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Fiduciary Rating Report

Bank of Khartoum

April 2014

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

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FIDUCIARY RATING

Bank of Khartoum

Report Date:
April 28, 2014

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Credit Rating

	Latest Rating	Previous Rating
National Scale	AA-(sd)/A1(sd)	AA-(sd)/A1(sd)
Rating Outlook	Stable	Stable

Fiduciary Score

	Latest	Previous
Fiduciary Score	**71-75**	**71-75**
Asset Manager Quality	66-70	66-70
Corporate Governance	66-70	66-70
Shari'a Governance	76-80	76-80

Fiduciary Score 71-75 denotes the rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

Corporate Profile

Brief History

Bank of Khartoum (BOK) celebrated its hundred years of existence in 2013, having initially been established in 1913 under the name of Anglo Egyptian Bank. The bank has operated under many names over this period and has undergone many transformations and changes in ownership structure. Key historical events during the bank's lifetime are as follows:

- **1913**: Established as the Anglo-Egyptian Bank during the Anglo-British rule
- **1925**: Renamed as Barclays Bank for Overseas Properties and Territories
- **1954**: Renamed as Barclays Bank

- **1970**: Renamed as State Bank for Foreign Trade after acquisition by the Government of Sudan
- **1975**: Renamed as Bank of Khartoum through a Presidential Decree
- **1983**: Merged with People's Cooperative Bank (Bank Misr) through a Presidential Decree
- **1993**: Merged with Unity Bank (Othman Bank) and National Export and Import Bank
- **2002**: Converted to a Public Limited Company under the Companies' Act of 1925
- **2005**: Government of Sudan sold its 60% stake in the bank to Dubai Islamic Bank P.J.S.C. (DIB)
- **2008**: Merged with Emirates and Sudan Bank

Organizational Restructuring and Performance

Organization structure and senior management team of the bank has witnessed a transformation following its acquisition by Dubai Islamic Bank. Overall banking operations have been centralized to strengthen the internal control environment in the bank. While BOK's performance has strengthened since then in local currency terms, depreciation of Sudanese pound vis-à-vis US dollar has considerably eroded the capital of foreign investors in the bank. Official rate of Sudanese pound stood at 5.6958/USD (December 31, 2011: 2.7604/USD) as of February 10, 2014.

Shareholding Structure

While overall shareholding of DIB has diluted to 28.4% on a timeline basis and with the bank's merger with Emirates and Sudan Bank, DIB remains the most prominent shareholder in terms of its role in key decisions taken by the Board of Directors. This is reflected in the composition of Board committees dealing with business and investment decisions. Mr. Fadl Mohammed Khair, who is a local entrepreneur, is the second largest shareholder having a stake of 20.3% in the bank. Other prominent institutional shareholders include Islamic Development Bank and Sharjah Islamic Bank, having a stake of 4.4% and 2.2%, respectively.

Profile of Dubai Islamic Bank

Dubai Islamic Bank was established in 1975 as the first modern Islamic commercial bank in the world. DIB has emerged as UAE's largest Islamic commercial bank with a network of 82 branches and is backed by the investment arm of Government of Dubai, Investment Corporation of Dubai. It had a balance sheet footing of $30b and earned net profit of $460m in 2013. Net equity was reported at $4.4b with regulatory capital adequacy ratio of 18.2% at end-2013.

Subsidiaries

BOK has five subsidiaries, of which, four are wholly owned. Financial results of subsidiaries have been consolidated in the financial statements that have been used for analysis in this report. Details of business activities are presented in Table 1.

Table 1: Details of Subsidiaries	**Business Activity**
Sanabel	Brokerage
National Trading Co.	Dealing in Commodities and Facilitating Exporters/ Importers
AtoZ	Sale of Consumer Goods on Instalments
SudaCash	Dealing in Foreign Exchange
Khartoum Waha	Hotel, Shopping Mall and Offices

SWOT ANALYSIS

Strengths

- Strong franchise in the local market
- Associated with a strong and a thriving Islamic banking group
- Presence of a qualified and experienced senior management team
- Existence of a network of correspondent banks despite economic sanctions
- Continued focus on technology to expand outreach and improve service quality
- First mover's advantage in consumer financing
- Largest retail network in the country
- Strong relations with international donor agencies operating in the country
- Presence of a well diversified Board of Directors, having adequate representation of minority shareholders and independent directors

Weaknesses

- Concentration in loan book, given limited avenues for deployment of assets
- Remaining portfolio of impaired assets
- Human resource constraints in the local market
- Limited resources in place for management of operational, liquidity and market risks
- Inadequate disclosures available in the annual report and on the bank's website

Opportunities

- Presence of large unbanked population in the country provides room for growth even with traditional product suite. Moreover, technological developments provide opportunities to reach potential customer base without having to incur huge administrative costs
- Limited range of financial products available in the market provides new avenues for growth
- Opportunity for growth in microfinance segment

Threats

- Weak macroeconomic fundamentals may hamper growth and increase delinquencies in the portfolio
- Continuing sanctions on Sudan may threaten banking operations, particularly relations with correspondent banks
- Structural weaknesses in domestic capital market may affect liquidity position
- Political uncertainties and regional security may also pose challenges for the bank

RATING RATIONALE

Since the privatization of the bank in 2006, Bank of Khartoum has continued to consolidate, having become the largest bank operating in Sudan and holding fifteen percent of the total industry deposits. Overtime the bank has established strong franchise , pioneering consumer financing and leading the launch of new products in the country and improving quality of service. The bank benefits considerably in this regard from the expertise of its largest shareholder, Dubai Islamic Bank, that has been instrumental in instituting BOK's new management team and has also provided guidance in standardization of policy framework and strengthening of control environment.

BOK is aggressively employing alternative delivery channels to enhance its outreach and access to the unbanked population while slowly increasing its branch network. Deposits held by the bank have grown at a compound annual growth rate (CAGR) of 28% over the past five years, about 5% higher than the industry. Reliance on sources of funding other than deposits has also reduced over time, with deposits in relation to total assets increasing to over eighty percent now. Cash management services and trade business of the bank have also expanded in the recent periods.

Table 2: Key Financial Figures *(in SDG billions)*	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total Assets	2.30	2.82	3.58	4.03	5.00	6.80	8.13
Net Financings	1.19	1.38	1.59	1.82	2.50	3.48	3.96
Deposits	1.57	1.80	2.51	3.28	4.10	5.44	6.67
Market Share (Deposits)	11%	11%	12%	13%	15%	14%	N/A
Net Equity	0.51	0.51	0.52	0.59	0.72	1.02	1.11
Net Equity % Assets	22%	18%	15%	15%	14%	15%	14%
Liquid Assets	N/A	N/A	N/A	1.1	1.2	1.6	2.2
Liquid Assets % Total Deposits	N/A	N/A	N/A	33%	28%	30%	33%
Cash Reserves % Total Deposits	N/A	N/A	N/A	16%	16%	17%	21%
Net Profit	34.8m	9.7m	30.0m	61m	63m	189m	152m

Total assets and financings have also grown on average by 20% annually during this period. Growth in net financings was lower than the past average and the asset base in 2013 given limited investment activity in the country. Net investment portfolio's share in total assets has been around 12% over the past three year-ends and now mainly comprises short term government securities (Shihama). Delays in repayment have been witnessed against public sector instruments, including Shihama, in the backdrop of fiscal and other macroeconomic pressures faced by the government. The bank's strategy for future growth in core banking operations entails enhancing retail portfolio, undertaking financing of major industrial and export-oriented projects and investing in private equity funds. On the treasury side, the bank's strategy entails investing in gold accounts, planned to be launched by the central bank.

Share of retail, wherein the bank has a favorable experience so far, has increased to one-fourth of the total financings, with remaining portfolio comprises corporate exposures. Loan book of the bank is highly concentrated with twenty largest exposures (funded and unfunded) representing over sixty percent of the gross portfolio. This is attributable to the relatively underdeveloped industrial base in the country, resulting in a very limited number of corporate relationships being managed by the bank.

Pre-acquisition impaired financings are guaranteed by the Central Bank Of Sudan (CBOS) under the sale agreement, and against which it has deposited SDG 320m at the rate of 0.9% to compensate for loss in revenues borne by the bank on account of the non-performing nature of these assets. Amount of pre-acquisition impaired financings, which are backed by the central bank guarantee, has reduced on a timeline basis; however, post acquisition non-performing financings in absolute terms have increased. Post-acquisition gross impairment ratio has, nonetheless, posted improvement to 7.1% (Dec'11: 8.9%) by end-2013, given expanding financings base. Post acquisition net impairment ratio at 3.1% (Dec'11: 3.7%) indicates reasonable quality of assets.

