



BANK OF KHARTOUM  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012

## 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 2012 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 2012 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 – CPA**  
May 14, 2013

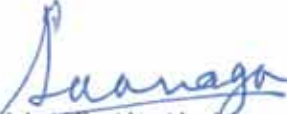



**BANK OF KHARTOUM****CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At December 31, 2012*

	Notes	2012	Restated 2011
<u>Assets</u>		<u>SDG (000)</u>	<u>SDG (000)</u>
Cash and cash equivalents	5	908,245	625,942
Investment accounts with bank	6	21,828	39,333
Investment in trading securities	7	589,504	297,171
Sale receivables	8	3,234,582	2,272,764
Investment in Mudaraba and Musharaka	9	327,430	350,708
Available for sale investments	10	268,687	336,626
Other investments	11	58,176	59,980
Other assets	12	409,216	283,015
Intangible assets	13	92,623	87,942
Property, plant and equipment	14	891,012	653,572
<b>Total Assets</b>		<b>6,801,303</b>	<b>5,007,053</b>
<b><u>Liabilities, Unrestricted Investment Accounts and Shareholders' Equity</u></b>			
<b>Liabilities</b>			
Current accounts	15	2,056,561	1,569,009
Cash margins	16	353,484	108,795
Other liabilities	17	278,536	173,126
Provisions	18	66,761	17,412
<b>Total Liabilities</b>		<b>2,755,342</b>	<b>1,868,342</b>
<b>Equity of unrestricted investment account holders</b>	19	<b>3,028,293</b>	<b>2,422,265</b>
<b>Shareholders' Equity</b>			
Paid up capital	20	419,100	381,000
Share premium		50,473	50,473
Reserves	21	319,578	188,882
Retained earnings		191,144	59,368
<b>Equity attributable to equity holders of the parent</b>		<b>980,295</b>	<b>679,723</b>
Non-controlling interest		37,373	36,723
<b>Total shareholders' Equity</b>		<b>1,017,668</b>	<b>716,446</b>
<b>Total Liabilities, Unrestricted Investment Accounts and Shareholders' Equity</b>		<b>6,801,303</b>	<b>5,007,053</b>

  
**Ayman Al Badri**  
 Chief financial officer

  
**Fadi Al Faqih**  
 General manager

  
**Salah Aldin Abu Alnaja**  
 Member board of director

  
**Fadul Mohammed Khair**  
 Vice 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, 2012

	Notes	2012 SDG (000)	Restated 2011 SDG (000)
<b>Income</b>			
Income from deferred sales	22	254,011	192,092
Income from investments	23	120,616	60,982
Total income from finance and investments		374,627	253,074
Financing and investing risk provision (8/1)		(40,300)	(22,800)
Less: Return on unrestricted investment accounts (Note 19)		(144,528)	(104,111)
Bank's share in income from investments (as Mudarib and fund owner)		189,799	126,163
Income from banking services	24	160,509	82,285
Exchange gains and losses		5,547	14,663
Other income	25	59,986	24,835
Total Bank's income		415,841	247,946
Foreign currency revaluation	26	35,711	(4,969)
<b>Total income</b>		<b>451,552</b>	<b>242,977</b>
<b>Expenses</b>			
Staff cost	27	(98,296)	(81,338)
General and administration expenses	28	(120,918)	(90,689)
<b>Total expenses</b>		<b>(219,214)</b>	<b>(172,027)</b>
Profit before Zakah and Tax		232,338	70,950
Zakah	29	(1,334)	(2,598)
Business profit tax	30	(41,921)	(5,375)
<b>Net profit for the year</b>		<b>189,083</b>	<b>62,977</b>
<b>Attributable to:</b>			
Equity holders of the parent		188,433	62,977
Non-controlling interests		650	-
		<b>189,083</b>	<b>62,977</b>
<b>Earning per share</b>	31	<b>0.593</b>	<b>0.218</b>

