-	6,718
Balance at December 31, 2010	<u>381,000</u>	<u>50,473</u>	<u>31,305</u>	<u>23,696</u>	<u>15,169</u>	<u>-</u>	<u>-</u>	<u>9,063</u>	<u>41,920</u>	<u>552,626</u>
Balance at January 1, 2011	381,000	50,473	31,305	23,696	15,169	-	-	9,063	41,920	552,626
Profit for the year	-	-	-	-	-	-	-	-	59,621	59,621
Transfer to reserves	-	-	6,049	14,015	-	-	-	8,798	(28,862)	-
Fixed assets revaluation	-	-	-	-	-	80,487	-	-	-	80,487
Dividends	-	-	-	-	-	-	-	-	(38,100)	(38,100)
Foreign currency translation	-	-	-	-	-	-	(82)	-	-	(82)
Prior year adjustments	-	-	-	-	-	-	-	-	(80)	(80)
Balance at December 31, 2011	<u>381,000</u>	<u>50,473</u>	<u>37,354</u>	<u>37,711</u>	<u>15,169</u>	<u>80,487</u>	<u>(82)</u>	<u>17,861</u>	<u>34,499</u>	<u>654,472</u>

The attached notes 1 to 40 form part of these consolidated financial statements


BANK OF KHARTOUM**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENTS**

For the year ended December 31, 2011

	Sales receivable SDG (000)	Other investments SDG (000)	Cash SDG (000)	Total SDG (000)
Balance at January 1, 2011	25	-	38,373	38,398
Additions	62,470	36,655	72,799	171,924
Withdrawal	-	-	(99,125)	(99,125)
Investment profits	-	-	3,780	3,780
Bank's share as Mudarib	-	-	(756)	(756)
Balance at December 31, 2011	62,495	36,655	15,071	114,221

The restricted investments represent an investments in Elamaan funds based on Musharaka financing. The total capital of the fund is SDG 200 million, the paid up capital is SDG 100 million in 2011 compared with SDG 38 million for 2010. The bank's share of the fund is 5% of the capital fund. The bank manages the funds for 3 extendable years upon the agreement of the shareholders.

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

1- Incorporation and activities

Bank of Khartoum (the Bank) was established in 1913 as Egyptian English bank. In 1975 the name of the bank was changed to Bank of Khartoum by presidential resolution. In 1983 the bank merged with Elshab Bank as result of presidential resolution. In 1993 the bank merged with Unity and Export and Import banks. On first of January the bank of Khartoum incorporated under the Companies law 1925. In 2005 the Sudanese government sold 60% of its share to Dubai Islamic bank. On January 31, 2008 Sudanese Emirates Bank merged with Bank of Khartoum.

The Bank is providing commercial, financial, investments, development projects financing and banking services according to Islamic rules and the Financial institutions requirements in Sudan.

The Bank is providing its services from the head office which is located at intersection of Al Jamhoria and Al Qasar street. The bank consists of 48 branches and six subsidiaries across the country.

The bank subsidiaries consist of the following :

Name of Subsidiary	Activity	Bank's share (%)
National Exchange Company Limited	Service	100
ATOZ Installment Company	Trading	100
National Trading and Services Company Limited	Trading	100
Senable for Financial Securities Company	Service	100
Bank of Khartoum Juba	Service	100
Khartoum Waha for Real Estate Development Company	Service	60

2- Basis of preparation

(a) The financial statements are prepared in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as required by the Central Bank of Sudan and Shari' a Supervisory Board (SSB) requirements.

(b) The financial statements have been presented in Sudanese pounds (SDG), the functional currency.

(c) The financial statements are prepared on the historical cost concept except for the re-measurement at fair value of securities classified as available for sale or trading and land and building.

(d) The Bank uses the accrual basis in recording its assets, liabilities, revenues and expenses.

(e) The basis of consolidation

The consolidated financial statements consist of the bank's financial statement and its subsidiaries.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

2- Basis of preparation (continued)

Subsidiaries are those enterprises controlled by Group. Control exists when the Group has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain economic benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control effectively ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting. All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions that are recognized in assets, are eliminated in full. Minority interests represent the portion of profit or loss and net assets not held by the Bank and are presented separately in the income statement and within equity in the consolidated statement of financial position, separate from parent shareholders' equity.