Operating profits[1] of the bank have continued to depict an increasing trend in the backdrop of an expanding asset book and revenues from non-fund based banking services, although net results have varied on account of foreign currency revaluations and other one-time gains/losses. Rate of return[2] on average assets had also trended upwards in line with other profitability indicators to 2.6% (2010: 1.2%) in 2012. However, higher management expenses in 2013 due to inflationary pressures have weakened efficiency indicators and reduced return on average assets to 2.3%.

Liquidity management remains a challenge for the bank given structural weaknesses in Sudan's financial system wherein treasury papers market has also faced periods of illiquidity, making institution of an effective liquidity management system quite ineffective. Nonetheless, the bank's overall liquidity profile has strengthened in recent periods with cash reserves in relation to total deposits increasing to 21% and liquid assets[3] to total deposits being 33% as of year-end 2013. Capital adequacy ratio has, however, reduced to 14%, which although is above the minimum regulatory requirement but does not leave room for any considerable real growth.

There is considerable room for improvement in governance infrastructure in place at the bank. Key governance related areas that require immediate attention mainly pertain to frequency of Board meetings, governance and financial disclosures (including those pertaining to Shari'a related matters) in the annual report and the website, and risk management infrastructure in place at the institution. Risk management function may be enhanced by taking a holistic view of the risk management process from a total balance sheet perspective, and providing estimates of total risk from both financial and non-financial events. Composition of the Board of Directors is well diversified in terms of experience profile and has adequate representation of minority shareholders and independent directors. Composition of Board committees is also considered to be in line with best practice. Overall Shari'a compliance at the bank remains strong given strict regulatory framework for the same. Financing product structures compare favorably to most Islamic jurisdictions and the portfolio represents a healthy mix of participatory and non-participatory forms of financing.

1 Profit Before Zakah and Taxes adjusted for foreign currency revaluations and one-off Ijarah Income
2 Based on Profit Before Zakah and Taxes adjusted for foreign currency revaluations and one-off Ijarah Income
3 Include Government Securities in addition to Cash

FINANCIAL RISK ANALYSIS

Sudan's Economic & Political Overview

Table 3: Key Economic Indicators of Sudan	2010	2011 (Est.)	2012 (Prel.)	2013 (Proj.)
Real Sector (annual changes in percentages)				
Real GDP (at factor Cost)*	3.4	-1.0	-2.6	4.1
Oil*	-3.9	-36.0	-62.4	46.9
Non-Oil*	5.1	6.0	4.6	2.3
Consumer Prices (period average)	13.1	18.0	35.1	32.1
Public Finance (in percent of GDP)				
Revenues and Grants	19.3	18.1	10.0	11.2
Total Expenditure	19.0	17.9	13.8	13.2
Overall balance	0.3	0.2	-3.8	-2.0
Gross Savings (in percent of GDP)	18.0	18.7	7.9	8.3
Balance of Payments (in percent of GDP)				
Export of Goods				
(in USD, annual percentage change)	57.0	-12.9	-53.2	-1.2
Import of Goods				
(in USD, annual percentage change)	3.1	-7.5	2.6	1.1
Current Account Balance	-2.1	-0.4	-10.8	-11.9
Total External Debt	62.2	59.8	82.2	87.6
Gross International Reserves (In months of next year's imports of goods and services)	1.8	1.5	1.9	2.0
Monetary sector (Annual Changes in Percentages)				
Broad money	24.9	17.7	40.3	17.6
Credit to the economy	16.4	8.0	34.1	14.5
**Growth rate since 2011 excludes South Sudan. Source: IMF*				

Economic Growth

The economic slowdown experienced by the Republic of Sudan (hereby referred to as 'Sudan' or 'the country') has persisted given the considerable impact of South Sudan's secession, which resulted in 75% loss in the country's oil production, accounting for nearly 55% of its fiscal revenues. While real economic contraction was reported higher at 2.6% in 2012, gross domestic product (GDP) is estimated to have grown by 4.1% in 2013 in the wake of oil transit fees agreement with South Sudan. Under the agreement, South Sudan will pay Sudan a fee in the range of $9.1 to $11.0 per barrel, varying for each facility, for oil volumes moved through its facilities in lieu of processing, transportation and transit fees. However, uncertainties stay in the backdrop of hostile relations between the two countries and several other oil and non-oil related issues yet to be resolved. Non-oil growth has also slowed subsequent to fiscal year 2011.

Economic Stability Program and its Impact

Three year economic stability program entailing removal of subsidies on sugar and petroleum products, increase in tax rates and intended enhancement in transparency in use of public funds has so far been the government's main policy response to tackle economic pressures and engineer a turnaround. Subsequent economic events in 2012 have proven these measures to be inadequate. Fiscal and current account deficits have expanded to 3.8% and 10.8% of GDP in 2012. Likely oil transit fee revenues would provide some initial support; however, International Monetary Fund has estimated that the budget deficit is likely to expand again in subsequent years.

Despite over 100% depreciation in the official value of local currency against US dollar, difference between official and market rate remain at about 20%. High inflation in the economy, with average consumer price increases in 2012 and 2013 estimated at over 30%, is largely driven by the monetization of the fiscal deficit and a weakening exchange rate. Inflation has been projected to ease only marginally and is expected to remain over 25% in the ongoing year. External debt in relation to GDP remains high and sharing of debt burden between Sudan and South Sudan is still unresolved.

Political Situation

Political situation in the country remains uncertain, which is further fueled by regional conflicts and upcoming presidential elections in 2015. Unstable security situation at the border with South Sudan and internal conflict ridden areas such as Darfur continue to shift government's attention away from economic matters in addition to directly affecting the economic situation in the country.

Financial Sector

Capital market in Sudan remains underdeveloped and its financial sector is dominated by commercial banking with about thirty such institutions operating in the country. The entire financial system of the country is required to be Shari'a compliant. Shari'a supervision is centralized for all institutions at the central bank level. Financial services are mainly concentrated in large cities and penetration in most parts of the country remains very limited given low population density in these areas.

Table 4: Key Data of Banking Sector in Sudan *(in SDG billions)*	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Assets	26.2	30.6	36.7	43.1	46.5	67.1	77.5
Deposits	13.9	16.5	20.8	25.9	27.8	39.5	44.1
Capital	4.6	5.2	6.7	7.5	9.0	10.8	13.1
Capital % Assets	18%	17%	18%	17%	19%	16%	17%

Asset book and deposit base of the banking sector have increased considerably in recent periods (in local currency terms) in the backdrop of depreciating Sudanese pound and monetization of fiscal deficit by the government. Capital to total assets ratio has also weakened as a result. As per an IMF report, liquidity, profitability and impairment indicators of the banking sector have improved in 2012.

Business Profile of the Bank of Khartoum

Bank of Khartoum has continued to consolidate its position in the Sudanese market since its privatization in 2006, having become the largest bank operating in the country holding 15% of total industry deposits. Deposits held by the bank have grown at a CAGR of 28% over the past five years, with growth in more recent periods also recorded around this average. CAGR of industry deposits has been lower by about 5% during this period. Reliance on sources of funding other than deposits has also reduced, with deposits in relation to total assets, increasing from 68% at end-2007 to 83% by end-2010 and maintained around this level since then.

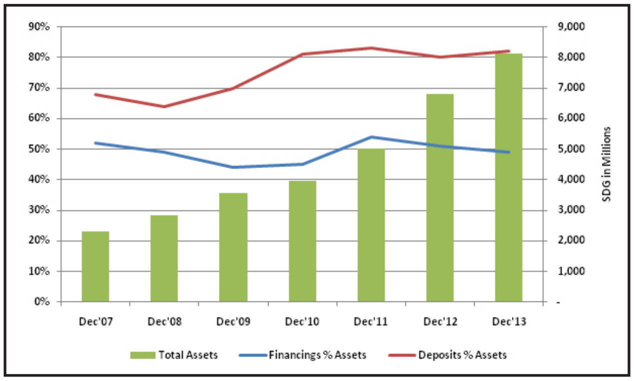

Figure 1

Total assets and financings have grown on average by over 20% annually during this period. While growth was exceptionally high in 2012 at almost double than the five year average both in case of total assets and net financings, the same in case of net financings has slowed to 14% in 2013 in response to the overall heightened credit risk environment and limited industrial activity in the country. Asset growth has been recorded around five year average in the outgoing financial year. In absolute terms, the bank's asset base increased to SDG 8.1b by end-2013. Share of financings in the asset base had been increasing since end-Dec'09 at 44% to 51% by end-Dec'12; however, the proportion has fallen slightly to 49% by end-Dec'13

Deposits and Retail Network

In absolute terms, total deposits of the bank increased to SDG 6.7b (Dec'11: SDG 4.1b) by December-end 2013. Proportion of current accounts in the total after having fallen from 53% in 2007 to 41% by 2011 has started to increase since then and was recorded at 45% in 2013. Share of current accounts in the total is considered sizable and has been instrumental in maintaining an overall low cost of funding for the bank.