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



# BANK OF KHARTOUM

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012 <i>SDG (000)</i>	<i>Restated</i> 2011 <i>SDG (000)</i>
<b>Operating activities</b>		
Net profit for the year	189,083	62,977
<u>Adjustment for non cash items:</u>		
Zakah provision	1,334	2,598
Tax provision	41,921	5,375
Amortization and depreciation	19,337	15,574
Gain on assets disposal	(3,481)	(1,844)
	<u>248,194</u>	<u>84,680</u>
<b>Changes in operating assets, liabilities and unrestricted investment accounts</b>		
Investment accounts with bank	17,505	130,978
Sale receivables	(961,818)	(547,316)
Investment in trading securities	(292,333)	21,362
Investment in Mudaraba and Musharaka	23,278	(132,814)
Other investments	1,804	65,720
Other assets	(86,278)	(10,113)
Current accounts	487,552	159,304
Equity of unrestricted investment account holders	606,028	640,447
Cash margins	244,689	19,868
Other liabilities	105,410	26,115
Provisions	(5,906)	(11,800)
Prior year adjustments	82	(80)
Cash from operations	<u>140,013</u>	<u>361,671</u>
<b>Net cash from operating activities</b>	<u>388,207</u>	<u>446,351</u>
<b>Investing activities</b>		
Purchases of fixed assets	(254,493)	(104,610)
Disposal of fixed assets	5,515	4,950
Available for sale investments	143,074	(49,245)
<b>Net cash used in investing activities</b>	<u>(105,904)</u>	<u>(148,905)</u>
<b>Financing activities</b>		
Dividends	-	(38,100)
<b>Net cash used in financing activities</b>	<u>-</u>	<u>(38,100)</u>
<b>Increase / (Decrease) in cash and cash equivalents for the year</b>	<u>282,303</u>	<u>259,346</u>
Cash and cash equivalents at the beginning of the year	<u>625,942</u>	<u>366,596</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>908,245</u></u>	<u><u>625,942</u></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, 2012

	Capital	Share premium	Statutory reserve	Bank risk reserve	Fair value revaluation reserve	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	General reserve	Accumulated profits and losses	Attributable to equity holders of the parent	Non-controlling interests	Total equity
<i>Restated</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>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
Balance at January 1, 2011	381,000	50,473	31,305	23,696	(7,428)	22,979	-	9,063	41,920	553,008	36,723	589,731
Profit for the year	-	-	-	-	-	-	-	-	62,977	62,977	-	62,977
Transfer to reserves	-	-	6,049	14,015	-	-	-	8,798	(28,862)	-	-	-
Revaluation surplus	-	-	-	-	-	80,869	-	-	-	80,869	-	80,869
Unrealized losses	-	-	-	-	(382)	-	-	-	-	(382)	-	(382)
Dividends	-	-	-	-	-	-	-	-	(38,100)	(38,100)	-	(38,100)
Foreign currency translation	-	-	-	-	-	-	(82)	-	-	(82)	-	(82)
Prior year adjustments*	-	-	-	-	-	-	-	-	21,433	21,433	-	21,433
Balance at December 31, 2011	<u>381,000</u>	<u>50,473</u>	<u>37,354</u>	<u>37,711</u>	<u>(7,810)</u>	<u>103,848</u>	<u>(82)</u>	<u>17,861</u>	<u>59,368</u>	<u>679,723</u>	<u>36,723</u>	<u>716,446</u>
Balance at January 1, 2012	381,000	50,473	37,354	37,711	(7,810)	103,848	(82)	17,861	59,368	679,723	36,723	716,446
Profit for the year	-	-	-	-	-	-	-	-	188,433	188,433	650	189,083
Transfer to reserves	-	-	16,345	11,153	-	-	-	25,499	(52,997)	-	-	-
Bonus shares	-	-	-	-	-	-	-	(6,517)	(31,583)	-	-	-
Revaluation surplus	-	-	-	-	-	8,999	-	-	-	8,999	-	8,999
Unrealized gains	-	-	-	-	75,135	-	-	-	-	75,135	-	75,135
Foreign currency translation	-	-	-	-	-	-	82	-	-	82	-	82
Prior year adjustments*	-	-	-	-	-	-	-	-	27,923	27,923	-	27,923
Balance at December 31, 2012	<u>381,000</u>	<u>50,473</u>	<u>53,699</u>	<u>48,864</u>	<u>67,325</u>	<u>112,847</u>	<u>-</u>	<u>36,843</u>	<u>191,144</u>	<u>980,295</u>	<u>37,373</u>	<u>1,017,668</u>