3- Significant accounting policies

(i) Foreign Currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing on the transaction date. Monetary assets and liabilities at balance sheet date, denominated in foreign currencies, are translated at the exchange rates prevailing at the balance sheet date. Foreign Currency differences related to normal bank transactions in investments denominated in foreign currencies, whether gains or losses, are treated as revaluation differences. Other realized and unrealized gains or losses on foreign exchange are credited or charged to the income statement.

(ii) Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flows, cash and cash equivalents consist of cash with banks (current accounts) and balances with Central Bank of Sudan and cash in hand.

(iii) Sale receivables

Sale receivables consist of Murabaha, Mugawala, Al salam, and Deferred Sales. Sale receivables are initially recorded at cost and at the end of the financial period sale receivables are measured at their face value or net realizable value (NRV), whichever is less.

Murabaha

Goods acquired for the purposes of Murabaha are initially measured at cost at the date of acquisition and at the end of financial period these are measured at NRV. The value of goods is reduced if the net realizable value is less than costs.

Murabaha income is recognized on accrual basis over the murabaha period by using internal rate of return after considering the dates of accrued payments.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

3- Significant accounting policies (continued)

(iii) Sales receivable (continued)

Deferred sales

Deferred sales profit is recognized in the consolidated income statement during the year if the total sales amount will be paid in one installment. If the sales installments will be paid in more than one accounting period, income is allocated over the sales period.

Deferred sales income is deducted from deferred sales in the consolidated statement of financial position

Mugawala

Mugawala is recognized upon signing of the contract and measured based on the nominal amount of the contract. If the contract period ends within the accounting period, all profits are recognized in the same accounting period. If the contract period is more than one accounting period, Mugawala income is allocated at fixed rate over the contract period on accrual basis.

Al salam

Al salam is recognized when capital is paid (cash or in kind) to the Al msalam Eliya. The capital is measured by the amount of cash paid or the fair value of the asset provided by the bank.

In case Al msalam Aliya does not provide all or part of the goods or there is a damage in the goods the bank recognizes provision for the amount of decrease. The goods received from Al msalam Eliya are recognized based on the contract at historical cost.

At the reporting date Alsalam is measured by the net realizable value and any losses are immediately recognized in the consolidated statement of income.

(iv) Mudaraba

Mudaraba is measured by the amount paid or the amount placed under the disposition of the Mudarib less the portion of the Mudaraba capital recovered from the Mudarib (if any). In addition, a provision for financing risk is deducted from Mudaraba if exist.

(v) Available for sale investments

Available for sale investments are initially recognized at cost and subsequently measured at fair value at the reporting date. If it is impracticable to identify the fair value, they are recognized at cost less any decrease in value if exist. The gains and losses from changes in fair value are recognized in equity. When available for sale investments are sold, related impairment and accumulated gains and losses in equity (if any) are transferred to consolidated income statement.

(vi) Musharaka

Musharaka is recognized at the reporting date based on historical cost minus a provision for financing risk if exist.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

3- Significant accounting policies (continued)

(vii) Investment in trading securities

Investments in trading securities are initially recognized at cost and measured at the reporting date based on fair value. Any changes in fair value are recognized in the consolidated income statement.

(viii) Real estate investments

Real estate investments are recognized at cost less any impairment in the investments.

(ix) Other assets

Other assets are measured at costs minus allowance for doubtful debt. Allowance for doubtful debt is estimated when there is a probability that balance might not be collected. Amounts are written off if balance is uncollectable.

(x) Intangible assets

Goodwill

Goodwill is recognized when the cost of the investments is more than the fair value of identified assets and liabilities at the acquisition date. Goodwill is reviewed for impairment annually and recognized in the profit and losses accounts if there is an indication of goodwill impairment.

Other than goodwill, intangible assets are measured at historical cost minus accumulated amortization and impairment if any.

Intangible assets are amortized on straight line basis over the useful life of the assets.