The bank has a strong retail outreach, with more than half of its deposits generated from retail operations. The bank's largest depositor, however, represents about one-tenth of its total deposits. In addition to this, a sizable deposit to the tune of about five percent of the total has been made by CBOS against pre-acquisition non-performing assets of the bank. The next ten largest deposits of the bank comprise 12% of the total. Overall concentration in the deposit base is considered to be moderate. About one-tenth of the deposits have been generated in foreign currency[4].

The bank is aggressively pursuing expansion of its alternative delivery network to enhance its retail outreach in the Sudanese market, which is characterized by low population density rural areas where full-fledged branch operations may increase cost and inefficiencies. Network of Automatic Teller Machines (ATMs) has increased from 117 at the time of prior review to 140 in November 2013. The bank intends to increase its ATM network to 200 at the earliest. It has also installed 10 Cash Deposit Machines (CDMs), while installation of another 10 is on the anvil. BOK has assumed leadership position in use of technology to reach its clientele and has recently installed a Virtual Teller Machine, the first in Sudan. Simultaneously, branch network has also been steadily increased with the addition of 10 new branches during the past two years to increase the branch network to 58 by end-2013. Moreover, the bank has also added 6 sub-branches to its network. Over 20 branches of the bank are located in Khartoum alone, and access of a sizable proportion of population to the bank's branch network remains limited. The bank is working on the concept of smart branches to enhance its outreach at a relatively lower cost. Addition of about 8 branches to the network has been planned for 2014. Around 10 branches are located in conflict ridden areas of Darfur, South Kurdofan and Blue Nile.

Being associated with one of the most prominent Islamic financial institution, BOK has been a trend-setter

4 Paragraph is based on 2012 Financial Figures with regards to retail operations in the country. The bank has recently introduced evening banking in some of its branches, for the first time in Sudan. In addition, test phase of mobile banking has been started whereby access to the service has been provided to the bank's employees. The management plans to launch the service in the public domain within few months. Services to be offered under mobile banking include balance inquiry, utility bills payments and funds transfer, etc.

Financings

Net financings portfolio of the bank increased from SDG 2.8b at end-Dec'11 to SDG 4.0b (Dec'12: SDG 3.5b) by December-end 2013. While Murabaha and deferred sales structures remain the largest proportion of the financing mix, share of Mugawala in the financing portfolio has increased from about one-fourth to one-third in the 2 year period ending Dec'13. Under Mugawala, repayment of financing is executed in a step-wise manner against certain milestones and is mainly used by the bank for financing of construction projects.

BOK has pioneered consumer financing in Sudan, following its privatization, and having increased the segment's share in the financing mix on a timeline basis to about one-fourth at present. Continuing growth in the retail segment will serve to diversify portfolio mix, and allow the bank to leverage on its first mover's advantage by being able to exercise a high degree of selectiveness in terms of retail exposures taken. This has been evident in the bank's so far favorable experience in the retail segment with regards to the portion of non-performing assets in the segment. Low incidence of delinquencies in the retail segment could also be attributed to quick execution of decrees in banking related legal cases. Moreover, presentation of dishonored cheques is considered a punishable offence in Sudan. As per the management, BOK is the most aggressive amongst peers in consumer financing, however at the same time, it also has the highest number of checks in place for underwriting in the segment to curtail infection; the bank focuses on competing in the market through its innovative product offerings and high quality of service. No limits have been placed on disbursements in the retail segment, thereby; the bank, by policy, meets financing needs of all applicants that meet its underwriting criteria.

Retail financing portfolio of the bank chiefly comprises auto and home loans. Auto finance facility is provided for a period of up to six years at an average prevailing rate of about nine percent. Term of home financing extends up to 15 years with rate of return currently ranging between eight to eleven percent. The bank has so far undertaken financing of consumer durables through its subsidiary; however, given limited resources available with the said subsidiary, the management has decided to discontinue fresh disbursements through it and has officially launched the product under BOK's brand name towards the end of 2013. Average rate of return on financing of consumer durables is about 23% while the funding is extended for a period of three years. The bank has expanded its free services including supplementary debit cards to attract more customers. Introduction of new products by all banks in the Sudanese market remains difficult given delays in approval process. The bank also has a small microfinance portfolio, presently being managed by the retail department. A separate entity for microfinance by the name of IRADAH is being established by the bank with equity participation from Islamic Development Bank and Central Bank of Sudan. The present microfinance portfolio of the bank would be sold to IRADAH.

Corporate finance represents the largest proportion of the business mix having a share of about three-fourths in the total portfolio. The bank's corporate financings portfolio has recorded considerable growth in 2012 on account of both additional exposure against existing clients as well as lending to some new clients primarily in the mining sector. Presently, corporate loan book mainly comprises entities in sugar, real estate, trading (commodities including food, oil and machinery), cement, mining and steel sectors. Going forward, the bank intends to consolidate its corporate book while taking new exposures on export oriented companies i.e. gold and iron ore mining and cash crops.

Loan book of the bank features client as well as geographical concentration. Twenty largest exposures (funded and unfunded) represent over 60% of the gross portfolio; moreover, over two-thirds of the loans have been extended in Khartoum and surrounding areas. The bank's largest exposure (funded and unfunded) representing about 10% of the total has been undertaken against an associated concern, Khartoum Waha. The project came under ownership (60%) of bank as a result of settlement of non-performing financing against the same entity. The project comprises two multi-storey complexes featuring a shopping mall, office spaces and a hotel, and has yet to become fully operational. As per management, while the project has yet to achieve desired response from the market, it is managing to recover operating cost and has increased in value on account of depreciation in the value of local currency. The bank is approaching potential investors to offload its investment[5].

Other larger exposures have mainly been undertaken against entities having sound risk and business profiles. Financing has also been extended to Khartoum state government, some delays in repayment of which have been observed. As per management, the state government ultimately meets its obligations. Financial position of the Khartoum state is considered the strongest amongst others, with the state government having authority over some of the taxes imposed.

The bank's strategy for future growth in core banking operations entails enhancing the retail portfolio, undertake financing of major industrial and export-oriented projects and investing in private equity funds.

Impaired Financings

Present management team of the bank has inherited a sizable portfolio of impaired assets, which are guaranteed by CBOS under the share purchase agreement, and against which it has deposited SDG 320m with BOK at profit rate averaging 0.9% to compensate for loss in revenues borne by the bank on account of non-performing nature of these assets. Given central bank guarantee, the bank is working on a plan with the CBOS to provide for the impaired assets. Some recoveries have been made against the same with the portfolio of pre-acquisition non-performing financings having reduced from SDG 289.3m at end-2011 to SDG 230.6m by end-2013. Post-acquisition non-performing financings of the bank have increased to SDG 311.1m (Dec'12: SDG 302.3m; Dec'11: SDG 250.5m) by end-2013. The bank has undertaken provisions to the tune of SDG 250.9m (Dec'12: 208.2m; Dec'11: SDG 169.6m) which fully covers regulatory provisions required to be undertaken against post-acquisition impaired financings and 43% of pre-acquisition impairments. Combined (pre and post acquisition) gross impairment ratio has improved to 12.4% (Dec'11: 19.3%) while net impairment ratio was recorded 7.1% (Dec' 11: 14.1%) at end 2013.

Table 5: Asset Quality Indicators	Dec'11	Dec'12	Dec'13
Impaired Financings	539.8m	555.8m	541.7m
Pre Acquisition	289.3m	253.5m	230.6m
Post Acquisition	250.5m	302.3m	311.1m
Provisions Held	169.6m	208.2m	250.9m
Combined Gross Impairment (%)	19.3%	14.7%	12.4%
Combined Net Impairment (%)	14.1%	9.7%	7.1%
Combined Provisioning Coverage (%)	31.4%	37.5%	46.3%

5 Based on 2012 Financial Figures

Investments

While investments portfolio has grown considerably over the past two years in absolute terms, its share in total assets as of end-Dec'13 is maintained around end-Dec'11 level following a decline during 2011. As depicted in Figure 2, portfolio's composition is now further tilted towards short-term government securities (Shihama), reducing the share of other public sector instruments in the portfolio. Delays in repayment against public sector securities have been witnessed in the backdrop of fiscal and other macroeconomic pressures faced by the government. On the treasury side, the bank's strategy entails investing in gold accounts, planned to be launched by the central bank. CBOS intends to use funds generated under the same to finance its gold operations. Penalty on forced liquidation of gold accounts would also be lower at 1% as against 5% in case of Shihama.