\* Prior year adjustments represents an adjustment for last years deferred taxes (Note 30)

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, 2012

	Sales receivable	Other investments	Cash	Total
	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
Balance at January 1, 2012	62,495	36,655	15,071	114,221
Additions	74,836	10,077	-	84,913
Withdrawals	-	-	(1,387)	(1,387)
Investment profits	-	-	3,326	3,326
Bank's share as Mudarib	-	-	(460)	(460)
Balance at December 31, 2012	<u>137,331</u>	<u>46,732</u>	<u>16,550</u>	<u>200,613</u>

The restricted investments represent investments in Shehama securities and Elamaan funds based on Musharaka financing. The total capital of the fund is SDG 200 million. 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.

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, 2012

### 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
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.

**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 policies.

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.

**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.

**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) Other investments**

Other 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) Property, plant and equipment**

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment

losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that

the fair value of a revalued asset does not differ materially from its carrying amount.

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.

**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, 2012**

### **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, 2012

	2012 SDG (000)	2011 SDG (000)
<b>5- Cash and cash equivalents</b>		
Cash on hand and ATMs	225,928	144,748
Current accounts with central bank	110,040	243,810
Deposits with the central bank*	437,575	172,715
Cash with foreign correspondent banks	134,702	64,669
	<u>908,245</u>	<u>625,942</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. Investment in shehama comprises SDG 512,470 restricted by the Central Bank of Sudan for liquidity purposes.

	2012 SDG (000)	2011 SDG (000)
<b>8- Sales receivables</b>		
Murabaha	1,705,416	1,358,483
Salam	96	103
Mugawala	1,409,564	721,092
Deferred sales	941,609	566,200
Ijara	15,160	7,329
	<u>4,071,845</u>	<u>2,653,207</u>
Less: Deferred profits	(868,643)	(499,574)
	<u>3,203,202</u>	<u>2,153,633</u>
Letters of guarantee	127,882	146,979
Letters of credit	111,712	141,713
	<u>3,442,796</u>	<u>2,442,325</u>
Less : provision for doubtful debts (note 8/1)	(208,214)	(169,561)
Sale receivables (net)	<u>3,234,582</u>	<u>2,272,764</u>

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2012

	2012 SDG (000)	2011 SDG (000)
<b>8/1- Provisions for finance and investments</b>		
Balance at January 01	169,561	147,157
Provision for the year	40,300	22,800
Balance transfer to general Bank risk reserve	(1,647)	(396)
Balance at December 31	208,214	169,561
<b>9- Investments in Mudaraba and Musharaka</b>		
	2012 SDG (000)	2011 SDG (000)
Musharaka	242,350	226,575
Mudaraba	85,080	124,133
	327,430	350,708
<b>10- Available for sale investments</b>		
	2012 SDG (000)	2011 SDG (000)
Sarah Sukuk (Note 10.1)	2,005	52,515
Shehab (Note 10.2)	-	37,495
Investment funds (Note 10.3)	14,006	30,014
Khartoum refinery Musharaka Sukuk (Note 10.4)	395	94,036
Portfolio investment (Note 10.5)	-	19,725
Sudanese Electricity Distribution Company Lease Sukuk (Note 10.6)	93,590	-
	109,996	233,785
Listed shares	3,088	21,516
Un listed shares	155,603	81,325
Total investments from bank's funds	158,691	102,841
Total available for sale investments	268,687	336,626