(xi) Fixed assets

Property and equipment are measured at historical costs minus accumulated depreciation and any impairment in assets.

Depreciation of fixed assets is calculated on a straight line basis over their estimated useful lives, as follows:

Buildings	15-40 years
Furniture and equipment	3-10 years
Vehicles	6-7 years

The carrying amounts of the Bank's fixed assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any increase in the recoverable values the new values will be booked and difference between the carrying values and the new recoverable values will be charged to equity to decrease the revaluation reserve.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

3- Significant accounting policies (continued)

(xii) Revenue recognition

a. Murabaha and Istisnaa

The profits from Murabaha and Istisnaa transactions are recognized on a proportionate basis over the period of the credit.

b. Mudaraba Financing

Mudaraba financing is recognized in the consolidated income statement at the time of liquidation or to extent of profits being distributed or at declaration date or when such profits can reasonably be estimated.

c. Musharaka and Salam Financing

The profits from Musharaka and Salam transactions are recognized at the time of the liquidation.

d. Income from banking services

Income from banking services is recognized at the time the related services are provided and the amount of revenue can be measured reliably

h. Dividend income and Profit from Securities.

Dividend income and profit from securities is recognized when declared or when such profits can reasonably be estimated.

(xiii) Provision for doubtful debts

The provision for doubtful debts is based on the assessment of collectability of each debt and in accordance with the directives of the Central Bank of Sudan and the Bank's policy. The provision of financing risk is transferred to equity after the agreement with central bank of Sudan.

(xiv) Zakah and Tax

The Bank is subject to the Zakah and Tax according to regulations prescribed by Zakah and Tax authorities.

The Bank is subject to Business Profit Tax after excluding profits from investments in Shahama's bonds.

(xv) Return on unrestricted investment account holders

The Return on unrestricted investment accounts is calculated on a yearly basis. The Bank allows the investment account holders to withdraw funds from their investment accounts before maturity with a condition that they forfeit any accrued profits, and in the case of Mudaraba transactions with specified period of investment, the Bank as Mudarib, retains the right to hold the Mudaraba instrument to its maturity.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

2- Significant accounting policies (continued)

(xvi) Impairment and uncollectibility of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the consolidated statement of income.

(xvii) Employees end of service benefits

End of service benefits payable to employees at the end of their services are provided for in accordance with Sudanese labor and social security law.

(xviii) Liabilities

Liabilities are recognized for amounts to be paid in the future for materials and services received, whether billed by the supplier or not. These are carried at cost, which is the fair value of the consideration to be paid in the future for amounts payable.

4- Shari' a Supervisory Board (SSB)

The Bank's business activities are subject to supervision of Shari' a Supervisory Board. The Shari' a Supervisory Board has been appointed by the shareholders. The Shari' a Supervisory Board has the power to directly review and supervise the activities of the Bank.



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
5- <u>Cash and cash equivalents</u>		
Cash on hand and ATMs	144,748	59,624
Current accounts with central bank	243,810	25,830
Deposits with the central bank*	172,715	154,697
Cash with foreign correspondent banks	64,669	126,446
	<u>625,942</u>	<u>366,597</u>

* Deposits with the Central Bank of Sudan represent mandatory reserve deposits and are not available for use in the bank's day-to-day operations

6- Investment accounts with banks

Investment accounts with banks represent deposits with other banks invested based on unrestricted mudaraba and according to sharia laws.

7- Investment in trading securities

Investment in trading securities represent shehama securities which are government bonds issued by ministry of finance and marketed by Sudanese Company for Financial services. These securities are traded in Khartoum Stock Exchange

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
8- <u>Sales receivables</u>		
Murabaha	1,358,483	1,157,207
Salam	103	457
Mugawala	721,092	455,263
Deferred sales	566,200	308,228
Ijara	7,329	-
	<u>2,653,207</u>	<u>1,921,155</u>
Less: Deferred profits	(499,574)	(361,251)
	<u>2,153,633</u>	<u>1,559,904</u>
Letters of guarantee	146,979	147,546
Letters of credit	141,713	165,155
	<u>2,442,325</u>	<u>1,872,605</u>
Less : provision for doubtful debts (note 8/1)	(169,561)	(147,157)
Sale receivables (net)	<u>2,272,764</u>	<u>1,725,448</u>