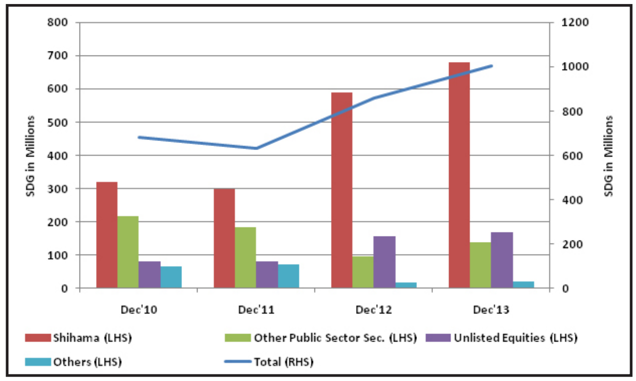

Figure 2: Investment Mix

Net investment portfolio of the bank amounted SDG 1.0b, of which, 67% are deployed in Shihama securities, return against which presently hovers around 18% while also being eligible for tax exemption. Other government securities comprised 14% of the portfolio, almost wholly pertaining to fresh exposure undertaken in Lease Sukuk issued by Sudanese Electricity Distribution Company (SEDC); these Sukuk represent investment in the assets of SEDC. Some of this exposure was also due to settlement with a client. Given the weak financial position of the federal government and its poor track record in profit and principal repayment, the management has made a policy decision to keep its exposure in government securities at the minimum possible level. Benchmark rate risk on the government securities portfolio held by the bank is limited.

About 1.2% of the investment portfolio is invested in listed equities and mutual funds representing exposure of the bank to market risk arising due to potential movement in market prices. Remaining investment portfolio of the bank pertains to unlisted shares representing strategic investments of the bank. The bank has, by policy, reduced its exposure in other public sector securities, listed equities and mutual funds.

In addition to the net investments portfolio, the bank also had an exposure of SDG 17m at end-2013 in Shasha Government Bonds, which have been classified in the financial statements as other assets. These carry profit rate in the range of 4-5% and pertain to outstanding general receivables from the government.

Trade Business

Total exposure of the bank in letters of credit (LCs) and guarantees (LGs) have more than doubled in 2012 to SDG 2.5b (Dec'11: SDG 977.5m) largely attributable to depreciation in the value of local currency. Value of LCs and LGs at financial close of 2013 has remained at 2012's level. Trade business has also been augmented due to opening of LC's for wheat import, supported by reimbursement guarantee from the central bank. Moreover, the bank maintains relationships with a network of correspondent banks despite economic sanctions on Sudan, facilitating it in expanding its trade business. Weak external position and pressures on overall economy may expose the bank to considerably higher risk arising from trade business. In acknowledgement of this, the management has reiterated to remain cautious in its client selection.

Restricted Investment Accounts

BOK also raises funds on an off-balance sheet basis under restricted investment accounts. As of December-end 2013, assets under management of the bank via restricted investment accounts amounted SDG 346.1m. Restricted investment accounts represent investments in Shihama securities and Elamaan funds based on

Musharaka financing. The bank manages the funds for 3 years, extendable upon agreement of the investors. The fund was launched in 2010.

Income Analysis

Operating profits[6] of the bank have continued to depict an increasing trend in the backdrop of an expanding asset book and revenues from non-fund based banking services, although net results have varied on account of foreign currency revaluations and other one-time gains/losses. Rate of return[7] on average assets and equity had also trended upwards till 2012, in line with other profitability indicators, to 2.6% (2010: 1.2%) and 17.9% (2010: 8.6%), respectively. However, with recent increases in operating expenses, these dropped to 2.3% and 15.9% in 2013.

Sudanese market is characterized by a unique situation where government instruments in recent periods have offered higher rates of return vis-à-vis financings extended in the private sector given hyperinflation in the economy and weakening risk profile of the federal government. In 2013, rate of return on finance based investments, mainly comprising government securities, was recorded at 17.2% as against the rate of 8.8% realized on return on net financings. NPLs drag on rate of return on financings portfolio has been recorded around 1.5%. Spreads of the bank have increased considerably in the outgoing financial year to 5.7% (2012: 4.9%) on the back of increasing rate of return on government securities.

Gross income from finance based assets increased to SDG 444.8m (2012: SDG 329.9m; 2011: SDG 249.8m) in 2013. Fee based income of the bank has witnessed a boost over the past two years to SDG 176.2m (2012: SDG 160.5m; 2011: SDG 82.3m) in absolute terms and to 40% (2012: 49%; 2011: 33%) in relation to revenues from finance based assets, largely due to higher trade business[8] and cash management services offered to corporate clientele, international donor agencies and embassies operating in the country.

Administrative expenses of the bank have also trended upwards in recent periods on account of inflationary pressures in the economy given devaluation of local currency against US dollars by over 100% as per official rate over the past two years. Management related expenses increased by 27% in 2012 and by 37% in 2013. Instead of an outright adjustment in salary levels, the management has introduced a quarterly bonus for employees of the organization to compensate for depreciation in the value of Sudanese pound and the resultant inflationary pressure. As per management, the same has been done to enable the bank to reverse the benefit in case of appreciation in the value of SDG, going forward. Efficiency indicators had consistently showcased improvement till 2012, when efficiency and intermediation cost ratios were recorded at 53% and 3.7% as against 69% and 4.0% in 2010. However, recent revisions in remuneration of employees have adversely pushed these indicators to 58% and 4.0% in 2013.

Growth in revenues has also positively affected the operating profit[9], which increased to SDG 195.6m (2011: SDG 98.7m) in 2012 and further to SDG 214.6m in 2013. Incremental provisions taken by the bank has also increased with growth in the portfolio, amounting to SDG 45m (2012: SDG 40.3m; 2011: SDG 22.8m) in 2013. Foreign currency revaluations on account of movement in the value of SDG have affected the bank's financial results both positively and negatively in different periods. Although operating profitability has continued to improve and net profit of SDG 151.6m in 2013 was considerably higher than SDG 63.0m in 2011, it was lower than SDG 189.1m in 2012, when the bank recorded a one-time Ijara income of SDG 41.3m

6 Profit Before Zakah and Taxes adjusted for foreign currency revaluations and one-off Ijarah Income
7 Based on Profit Before Zakah and Taxes adjusted for foreign currency revaluations and one-off Ijarah Income
8 In local currency terms
9 Profit before Taxes, Zakah, Provisions, Foreign Currency Revaluation and one-time Ijara Income

Table 6: Profitability Indicators (in SDG)	2010	2011	2012	2013
Revenues				
Income from Financings	133m	192m	254m	304m
Income from finance based Investments (includes Modraba and Deposits)	50m	58m	76m	141m
Income from non-finance Investments (includes one-time Ijara income in 2012)	5m	3m	45m	13m
Fee based Income	78m	82m	161m	176m
Foreign Currency Revaluation	27m	(5)m	36m	(11)m
Other Income	31m	39m	66m	47m
Expenses				
Admin Expenses	150m	172m	219m	300m
Return to IAH	81m	104m	145m	166m
Incremental Provisions	22m	43m	40m	45m
Efficiency Ratio	69%	64%	53%	58%
Intermediation Cost	4.0%	3.8%	3.7%	4.0%
Profitability Indicators				
Profit before Taxes and Zakah (PBT)	72m	71m	232m	159m
PBT (Adj. for one-off gains/losses)	46m	76m	155m	170m
Net Profit	60m	63m	189m	152m
Return on Net Financings (%) (Sales Receivables)	8.4%	9.6%	9.2%	8.8%
Return on Performing Financings (%) (Sales Receivables)	N/A	12.0%	10.6%	10.8%
Return on Finance based Investments (%)	9.3%	10.0%	12.1%	17.2%
Return on Finance based Assets (%)*	8.1%	9.1%	9.5%	10.2%
Return on Performing Finance based Assets (%)**	N/A	10.7%	10.6%	10.8%
Spreads (%)*	2.9%	4.2%	4.2%	5.7%
Return to IAH (%)	5.2%	4.9%	5.3%	5.0%
Return on Average Assets (%)***	1.2%	1.7%	2.6%	2.3%
Return on Average Equity (%)***	8.6%	12.0%	17.9%	15.9%
Earnings per Share	0.209	0.218	0.593	0.486