### 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 monthly.

### 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, 2012

### 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.

### 10.4 Sudanese Electricity Distribution Company Sukuk

Sudanese Electricity Distribution Company's Sukuk represents short-term investments funds issued by Sudanese Company for Financial Services. The Sukuk are financial instruments which represent investments in the assets of Electricity Distribution Company. these assets are purchased by the investment funds and leased back to the minister of finance. These sukuk are available for individuals, companies, and financial institutions. Profits of the sukuk are distributed monthly.

### 11- Other investments

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

	2012 SDG (000)	2011 SDG (000)
<b>12- Other assets</b>		
Staff loans	26,881	13,937
Prepaid expenses	18,401	22,721
Accrued revenue	27,358	1,035
Receivables	36,538	17,883
Receivables from the Government	55,091	39,959
Transactions under settlement	67,081	35,444
Government bonds	91,140	75,450
Office supplies	3,868	1,717
Deferred tax assets	61,777	24,869
Other receivables (12/1)	21,081	50,000
	<u>409,216</u>	<u>283,015</u>

### 12/1 Other receivables

	2012 SDG (000)	2011 SDG (000)
Balance as at January 01	50,000	60,980
Collected amounts	(27,254)	(8,358)
Allowance for doubtful debt	(1,665)	(2,622)
Balance as at December 31	<u>21,081</u>	<u>50,000</u>

### 13- Intangible assets

	Goodwill SDG (000)	Computer Software SDG (000)	Total SDG (000)
Book value at January 01, 2012	76,686	11,256	87,942
Additions	-	6,212	6,212
Amortization for the year	-	(1,531)	(1,531)
Net book value at December 31, 2012	<u>76,686</u>	<u>15,937</u>	<u>92,623</u>
Net book value at December 31, 2011	<u>76,686</u>	<u>11,256</u>	<u>87,942</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, 2012

<b>14 - <u>Propert, plant and equipment</u></b>	<b>Land and Buildings</b>	<b>Furniture &amp; equipment</b>	<b>Motor vehicles</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Cost</b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>
January 1, 2012	562,250	91,589	14,601	29,421	697,861
Additions	183,966	36,322	4,754	-	225,042
Disposals	(453)	(2,668)	(4,185)	-	(7,306)
Additions to capital work in progress	-	-	-	32,238	32,238
Transfer from capital work in progress	-	22,629	-	(22,629)	-
As of December 31, 2012	<u>745,763</u>	<u>147,872</u>	<u>15,170</u>	<u>39,030</u>	<u>947,835</u>
<b>Depreciation</b>					
January 1, 2012	7,726	29,679	6,884	-	44,289
Charge for the year	1,738	13,564	2,504	-	17,806
Disposals	(68)	(2,023)	(3,181)	-	(5,272)
As of December 31, 2012	<u>9,396</u>	<u>41,220</u>	<u>6,207</u>	<u>-</u>	<u>56,823</u>
<b>Net Carrying Values</b>					
As of December 31, 2012	<u><u>736,367</u></u>	<u><u>106,652</u></u>	<u><u>8,963</u></u>	<u><u>39,030</u></u>	<u><u>891,012</u></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, 2012

<b>14 - <u>Propert, plant and equipment (continued)</u></b>	<b>Land and Buildings</b>	<b>Furniture &amp; equipment</b>	<b>Motor vehicles</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Cost</b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>	<b><i>SDG (000)</i></b>
January 1, 2011	423,667	66,114	15,545	23,019	528,345
Additions	139,278	22,229	1,003	22,379	184,889
Disposals	(695)	(3,931)	(1,947)	-	(6,573)
Additions to capital work in progress	-	7,177	-	-	7,177
Transfer from capital work in progress	-	-	-	(15,977)	(15,977)
As of December 31, 2011	<b>562,250</b>	<b>91,589</b>	<b>14,601</b>	<b>29,421</b>	<b>697,861</b>
<b>Depreciation</b>					
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	<b>7,726</b>	<b>29,679</b>	<b>6,884</b>	<b>-</b>	<b>44,289</b>
<b>Net Carrying Values</b>					
As of December 31, 2011	<b>554,524</b>	<b>61,910</b>	<b>7,717</b>	<b>29,421</b>	<b>653,572</b>