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

		2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
8/1- Provisions for finance and investments			
Balance at January 01		147,157	130,021
Provision for the year		22,801	23,854
Balance transfer to general Bank risk reserve		(397)	(6,718)
Balance at December 31		<u>169,561</u>	<u>147,157</u>
		2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
9- Investments in Mudaraba and Musharaka			
Musharaka		226,575	93,170
Mudaraba		124,133	124,724
		<u>350,708</u>	<u>217,894</u>
		2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
10- Available for sale investments			
Sarah Sukuk	10.1	127,965	154,487
Shehab	10.2	37,495	14,776
Investment funds	10.3	30,014	26,548
Khartoum refinery Musharaka Sukuk	10.4	94,036	47,626
Portfolio investment		19,725	30,662
		<u>309,235</u>	<u>274,099</u>
Listed shares		21,516	8,925
Un listed shares		81,325	79,885
Total investments from bank's funds		<u>102,841</u>	<u>88,810</u>
Total available for sale investments		<u>412,076</u>	<u>362,909</u>

10.1 Sarah Sukuk

Sarah sukuk is a government bonds issued by Sudan Company for Financial services based on restricted mudaraba contract. This sukuk is invested in assets based on Ijara contract and profits of the sukuk is distributed every three months. The sukuk is traded in Khartoum Stock Exchange and it matures in 2 to 6 years.

10.2 Shehab

Central bank of Sudan sukuk certificates represent an investment in fund administered by Sudanese Company for Financial services. These sukuk represent financial instruments invested in real estate which are purchased from the central bank and lease back to the central bank. These sukuk are available from the banks, financial institutions, and government institutions. Profits of the sukuk are distributed every 3 months.

10.3 Investment funds

Investment funds represent investments based on Mudaraba contract. These funds are administered by other parties and listed in Khartoum Stock Exchange.

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

10.4 Khartoum refinery Musharaka Sukuk (shama)

Shama represents investment sukuk on the assets of Khartoum Refinery. These sukuk are listed in Khartoum Stock Exchange, matures in 7 years and sukuk profit is paid every 3 months.

11- Real estate investments

Real estate investments represent land purchased for housing purposes.

12- Other investments

Other investments represent merchandise and real estate under security liens for financing. These assets repossessed by the bank after clients' default.

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
13- <u>Other assets</u>		
Staff loans	13,937	11,444
Prepaid expenses	22,721	8,596
Accrued revenue	1,035	6,484
Receivables	17,883	32,722
Receivables from the Government	39,959	37,709
Transactions under settlement	35,444	13,615
Office supplies	1,717	1,033
Other receivables (13/1)	50,000	60,980
	<u>182,696</u>	<u>172,583</u>

13/1 Other receivables

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
Balance as at January 01	60,980	63,602
Collected amounts	(8,358)	-
Allowance for doubtful debt	(2,622)	(2,622)
Balance as at December 31	<u>50,000</u>	<u>60,980</u>

14. Intangible assets

	Goodwill <i>SDG (000)</i>	Computer Software <i>SDG (000)</i>	Total <i>SDG (000)</i>
Book value at January 01, 2011	76,686	2,040	78,726
Additions	-	10,944	10,944
Amortization for the year	-	(1,728)	(1,728)
Net book value at December 31, 2011	<u>76,686</u>	<u>11,256</u>	<u>87,942</u>
Net book value at December 31, 2010	<u>76,686</u>	<u>3,600</u>	<u>80,286</u>