Note: N/A refers to Not Available
**Based on Net Financings; includes both Financings & Investments*
***Based on Performing Financings; includes both Financings & Investments*
****Based on PBT adjusted for Foreign Currency Revaluations and one-off Ijarah Income*

Liquidity Position

Table 7: Liquidity Indicators	Dec'10	Dec'11	Dec'12	Dec'13
Liquid Assets	1.1b	1.2b	1.6b	2.2b
Liquid Assets % Total Deposits	33%	28%	30%	33%
Cash Reserves % Deposits	16%	16%	17%	21%
Maturity Mismatch				
	Up to 3M	**Up to 1Y**	**Up to 3Y**	**Over 3Y**
Dec'13	1,018m	(2,053)m	(734)m	1,114m
Dec'12	40m	(3,109)m	(2,226)m	1,018m
Dec'11	(149)m	(515)m	(95)m	648m

Liquidity management remains a challenge for the bank given structural weaknesses in Sudanese financial system wherein generally the most liquid earning asset[10] in many jurisdictions i.e. treasury paper has experienced volatility in trading volumes and periods of one-sided market activity. Episodes of unusual deposit withdrawals have also been witnessed given the trust deficit in the financial system and constant decline in the value of Sudanese pound, making institution of an effective liquidity management system quite ineffective. Overall liquidity profile of the bank has nonetheless improved in recent periods with cash reserves in relation to total deposits increasing to 21% by end-2013. Total liquid assets[11] were recorded at 33% in relation to total deposits and at SDG 2.2b in absolute terms at end-2013. As per the disclosure in financial statements, maturity mismatch in assets and liabilities up to 3 months has reduced, though increasing notably over a 1-year horizon.

Banks in Sudan are working on the possibility of forming a fund, structured as a special purpose vehicle, under the guidance of central bank for interbank lending. Modalities and operating procedures of the fund have yet to be finalized. The said fund would help Islamic banks in Sudan in generating liquidity in short-term at par with their peers in conventional financial institutions in other markets.

Capitalization Levels

Capital adequacy ratio of the bank has reduced to 14% by end-2013 given growth in the business book and limited retention of profits. While the bank's CAR is above the minimum regulatory requirement of 12%, it does not leave room for any considerable real growth. Capital adequacy ratio is calculated as per the guidelines of AAOIFI, accordingly an alpha of 50% is applied on risk weighted assets funded by unrestricted investment accounts in line with the local regulations. Hence, the same may not be comparable to a CAR calculated under Basel II regime. In absolute terms, net equity has increased to SDG 1.1b (2011: SDG 716.4m) by end-2013 on account of internal capital generation.

10 Other than Cash Placements
11 Include Government Securities in addition to Cash

GOVERNANCE FRAMEWORK

Board Oversight and Operations

Composition and Terms of Board of Directors

Composition of the bank's Board of Directors is well diversified and in line with best practice in terms of presence of minority shareholders and independent directors as well as professional experience and qualification of Board members. Directors have rich experience in the fields of banking, industry and academia. The BoD comprises eleven directors including three representatives of Dubai Islamic Bank, Mr. Fadl Mohammed Khair – the bank's second largest shareholder, four representatives of minority shareholders, two experts nominated by CBOS (independent directors) and the General Manager. Composition and profile of directors allow the Board to provide meaningful contribution in the affairs of the bank.

Representative of Islamic Development Bank on the Board has changed, with the election of Dr. Nabil Mohammed Gulab in place of Dr. Mohammad Al Jarrayah, barring which the composition of the Board has remained unchanged since the prior review. Positions of the Chairman and Vice-Chairman have remained with Dr. Tariq Hameed Matar, representative of DIB, and Mr. Fadl Mohammed Khair, respectively.

Table 8: Composition of Board of Directors

Name	Designation	Representing	Nationality
Dr. Tariq Hameed Matar	Chairman (Non – Executive)	Dubai Islamic Bank	Emirati
Mr. Fadl Mohammed Khair	Deputy Chairman (Non – Executive)	Shareholder	Sudanese
Mr. Muhammed Maqbool Aalim	Non – Executive	Dubai Islamic Bank	British Pakistani
Mr. Mohammed Saeed Al Shareef	Non – Executive	Dubai Islamic Bank	Emirati
Mr. Abdul Al Aziz Al Neimi	Non – Executive	Abu Dhabi Islamic Bank (Minority Shareholder)	Emirati
Dr. Nabil Mohammed Gulab	Non – Executive	Islamic Development Bank (Minority Shareholder)	
Mr. Mohammed Al Murtada Abdul Rahim	Non – Executive	Minority Shareholders	Sudanese
Mr. Mohammed Haj Al Sheikh Alzaki	Non – Executive	Minority Shareholders	Sudanese
Mr. Salah Aldein Abu Al Naja	Non – Executive	Expert Nominated by CBOS	Sudanese
Dr. Awad Alkarem Osman	Non – Executive	Expert Nominated by CBOS	Sudanese
Mr. Fadi Salim Al Faqih	General Manager (Executive Director)	-	Jordanian

Board is elected for a term of three years in the annual general assembly of shareholders in line with the local regulations and was last reconstituted in 2011. To reduce conflicts of interests, the bank by policy restricts its Board members from taking directorships in companies that have business operations in conflict with those of BOK. While there is no restriction on maximum number of directorships held by Board members, maximum number of directorships held by any of the Board members is two. Code of business conduct for the bank's directors is defined in its articles of association.

Office of the Chairman is segregated from that of the General Manager, and the role of Chairman is defined in the Articles of Association. The bank has a dedicated Board Secretariat that looks after the affairs of the Board of Directors. Office space of Board Secretariat is segregated from the rest of the bank to avoid compromising the independence of its employees due to casual interactions between the employees.

Remuneration, Frequency and Attendance of Board Meetings

Directors are paid monthly remuneration of USD 1,700 for attending Board meetings and travel allowance as per actual, in line with the local practice; per meeting fees encourages higher attendance levels in Board meetings. Overall attendance of the members in Board meetings has been satisfactory. However, yearly frequency of Board meetings has reduced on a timeline basis, with total number of Board meetings being three in 2012 as against five in 2011. By November 2013, the bank's Board of Directors had met only twice. Frequency of Board meetings need to be enhanced to bring it in line with best practice, which requires that the Board meets at least once every quarter to deliberate on key issues and strategies of the bank.

Deliberations in the Board Meetings

Deliberations in the Board meetings include reviewing financial performance, devising future strategy including projections, formulating policies, issues brought to its attention by its sub-committees and other statutory matters. Presentations on detailed financial performance of the bank vis-à-vis budgeted targets, new products and overall organizational matters are delivered by the senior management team on regular basis. Besides, the Board is authorized to avail services of external consultants for organizational matters if it deems desirable. Recording of discussions during meetings can be improved further.

Orientation and Evaluation of Board of Directors

As per management, all new Board members are introduced to the bank's organization structure, policies and procedures, terms of references of BoD and its sub-committees in addition to general responsibilities of a director under a formal orientation program. Other training programs for directors are also allowed to be organized if need arises.

As per the Board Secretary, attendance of Board members in the meetings is monitored for evaluation of individual performance of directors. Fundamentally, all Board members must maintain adequate attendance in Board and its committee meetings, and hence, this should not be the sole criterion for evaluating the performance of Board members. The bank should consider putting in place a full-fledged and a formal, either self or third-party, evaluation mechanism in place for BoD and individual directors. Board evaluations can contribute significantly to improved leadership, greater clarity of roles and responsibilities, enhanced teamwork, greater accountability, better decision making, and improved communication and more efficient Board operations.

Board Committees

Five committees are functioning at the Board level including the newly formed Board Remuneration & Nominations Committee (BRNC). Other Board committees include Audit & Inspection Committee (BAIC); Corporate Governance Committee (BCGC); Credit, Executive & Investment Committee (BECIC); and Remedial Committee (BRC). Attendance of members on Board committees is considered satisfactory.

Composition of Board level committees have largely remained unchanged since the prior review, barring in case of BAIC, wherein number of committee members has reduced to three from four in addition to change in its Chairman given that IDB has nominated a new representative on the Board of BOK. Overall composition of Board committees with regards to presence of minority shareholders and independent directors is considered satisfactory. Committees that supervise executive affairs of the bank i.e. Credit, Executive & Investment Committee and Remuneration & Nominations Committee are dominated by the representatives of controlling shareholders, while those responsible for strengthening the control environment in the bank and supervision of non-performing assets are dominated by representatives of minority shareholders and experts on the Board. As per best practice, Chairman of the internal audit committee should be an independent director.