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, 2012

### 15- Current accounts

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

### 16- Cash margins

	2012	2011
	<i>SDG (000)</i>	<i>SDG (000)</i>
Cash margin against letters of credit	344,434	100,842
Cash margin against letters of guarantee	9,050	7,953
	<u>353,484</u>	<u>108,795</u>

### 17- Other liabilities

	2012	2011
	<i>SDG (000)</i>	<i>SDG (000)</i>
Accrued liabilities	108,966	49,922
Accrued expenses	14,200	17,081
Custodian deposits	58,295	5,484
Al Ammn funds liabilities	16,551	-
Other liabilities*	80,524	100,639
	<u>278,536</u>	<u>173,126</u>

\*Other liabilities include gains from transactions not according to Sharia law. The amount of the transactions in 2012 is SDG 14,000 compared to SDG 10,000 in 2011.

### 18- Provisions

	2012	2011
	<i>SDG (000)</i>	<i>SDG (000)</i>
Zakah provision	1,736	3,043
End of service benefits	7,777	5,331
Tax provision	57,248	9,038
	<u>66,761</u>	<u>17,412</u>

### 19- Equity of unrestricted investment account holders

	2012	2011
	<i>SDG (000)</i>	<i>SDG (000)</i>
Savings account	1,484,236	957,593
Investments account	964,269	795,211
Mudaraba investments by central bank	320,000	320,000
Bank investments	131,000	260,752
	<u>2,899,505</u>	<u>2,333,556</u>
Unrestricted investment account holder's profit*	144,528	104,111
Prior year profit	1,071	-
Profits paid during the year	(16,811)	(15,102)
	<u>3,028,293</u>	<u>2,422,565</u>

Equity of unrestricted investment account holders share of profits is SDG 109,106 which represents 7% per year. The bank paid additional profits for equity holders in amount of 35,190 that made the total profits to equity holders SDG 144,296 which represents 10% per year.

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2012

	2012 SDG (000)	2011 SDG (000)
<b>20- Capital</b>		
Authorized capital	1,000,000	381,000
Paid up capital	419,100	381,000

The authorized share capital of the Bank comprises 317,499,998 shares of nominal value of SDG 1.32 each.

The bank increased the authorized capital to SDG 1 billion and paid up capital by SDG 38,100,000 by issuing bonus shares.

	2012 SDG (000)	2011 SDG (000)
<b>21- Reserves</b>		
Statutory reserve	53,699	37,354
General bank risk reserve	48,864	37,711
Fair value reserve	67,325	(7,810)
Fixed assets revaluation reserve	112,847	103,848
General reserve	36,843	17,861
Foreign currency translation adjustment	-	(82)
	319,578	188,882

	2012 SDG (000)	2011 SDG (000)
<b>22- Income from deferred sales</b>		
Murabaha income	128,001	112,841
Salam income	-	767
Deferred sales income	65,524	30,721
Mugawala income	59,053	47,763
Ijara income	1,433	-
	254,011	192,092

	2012 SDG (000)	2011 SDG (000)
<b>23- Income from investments</b>		
Shehama	62,266	34,575
Portfolio investment income	13,550	3,686
Shama income	4,861	11,208
Sarah income	3,317	5,056
Bank of Khartoum Ijara income	41,349	-
Mudaraba income	4,565	4,274
Musharaka income	3,625	428
Deposit investments income	843	2,617
Investment loss	(13,760)	(862)
	120,616	60,982