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

	Land and Buildings	Furniture & equipment	Motor vehicles	Capital work in progress	Total
15 - Fixed assets					
Cost	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
January 1, 2011	423,667	66,114	15,545	23,019	528,345
Additions	138,896	22,229	1,003	22,379	184,507
Disposals	(695)	(3,931)	(1,947)	-	(6,573)
Additions to capital work in progress	-	7,177	-	-	7,177
Transfer to capital work in progress	-	-	-	(15,977)	(15,977)
As of December 31, 2011	<u>561,868</u>	<u>91,589</u>	<u>14,601</u>	<u>29,421</u>	<u>697,479</u>
Depreciation					
January 1, 2011	6,539	20,887	6,484	-	33,910
Charge for the year	1,390	10,333	2,123	-	13,846
Disposals	(203)	(1,541)	(1,723)	-	(3,467)
As of December 31, 2011	<u>7,726</u>	<u>29,679</u>	<u>6,884</u>	<u>-</u>	<u>44,289</u>
Net Carrying Values					
As of December 31, 2011	<u>554,142</u>	<u>61,910</u>	<u>7,717</u>	<u>29,421</u>	<u>653,190</u>

Capital work in progress transferred to assets during the year is SDG (000) 8,800. Additions during the year for land and buildings represent revaluation as of December 31, 2011.

The attached notes 1 to 40 form part of these consolidated financial statements

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

	Land and Buildings	Furniture & equipment	Motor vehicles	Capital work in progress	Total
15 - Fixed assets (continued)					
Cost	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
January 1, 2010	382 ,290	38 ,205	14 ,328	22 ,486	457 ,309
Additions	41 ,377	31 ,080	2 ,805	12 ,623	87 ,885
Disposals	-	(3,171)	(1,588)	-	(4,759)
Transfer to capital work in progress	-	-	-	(12,090)	(12,090)
As of December 31, 2010	<u>423 ,667</u>	<u>66 ,114</u>	<u>15 ,545</u>	<u>23 ,019</u>	<u>528 ,345</u>
Depreciation					
January 1, 2011	6 ,022	18 ,541	6 ,407	-	30 ,970
Charge for the year	517	9 ,122	1 ,113	-	10 ,752
Disposals	-	(6,776)	(1,036)	-	(7,812)
As of December 31, 2010	<u>6 ,539</u>	<u>20 ,887</u>	<u>6 ,484</u>	<u>-</u>	<u>33 ,910</u>
Net Carrying Values					
As of December 31, 2010	<u>417 ,128</u>	<u>45 ,227</u>	<u>9 ,061</u>	<u>23 ,019</u>	<u>494 ,435</u>

The attached notes 1 to 40 form part of these consolidated financial statements

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

16- Current accounts

Current accounts represent customers deposits accounts in local and foreign currencies payable on demand.

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
17- <u>Cash margins</u>		
Cash margin against letters of credit	100,842	75,200
Cash margin against letters of guarantee	7,953	13,726
	<u>108,795</u>	<u>88,926</u>

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
18- <u>Other liabilities</u>		
Accrued liabilities	49,922	67,799
Accrued expenses	17,081	17,003
Custodian deposits	5,484	3,115
Other liabilities*	96,946	55,401
	<u>169,433</u>	<u>143,318</u>

*Other liabilities include gains from transactions not according to Sharia law. The amount of the transactions in 2011 is SDG 14,000 compared to SDG 10,000 in 2010.

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
19- <u>Provisions</u>		
Zakah provision	3,043	4,670
End of service benefits	5,331	4,397
Tax provision	9,038	8,816
	<u>17,412</u>	<u>17,883</u>

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
20- <u>Equity of unrestricted investment account holders</u>		
Savings account	957,293	690,071
Investments account	795,211	705,129
Mudaraba investments by central bank	323,693	324,549
Bank investments	260,752	-
	<u>2,336,949</u>	<u>1,719,749</u>
Unrestricted investment account holder's profit	104,111	81,188
profits paid during the year	(15,102)	(15,426)
	<u>2,425,958</u>	<u>1,785,511</u>

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
21- Capital		
Authorized capital	381,000	381,000
Paid up capital	381,000	381,000

The authorized and paid up share capital of the Bank comprises 288,636,362 shares of nominal value of SDG 1.32 each.