Chief Internal Auditor and Head of Legal & Compliance are the secretaries of BAIC and BCGC, respectively, while Board Secretary is the secretary of all other Board level committees.

Table 9: Composition of Board Committees
Board Audit & Inspection Committee
Dr. Nabil Mohammed Gulab – Chairman (Minority)
Mr. Mohammed Haj Alsheikh Al Zaki (Minority)
Dr. Awad Alkarem Osman (Independent)
Board Corporate & Governance Committee
Mr. Abdul Al Aziz Al Neimi – Chairman (Minority)
Mr. Mohammed Al Murtada Abdul Rahim (Minority)
Mr. Awad Alkarem Osman (Independent)
Mr. Fadi Salim Al Faqih (Executive)
Board Credit, Executive & Investment Committee (Four Meetings in 2012)
Mr. Mohammed Saeed Al Shareef – Chairman (Major)
Mr. Fadl Mohammed Khair (Major)
Mr. Muhammed Magbool Aalim (Major)
Mr. Fadi Saleem Al Faqih (Executive)
Board Remedial Committee (Two Meetings in 2012)
Mr. Fadul Mohammed Khair – Chairman (Major)
Mr. Awad Alkarem Osman (Independent)
Mr. Salah Aldein Abu Al Naja (Independent)
Mr. Fadi Saleem Al Faqih (Executive)
Board Remuneration & Nominations Committee
Dr. Tariq Hameed Matar (Major)
Mr. Fadl Mohammed Khair (Major)
Mr. Mohammed Saeed Al Shareef (Major)
Mr. Mohammed Al Murtada Abdul Rahim (Minority)

Organizational Setup

Profile of Senior Management

Senior management team of the bank mainly comprises expatriates, having rich experience in their respective area of banking operations in the Middle Eastern region, and joined the bank post its acquisition by DIB in 2006. Management team of the bank is spearheaded by Mr. Fadi Salim Al Faqih, who has over 15 years of professional experience to his credit. Prior to joining the bank in 2006, he was associated with the Citigroup in Jordan as Chief Financial Officer.

Since acquisition of the bank by DIB, stability has been witnessed in the senior management team, barring turnover in the position of Chief Financial Officer and Head of Legal & Compliance. Mr. Ayman Said Al-Badri, a Jordanian national, joined the bank in November 2012 as Chief Financial Officer, having previously served in the same capacity at Bank Audi – Jordan Branches. Mr. Al-Badri holds a Bachelor's degree in Accounting and an MBA in Finance from University of Jordan. Mr. Ammar Abbas Elsayed, who was previously serving as Banking Supervisor at CBOS, has joined the bank as Head of Legal & Compliance in November 2013. He has an MBA from Morgan State University in USA and Master of Accounting from Sudan University of Science & Technology.

Organizational Culture & Structure

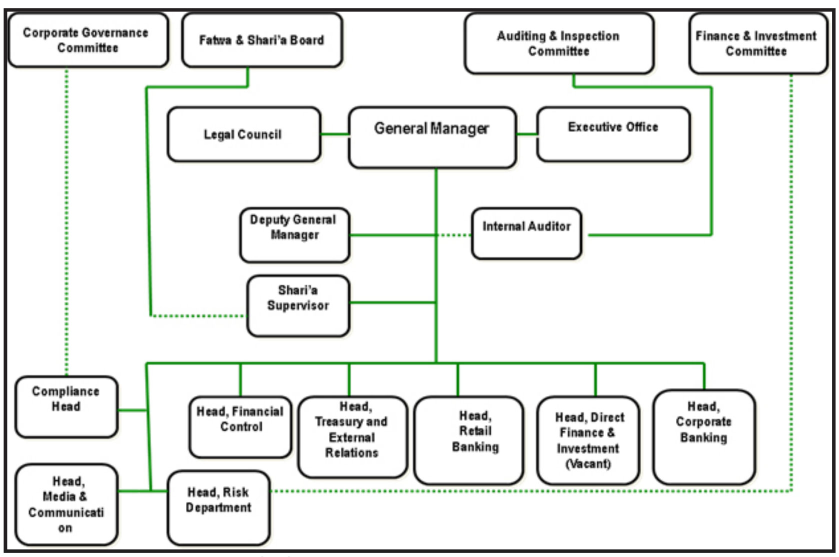

Figure 3: Organizational Chart

The bank's organizational culture, as evident in interaction with the management, encourages focus on 'innovation', 'customer service' and 'differentiation' vis-à-vis other banks operating in the country, enabling it to maintain its leading position in the banking sector.

Line of reporting and optimal number of employees is identified in the bank's organizational chart. In line with best practice, functional reporting of Chief Internal Auditor, Chief Risk Officer, Head of Legal & Compliance and the Shari'a Advisor is with Board level committees and the Fatwa & Shari'a Board. Likewise, responsibility for performance evaluation and approval for remuneration of Chief Financial Officer, Board Secretary, Chief Internal Auditor, Head of Risk Management and Head of Compliance is at the Board level. Performance appraisal of the Head of Shari'a is conducted by the Fatwa & Shari'a Board. Performance evaluation of other senior executives is carried out by the management level HR committee in collaboration with the HR department.

Table 10: Key Management Reporting Lines

Key Management Position	Functional Reporting Line
Chief Internal Auditor	Board Audit & Inspection Committee
Chief Risk Officer	Board Credit, Investment & Executive Committee
Head of Legal & Compliance	Board Corporate Governance Committee
Head of Shari'a	Fatwa & Shari'a Board

Seven management level committees are in place to formalize executive decision making process in the organization. These include Management (Executive) Committee, Human Resources Committee, Risk Committee, Assets and Liabilities Committee, Legal Committee, Credit Committee, and Information Technology & Major Projects Committee. All management committees of the bank are chaired by the General Manager. Minutes of the meetings are prepared regularly recording all major approvals; however, recording of deliberations during the meeting is minimal.

Table 11: Composition of Management Level Committees

Members	**MAN-COM**	**ALCO**	**IT&MPC**	**HRC**	**Credit**	**Legal**	**Risk**
General Manager	√*	√*	√*	√*	√*	√*	√*
Deputy General Manager	√**	√	√**	√		√**	√**
Head of Treasury & FIs	√	√**		√	√		√
Head of Corporate Banking	√	√		√	√		√
Head of Retail Banking	√	√		√			√
Chief Financial Officer	√	√	√	√	√	√	√
Chief Operating Officer	√	√	√	√		√	√
Chief Internal Auditor	√						√
Chief Risk Officer	√	√			√**		√
Head of Human Resources	√			√**		√	√
Head of Retail Operations				√			
Head of Legal & Compliance				√		√	√
Head of IT			√				
Head of Admin			√				
Frequency of Meetings	Monthly	Monthly	Quarterly	Monthly	As Required	Quarterly	Quarterly

**Chairman; **Deputy Chairman*

Branch Structure

Dual reporting structure is instituted for Operations Managers in branches, with functional reporting to the Regional Managers and administrative reporting to Branch Managers. Dual reporting structure reduces conflicts of interest and curtails operational risk. Sales and service quality staff at branches report directly to the Branch Managers.

Financial Transparency

Disclosures and Availability of Information

Transparency of financial reporting and governance related disclosures made by the bank need to be enhanced considerably to bring them at par with international benchmarks. Annual reports prepared by the bank subsequent to year-end 2010 only comprise financial statements, notes to balance sheet and income statement items, and the opinion of the external auditors. Standard disclosures such as the report of the Board of Directors and General Manager on performance and strategy of the bank; profile of directors, Shari'a Board members and senior management team; and composition of Board committees and Fatwa & Shari'a Board are not available in the annual report. A general discussion on Corporate Governance practices instituted in the bank should also be part of public disclosures, as per best practice.

Disclosures that are generally made available by reputed Islamic financial institutions also include attendance matrix of BoD; FSB and Board committee meetings; code of ethics, profit calculation mechanism and actual rate of return available to investment accountholders; policies with regards to investment risk reserves and profit purification mechanism; organization structure; and the bank's shareholding pattern. The bank may also consider providing disclosures recommended under Islamic Financial Services Board's risk management guidelines. These disclosures mainly pertain to capital adequacy, analysis of the credit exposures and impaired assets portfolio and share performance, and are largely similar to those recommended under Basel II Pillar III framework.

The management may also consider upgrading the bank's website to enhance user friendliness and information available on the same. Information available on the bank's website includes corporate profile, Board composition, brief description of products & services, annual reports for the past six years in Arabic language, and branch and ATM network. Information available on the website is not updated on a regular basis. Quarterly financial statements, schedule of charges and general policies and procedures concerning various stakeholders may also be provided on the website. In addition to this, providing all financial statements in English in addition to Arabic may facilitate stakeholders in the bank residing outside of Sudan.