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	2012 SDG (000)	2011 SDG (000)
<b>24- Income from banking services</b>		
Cash management	35,377	10,759
Transfers	19,804	12,662
Cheque collection	85	106
Letters of credit	83,183	42,402
Letters of guarantee	5,731	4,763
Current accounts	5,577	2,890
Communications	870	682
Insurance and agencies	1,744	2,872
ATMs	1,657	1,368
Other income	6,481	1,781
	<u>160,509</u>	<u>80,285</u>

	2012 SDG (000)	2011 SDG (000)
<b>25- Other income</b>		
Rent	6,204	171
Storage fee	720	784
Bank of Khartoum Ijara fund	2,461	3,768
Income from subsidiaries	14,270	14,816
Gains on assets sale	3,481	1,844
Miscellaneous income*	36,473	3,452
Loss on disposal of Bank of Khartoum Juba	(3,623)	-
	<u>59,986</u>	<u>24,835</u>

\* Miscellaneous income includes agency fees for sale of lands owned by the Khartoum State government. The bank promote and market the sales of these lands.

### 26- Foreign exchange valuation

The Central Bank of Sudan increased the exchange rate of the Sudanese pound to US dollars from SDG 2.7 to 5.4 for 1 US dollars. As a result, the Foreign exchange gains increased to SDG 35,711 thousands compared to exchange losses in amount of SDG 4,969 Thousands for the year ended 2011.

	2012 SDG (000)	2011 SDG (000)
<b>27- Staff cost</b>		
Salaries	37,430	34,107
Staff bonus	30,568	20,264
Overtime	512	830
Travelling	6,418	5,447
Medical care	2,222	2,151
Employees bonus	10,289	11,032
Social insurance	5,973	5,544
Hospitality	1,439	1,099
End of service benefits	2,446	83
Training	999	781
	<u>98,296</u>	<u>81,338</u>

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	2012	2011
	SDG (000)	SDG (000)
<b>28- General and administration expenses</b>		
Rent	15,443	10,321
Building insurance	1,953	774
Electricity and Water	3,875	2,449
Fuel	1,430	1,059
Cleaning expenses	11,655	7,387
Office supplies	3,547	2,446
Communications	6,702	5,565
Hospitality	899	505
Subscriptions	672	643
Security services	2,918	2,815
Legal consultancy fees	1,525	3,942
Amortization and depreciation	19,337	15,574
ATMs	4,288	2,214
Consultancy	6,664	2,256
Marketing	5,089	5,384
Board of Directors' expenses	7,520	3,510
Audit fees	549	299
Sharia Supervisory Board's expenses	86	45
Outsourcing expenses	6,271	5,252
Donations	1,626	486
Share in Deposit Guaranteed fund	3,601	2,832
Service company expenses	9,289	9,188
Miscellaneous expenses	4,278	5,743
Operating losses	1,701	-
	<u>120,918</u>	<u>90,689</u>

### 29- Zakah provision

The bank estimated the Zakah provision for 2012. 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 estimates the business profit tax for the year 2012. 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.

Component of tax provision	2012	2011
	SDG (000)	SDG (000)
Provision for the year	53,921	8,731
Deferred tax differences	(12,000)	(3,356)
	<u>41,921</u>	<u>5,375</u>

During 2012, the bank determined that it would change its accounting policy to recognize temporary tax differences. Changes have been applied retrospectively resulting in the adjustment of prior year financial information.

As a result the voluntary accounting policy change, the following adjustments were made to the financial statements.