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
22- Reserves		
Statutory reserve	37,354	31,305
General bank risk reserve	37,711	23,696
Fair value reserve	15,169	15,169
Fixed assets revaluation reserve	80,487	-
General reserve	17,861	9,063
Foreign currency translation adjustment	(82)	-
	188,500	79,233

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
23- Income from deferred sales		
Murabaha income	112,841	99,357
Direct investment	767	4,999
Salam income	30,721	4,369
Mugawala income	47,763	24,618
	192,092	133,343

	2011 <i>SDG (000)</i>	2010 <i>SDG (000)</i>
24- Income from investments		
Shehama	34,575	37,256
Shehab income	-	1,241
Portfolio investment income	3,686	1,132
Shama income	11,208	200
Sharah income	5,056	4,162
Mudaraba income	4,274	6,224
Musharaka income	428	3,758
Deposit investments income	2,617	993
Investment loss	(162)	(6)
	61,682	54,960

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
28- <u>General and administration expenses</u>		
Rent	10,321	8,700
Building insurance	774	398
Electricity, water, and fuel	3,508	2,514
Cleaning expenses	2,141	3,765
Office supplies	2,446	2,345
Communications	5,565	4,282
Hospitality	505	481
Subscriptions	643	681
Security services	2,815	2,292
Legal consultancy fees	3,942	1,219
Motor vehicle	5,246	2,461
Amortization and depreciation	15,574	12,508
ATMs	2,214	1,793
Consultancy	2,256	857
Marketing	5,384	3,528
Board of Directors' expenses	3,510	2,645
Audit fees	299	293
Sharia Supervisory Board's expenses	45	42
Outsourcing expenses	5,252	4,707
Donations	486	595
Share in Deposit Guaranteed fund	2,832	6,735
Service company expenses	9,188	6,779
Miscellaneous expenses	5,743	8,109
Allowance for doubtful debts (other receivables)	-	2,622
	<u>90,689</u>	<u>80,351</u>

29- Zakah provision

The bank estimated the Zakah provision for 2011. The management of the bank believes that the final zakah will not differ materially from the estimated provision after considering all items not subject to zakah.

30- Business profit tax

The bank estimate the business profit tax for the year 2011. The management of the bank believes that the final estimation for the taxes will not be different from the provision estimated after considering un taxed revenues.

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
31- <u>Earning per Share</u>		
Net income for the year	59,621	60,925
Number of shares	288,636	288,636
Earning per Share	0.207	0.211



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

32- Concentration of investments – Economic sector

2011
100%

Agricultural sector	3.54
Industrial sector	3.21
Construction	35.89
Transportation	7.85
Exportation	1.06
Importation	22.40
Local trade	14.38
Real estate	9.32
Others	2.34
	<u>100</u>

33- Contingent liabilities

	2011	2010
	<i>SDG (000)</i>	<i>SDG (000)</i>
Letters of guarantee	338,041	378,373
Letters of credit	639,425	505,623
	<u>977,466</u>	<u>883,996</u>

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

34- Related party transactions

These represent transactions with related parties i.e. shareholders , board of directors and senior management of the Bank, and companies of which they are principal shareholders. These transactions are conducted in an arm length basis. Balances with related parties included in the balance sheet are as follows:

	Subsidiaries	Shareholders	Others	Total
	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
Sale receivable	-	59,090	-	59,090
Mudaraba and Musharaka	441,136	-	-	441,136
Staff financing	-	-	62,407	62,407
Current accounts	10,921	936	-	11,857
Guarantees	1,000	-	-	1,000
Letters of credit	-	25,916	-	25,916
	<u>453,057</u>	<u>85,942</u>	<u>62,407</u>	<u>601,406</u>



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

35- Liquidity risk

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled in delivering cash or other financial assets. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control process and contingency plans for managing liquidity risk