Financial statements of the bank for year-end 2012 were finalized in May 2013. Best practice entails making financial statements available in the public domain within three months of the financial year. Management accounts for year-end 2013 have been prepared within two months of financial year close. As per management, written notices of the Board meetings along with agenda items and working papers are circulated through email at least seven days prior to the meeting, giving directors sufficient time to review the information and enabling them to take informed decisions. Additional information is also arranged for the members upon request.

Quality of External Auditors and other Services availed form the External Auditors

Financial statements for year-end 2012 were audited by M/s Mubarak for Accounting, Auditing & Financial Consultancy, Certified Public Accountants, correspondents of Ernst & Young in Sudan. Present external auditors of the bank were appointed in 2011. The law mandates change in external auditors after every two years; however, CBOS may grant exemption for another year on request of the shareholders.

The bank has time and again availed services of its external auditors in functional areas where it lacks necessary expertise. These include internal audit of the IT systems and instituting performance evaluation mechanism at the bank for the management and staff. Corporate governance policy of the bank has also been prepared by Ernst & Young.

Self Regulation and Regulatory Supervision

Regulatory Supervision

Central Bank of Sudan is the main regulatory body that supervises the affairs of the bank. Management of the bank has provided a letter to IIRA, dated October 1, 2013, certifying that it is in compliance with all applicable laws and rules of relevant regulatory authorities, taxation and statutory bodies, except for certain violations for which penalties were imposed by the CBOS. Penalties imposed by CBOS on the bank in the past three years are minimal and were largely on account of operational errors that have reduced considerably over the years.

Risk Management System

Risk management function at the Bank of Khartoum by way of charter has the mandate to measure, monitor and control all possible sources of risks. It is responsible to provide independent credit risk assessments to the Board and executive level credit committee in addition to monitoring risk profile of exposures underwritten to identifying early warning signs and taking appropriate measures. The bank has recently updated its risk management manual to formalize management of different types of risks faced by it.

Daily liquidity position and monthly market risk[12] reports prepared by the treasury department are monitored by the department. While corporate credit risk management features as an organized function in the department, very limited resources have been deployed to assess and manage other types of risks faced by the bank. The department has only one resource to manage liquidity, market and operational risks faced by the bank. The bank is still in the process of formalizing its operational risk management framework while identifying major risks in retail products for developing scoring models is also on the anvil. Risk management function may be enhanced by taking a holistic view of the risk management process from a total balance sheet perspective, and providing estimates of total risk from both financial and non-financial events.

Client and group exposure limits (funded & unfunded) set by the central bank as 25% and 50% of equity are observed by the bank. Maximum funded exposure at 25% of equity per group has been set by CBOS. These limits are considered on the higher side and setting lower internal limits in addition to defining sector-wise limits may reduce the concentration risk faced by the bank. The bank has a Facility Risk Rating model for its corporate loan book.

Acceptable collaterals for financings include real estate, bank guarantees and fixed deposits. Real estate properties are required to be valued after every three years from amongst the approved list of valuators. Moreover, haircut of 25% is applied on the value of properties located in Khartoum and 50% on those located outside of Khartoum for determination of eligible collateral for financings.

Risk management function at BOK is segregated into five sub-departments i.e. Retail & SME Credit Risk, Corporate Credit Risk, Risk Management (including operations, liquidity, market, information system and stress testing & profit risk units), portfolio management and credit administration.

Credit Approval and Administration Authority

Credit committee, comprising heads of departments, has the authority to approve financings up to SDG 10m, over which, credit proposals have to be approved by BECIC. As a result, a large part of the corporate portfolio is approved at the Board level. Findings of the risk management department and recommendations of executive level credit committee are presented to the BECIC along with the proposal. Credit approval authority may need to be delegated to the management to achieve greater segregation between the roles of BoD and the executive management. Presently, retail based exposures are also being evaluated centrally. System and organization support may add efficiency to the process without compromising control effectiveness. Credit administration responsibilities lie with the risk management function.

12 For Calculation of Capital Adequacy Ratio

Internal Audit

As per management, Internal Audit department is authorized under its charter to obtain any relevant information to check for any deviations from regulatory and internal rules and procedures. The department has a direct reporting line at the Board level and its employees are housed in a different office from the rest of the bank employees to reduce casual interactions that may affect independence of internal audit employees. The internal audit function has total staff strength of 24 employees, of which, only two hold professional accounting qualifications. Remaining staff members mainly comprise university degree holders.

Internal audit plan is prepared at the beginning of each year and according to which all branches of the bank are required to be audited twice in a given financial year, including one regular and one surprise audit. Likewise, all departments have to be audited at least once a year while some critical departments such as corporate banking, retail banking and risk management are required to be audited twice. Responsibility of the audit of the bank's subsidiaries also lies with the internal audit department.

Actual frequency of audit has consistently fallen short of the plan requirements, which management attributes to shortage of resources, involvement of department staff in updating policies & procedures and poor security in some regions where branches of the bank are located. Nonetheless, improvement has been noted in achievement of the target on a timeline basis. In 2012, 47 (2011: 38) regular and 31 (2011: Zero) surprise audits were conducted by the department. IT audit is conducted by Ernst & Young given lack of required expertise in-house. Internal and external audit by the same third party creates conflict of interest as well as undermining the effectiveness and mandate of these functions.

The department uses manual processes to conduct its audit activities. As per management, request has been made to BAIC to obtain appropriate tools & software that would automate certain processes and would also allow offsite surveillance of branches. The bank should consider beefing-up its internal audit systems and resources to enhance internal control environment.

The scope and quality of the audit review was found satisfactory, based on the sample reports reviewed by IIRA. The reports also mention the expected rectification date of issues identified during the review. Follow-up on rectification of issues raised during the review process is undertaken by Country Control Division (CCD), which is a department independent from the Internal Audit. As per the Head of Department, issues found in the internal audit reports were mainly minor and of routine nature. Audit grades are assigned at the completion of audit process as low risk, medium risk and high risk. Of the total branches, departments and subsidiaries audited by the department, 88% were categorized as low risk, 7% as medium risk and 5% as high risk.

The internal audit reports are not required to be submitted to the central bank; however, the same are reviewed regularly by the team members of the central bank at the time of regulatory inspection.

Compliance

The bank has documented Know Your Customer (KYC) and Anti Money Laundering (AML) procedures and policies in place in line with the local regulations. These require that KYC forms be filled for all new deposit accounts opened with the bank, with the same being updated at least once in five years and frequency of updating increasing for high risk customers. The bank has also been updating KYC forms for all its old deposit accountholders, of which, about one-fifth have yet to be updated. As per management, some deposit accounts with the bank date back to initial years of its operations, and hence, verification process for old accounts is slow and tedious. With regards to AML, all transactions over SDG 30,000 are monitored by the bank and any suspicious transactions are reported to Financial Institutions Unit of the Central Bank.

Information System

Core banking system used by the bank is iMAL, which is certified by AAOIFI for use in Islamic commercial banks. Key modules of the system include Core Banking, Retail Banking, Profit Calculation, Collection, Customer Relationship Management, Trade Finance, Treasury and Fixed Assets. Systems requirement for Human Resource Management is met through a separate and integrated solution.

Branches are connected with the data center in the head office through optical fiber and/or ISDN technology. While most of the branches have dual links, the same in case of few has not been possible due to unavailability of multiple services in the region. ATMs are connected with the data center wirelessly through CDMA technology, while ATMs that are located with the branches are also connected with the links provided to that branch.

Data back-up of mission critical applications such as Core Banking, eMail, Share Driver, Messaging, Human Resource and Subsidiary Financial System is being maintained on NetApp's SAN storage system at the Disaster Recovery (DR) Site on a real-time basis. Data back-up of non-mission critical applications is being maintained via scheduler tapes on periodic basis.

The bank has plans to move its DR site, which is presently located in Khartoum and only 8kms away from the data center, to a new property about 30kms away from the data center. DR Site of the bank is connected with the data center through optical fiber with redundant connections.

Stakeholder Relations

Shareholders-Management Relations

To assist with shareholder communications, the bank has a dedicated Shareholders Affairs section, housed within the Board secretariat, with the primary responsibility of acting as a liaison between the BoD and shareholders. Board Secretariat is responsible for arranging all Board and Board level committees meetings as well as the Annual General Assembly (AGM) of shareholders.