# BANK OF KHARTOUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2012

## 30- Business profit tax (continued)

### *SDG (000)*

Increase in deferred tax assets 2011	24,869
Decrease in tax provision for the period ended 2011	3,356
Increase in the opening balance of retained earnings	21,514

## 31- Earning per Share

	2012 <i>SDG (000)</i>	2011 <i>SDG (000)</i>
Net income for the year	188,433	62,977
Number of shares	317,499,998	288,636,000
Earning per Share	0.593	0.218

## 32- Concentration of investments – Economic sector

	2012	2011
	100%	100%
Agricultural sector	6%	4%
Industrial sector	4%	5%
Construction	5%	14%
Transportation	19%	1%
Exportation	5%	29%
Importation	56%	36%
Others	5%	11%
	100%	100%

## 33- Contingent liabilities

	2012 <i>SDG (000)</i>	2011 <i>SDG (000)</i>
Letters of credit	1,900,182	338,041
Letters of guarantee	579,411	639,425
	2,479,593	977,466

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 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	Top Management and employees	Total
	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>	<i>SDG (000)</i>
Sale receivable	57	59,227	-	59,284
Mudaraba and Musharaka	447,812	13,388	-	461,200
Staff financing	-	-	4,826	4,826
Current accounts	14,306	-	-	14,306
Letters of credit	1,671	28,392	-	30,063
	<u>463,846</u>	<u>101,007</u>	<u>4,826</u>	<u>569,679</u>

In December 2012 Bank of Khartoum sold Bank of Khartoum's Ijara Sukuk to National Trading and Services Company Limited and Senable for Financial Securities Company. The number of suku sold to the subsidiaries is 1 million for each company in amount of SDG 20 millions. Profits recognized from sukuk for subsidiaries in amount of SDG 20 millions.

# BANK OF KHARTOUM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 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.

	<i>months 0-1</i>	<i>months 1-3</i>	<i>months 3-6</i>	<i>6 months - 1 year</i>	<i>years 1-3</i>	<i>More than 3 years</i>	<i>Total</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>
<b>Assets</b>							
Cash and cash equivalents	433,225	-	-	37,363	-	437,657	908,245
Investment accounts with bank	-	-	10,914	10,914	-	-	21,828
Investment in trading securities	589,504	-	-	-	-	-	589,504
Sale receivables	92,945	185,890	278,833	557,668	669,204	1,450,042	3,234,582
Investment in Mudaraba and Musharaka	13,643	27,286	40,928	81,858	49,114	114,601	327,430
Available for sale investments	4,753	92,079	-	8,158	-	163,697	268,687
Other investments	-	-	-	-	-	58,176	58,176
Other assets	15,276	29,058	43,586	87,171	164,591	69,534	409,216
Intangible assets	-	-	-	-	-	92,623	92,623
Property, plant and equipment	-	-	-	-	-	891,012	891,012
	<u>1,149,346</u>	<u>334,313</u>	<u>374,261</u>	<u>783,132</u>	<u>882,909</u>	<u>3,277,342</u>	<u>6,801,303</u>
<b>Liabilities</b>							
Current accounts	207,078	414,155	621,233	814,095	-	-	2,056,561
Cash margins	35,348	70,696	106,044	141,396	-	-	353,484
Other liabilities	-	245,082	-	-	-	33,454	278,536
Provisions	5,563	11,127	16,690	33,381	-	-	66,761
<b>Total Liabilities</b>	<u>247,989</u>	<u>741,060</u>	<u>743,967</u>	<u>988,872</u>	<u>-</u>	<u>33,454</u>	<u>2,755,342</u>
Unrestricted investment account holders	151,415	302,829	454,244	2,119,805	-	-	3,028,293
Shareholders' Equity	-	-	-	-	-	980,295	980,295
Non-controlling interest	-	-	-	-	-	37,373	37,373
<b>Total liabilities and unrestricted investment account holders</b>	<u>399,404</u>	<u>1,043,889</u>	<u>1,198,211</u>	<u>3,108,677</u>	<u>-</u>	<u>1,051,122</u>	<u>6,801,303</u>

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

**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 156 million (SDG81 million in 2011). 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.

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

**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**

Minimum percentage for capital adequacy	<u>19%</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 do not affect the consolidated income statement and consolidated statement of changes in equity except restated comparative figures in note 30.



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