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Assets	months 0-1	months 1-3	months 3-6	6 moths - 1 year	years 1-3	More than 3	Total
	SDG (000)	SDG (000)	SDG (000)	SDG (000)	SDG (000)	years SDG (000)	SDG (000)
Cash and cash equivalents	219,080	62,594	125,188	187,783	31,297	-	625,942
Investment accounts with bank	15,733	7,867	7,867	7,867	-	-	39,333
Investment in trading securities	148,586	59,434	74,293	14,859	-	-	297,171
Sale receivables	454,553	227,276	113,638	113,638	1,363,658	-	2,272,764
Investment in Mudaraba and Musharaka	69,733	34,867	17,433	17,433	209,199	-	348,665
Available for sale investments	247,246	82,415	61,811	20,604	-	-	412,076
Real estate investments	3,809	1,270	952	317	-	-	6,349
Other investments	32,258	10,753	8,064	2,688	-	-	53,763
Other assets	36,535	54,803	27,401	36,535	27,401	-	182,675
Intangible assets	-	-	-	-	-	89,502	89,502
Fixed assets	-	-	-	-	-	653,190	653,190
	1,227,532	541,278	436,649	401,724	1,631,556	742,692	4,981,430
Liabilities							
Current accounts	548,438	156,697	313,393	470,090	78,348	-	1,566,966
Cash margins	-	108,795	-	-	-	-	108,795
Provisions	-	2,216	9,049	5,706	-	-	16,971
Other liabilities	68,053	34,026	42,533	25,520	-	-	170,132
Total Liabilities	616,491	301,734	364,975	501,316	78,348	-	1,862,864
Unrestricted investment account holders	-	954,857	84,909	253,270	1,132,922	-	2,425,958
Total liabilities and unrestricted investment account holders	616,491	1,256,591	449,884	754,586	1,211,270	-	4,288,822

The attached notes 1 to 40 form part of these consolidated financial statements



BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

36-Fair Value of the financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments include securities available for sale which is recorded at cost in amount of SDG 112 million (SDG99 million in 2010). There is no reliable indicators to value the investments.

The Fair value of other financial instruments included in the consolidated financial statements is not materially different from the amounts disclosed in the consolidated financial statements.

37-Credit risk and the concentration of assets, liabilities, and other non listed items on the financials

Credit risk is the risk that the bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. The contracts normally are guaranteed by securities liens.

Types of credit risk

Credit risk types include sale receivables, Mugawala financing, and Musharaka financing.

Sale receivables

The bank finances the purchase of goods by purchasing the goods and resell it to the customers (Murabaha financing) . The sale price normally equal the cost of the purchase plus a profit margin. The customers pay the financing balance on installment according to the contract period. Normally the security lien on the financing is the goods under the contract or other credit allowances provided to the customers.

Musharaka financing

The bank and the customer may agree to invest in existing or new projects according to Musharaka Mutanaqisah Partnership. According to this model the ownership of the project will transfer to the customer. The profits and losses will be allocated to the parties according to the agreement or percentage of capital share in the project.

Risk management

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers for various periods and seeks to earn profit by investing these funds in quality assets. The Bank also seeks to increase its profit spread by making investments in diversified products and services and by consolidating short and long-term investment strategies while maintaining sufficient liquidity to meet all claims that might fall due.

BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2011

38-Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The management set a risk limits for risks that the bank can accept. These risks are monitored by the bank management within these limits.

39-Capital adequacy

Total Capital	<u>294,580,710</u>
Weighted risky assets	
Total weighted assets to credit risks	1,481,026,542
Total weighted assets to market risks	<u>469,331,799</u>
	<u>1,950,358,341</u>
Total weighted assets to operating risks	195,086,520
Total weighted risky assets	<u>2,145,444,861</u>
Total risky assets (Credit plus market risk) financed by unrestricted investment accounts	953,470,557
Total weighted risky assets minus weighted risky assets financed by equity owners and reserve (profits rates and investment risks)	1,191,974,304
Others	
Investments accounts	2,015,562,131
Restricted accounts	-
Unrestricted accounts	<u>2,015,562,131</u>
Total equity owners and other resources without investment deposits which include saving and current accounts	2,107,342,749
Total resources	<u>4,122,904,880</u>
Percentage of unrestricted investment accounts to total resources	<u>49%</u>
Capital adequacy	
Total risky assets adjusted with ALPHA	1,668,709,582
Minimum percentage for capital adequacy	<u>17.65%</u>
Minimum percentage for capital adequacy required by the central bank	<u>12%</u>

40-Comparative figures

Certain of the prior year amounts have been reclassified in order to conform with the current year presentation. These reclassifications not affect the consolidated income statement and consolidated statement of changes in equity.



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