Notice of the AGM is circulated at least seven days prior to the meeting and published in leading newspapers. The notice of the AGM incorporates both ordinary and special businesses to be conducted during the AGM. Moreover, the notice outlines procedure for appointment of proxies and is accompanied by a Proxy Form. Officials required to be present in the AGM include Chairman (or Deputy Chairman), General Manager, Deputy General Manager, Chief Internal Auditor, Bank Union representative and external auditors of the bank. Members of Shari'a Supervisory Board (SSB) are also present in the AGM to present Shari'a Compliance Review report and answer relevant queries.

The dividend payout history of the bank has been irregular, given variation in financial results. Cash dividend of 15% has been distributed by the bank for year-end 2012.

Table 12: Cash Dividend History

SDG in Millions	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**
Cash Dividend	27.2	-	-	38.1	-	62.9
Cash Dividend % Paid-up Capital	7%	-	-	10%	-	15%
Cash Dividend % Net Income	78%	-	-	64%	-	33%

**Source: Annual Financial Statements of BOK*

Employee-Employer Relations

Total staff strength of the bank has remained unchanged since the prior review at 1,192 as of June-end 2013 as the bank continues to strive to contain increases in administrative costs and improve efficiency in its operations. During 2012, 87 employees resigned whereas 15 were terminated on account of varying reasons. New inductions in the bank mainly comprise fresh graduates from top-tiered local universities, for which, it has a formal management trainee program. BOK has a documented HR Manual in place that governs its hiring process and requires that exit interviews be conducted at the time of discontinuation of service. Shari'a knowledge of applicants is also tested for positions that require application of Shari'a.

The bank is in practice of giving annual performance awards to its employees based upon profit earned during the year and performance scores of each employee. In addition to this, quarterly bonuses have also been introduced to compensate for depreciation in the value of Sudanese pound and the resultant inflationary pressure. Social security benefits are provided as mandated by the law and medical benefits are provided to some management level employees.

The bank has a Performance Management System in place for all employees entailing Job Description, Individual Operating Plan and Annual Performance Appraisal. Individual Operating Plan for each employee is prepared by the second month of each financial year to ascertain their goals and targets for the year, and a mid-term review is conducted to assess performance and changes that may be required in the plan thereof.

Annual Performance Appraisal for all employees is conducted in the month of January, based on quality of work, achievement of goals and targets laid out in the Individual Operating Plan, and work attitude of the employee. The performance appraisal exercise starts with self assessment by each staff member. The appraisal form is then reviewed by the immediate supervisor and the head of the department before final approval by the HR department. Employees are categorized in five rating grades based upon their performance following normal distribution (bell curve) approach. Salary raises and bonuses are based on performance appraisals.

In line with local norms, a labor union exists in the bank. While labor unions have been formed in many countries to protect the rights of employees, it has generally created inefficiencies in an organization's operating environment.

Social Responsibility and Customer Relationships

The bank contributes towards social uplift of the community, with priority given to education and health sectors, and has incorporated in its values the desire to be a socially responsible citizen. Monetary contributions amounted SDG 1.6m (2011: SDG 0.5m) in 2012. Preparation of a documented policy outlining criteria and priority sectors would streamline the bank's Corporate Social Responsibility initiatives.

Since the change in management team, the bank has remained focused on improving service quality, and has consequently managed to emerge as the leading commercial bank in the country. Delivery network and channels used have been increasing while the bank also has a full-fledged call center to facilitate its clients. A call center also exists in Riyadh to facilitate Sudanese availing the bank's services, mainly remittance, in the Kingdom of Saudi Arabia. The bank has also recently introduced the concept of free banking services such as cheque books, ATM transactions, bill payment through ATMs, SMS alerts, internet banking, etc. in Sudan that have become a common practice internationally. The bank's product portfolio includes basic deposit products i.e. current accounts, savings and savings plus accounts and fixed deposit accounts. It also offers restricted investment accounts to its customers.

Shari'a Governance

Shari'a Supervisory Structure

Shari'a supervisory structure in Sudan is centralized at the central bank level, with its entire financial system based on Islamic Shari'a principles. A Higher Shari'a Supervisory Board (Higher SSB) exists in the central bank, comprising nine eminent scholars of the country. Approval of Higher SSB has to be sought by all financial institutions for launch of a new financial product or a service in the country. Dr. Zubair Abdullah Abdul Rahman

Salleh is the Chairman of the Higher SSB.

Higher SSB plays an active role in governing Shari'a related matters in commercial banks operating in the country. The in-house Fatwa & Shari'a Board (FSB) of BoK reports directly to the Higher SSB through a representative. Dr. Ahmed Ali Abdulla Hamad, who is the Secretary General of the Higher SSB, is also the Chairman of the bank's FSB. There is no restriction on members of the FSB serving on Shari'a boards of other Islamic financial institutions operating in the country. Given the centralized Shari'a supervisory structure in Sudan, the same may not necessarily represent a conflict of interest. Other members of the FSB include Dr. Mustafa Muhammad Musnad and Maulana Abdul Hadi Yaqoob, who is also the resident Shari'a Advisor at BOK.

Deliberations in SSB Meetings

FSB meets frequently i.e. 2-3 times during a month to deliberate upon the key Shari'a related matters pertaining to the institution. Deliberations in the meetings are comprehensive and include analyzing structures and standard documents of new products and services, reviewing internal Shari'a audit reports and banking transactions, responding to queries of the management and issuing edicts as and when required. A consideration is given to overall operations, wherein, the FSB reviews operating policies of the bank to bring such activities in the ambit of Shari'a. Revenues from non-compliant sources also feature as a topic of discussion in the FSB meetings and the FSB ensures that the same is taken into charity. Duration of each FSB meeting is about 2 hours.

Shari'a Opinion of FSB

The FSB also prepares an opinion on the bank's compliance with the Shari'a principles in line with the requirement of AAOIFI. International standards require that compliance statement prepared by FSB be included in the annual report; however, the same has not been made available by the bank in its annual report subsequent to year-end 2010. The FSB has expressed its trust in the operations and activities of the bank in its report. The report states that the operations of the bank have been found to be in compliance with Shari'a rules and principles, based on investigations conducted by the Shari'a Advisor.

Shari'a Audit and Compliance

The bank does not have dedicated Shari'a audit and compliance functions. The internal audit department of the bank is also responsible for Shari'a audit of branches, departments and the bank's subsidiaries during the internal audit process. However, given the lack of specialized resources housed within the department to perform this task, it uses the services of Shari'a department (under Shari'a Advisor and Fatwa & Shari'a Board) in this process. Hence, the bank's Shari'a department is also involved in routine Shari'a audits along with product design and development. Segregation of duties between FSB and Shari'a audit is more in line with IFSB recommendations.

Internal audit and Shari'a reports indicate that Shari'a non-compliance in the bank mainly pertained to routine execution and documentation related issues. These issues have been subsequently rectified and any non-Shari'a compliant revenues have been taken to charity.

Shari'a Training of Employees

As per management, all new staff members of the bank are required to undergo a training program to equip them with basic knowledge of Shari'a principles and Islamic banking. In addition to this, regular in house training programs are arranged on new products and other Shari'a related matters, as and when needed. Members of the FSB are directly involved in training of employees and are easily accessible to the bank's management. Overall Shari'a and Islamic banking knowledge of the bank's employees is considered satisfactory.

Product Structures and Asset Risk Profile

Sound risk management and investment strategy assume greater importance in Islamic banks vis-à-vis their conventional counterparts given the participatory nature of IAH deposits. Investment strategy should be in line with depositors' expectations and undue risk should be avoided. Risk profile of the bank's asset book is moderate amid overall high risk environment and economic instability in the country, though per-party concentration in the financing portfolio is high. There is also considerable room for improvement in the risk management infrastructure in place at the institution.

Table 13: Structure-wise Break-up of Financings & Investments	Dec'11	Dec'12	Dec'13
Murabaha	31.2%	28.4%	26.0%
Deferred Sales	13.0%	15.7%	17.9%
Mugawala	16.6%	23.5%	24.8%
Ijara	0.2%	0.3%	0.6%
Salam	<0.1%	<0.1%	<0.1%
Musharaka	7.0%	5.5%	5.3%
Mudaraba	3.8%	1.9%	1.0%
Sukuk	14.8%	15.5%	16.3%
Equities & Investment Funds	4.7%	3.9%	3.8%
Others	8.9%	5.4%	4.4%
Total	**3.3b**	**4.4b**	**5.0b**

Financings: Diversification of financings portfolio with regards to product structures is considered adequate and has improved since 2011 with share of Mugawala in the financing portfolio increasing on a timeline basis. However, Murabaha and Deferred Sales still represent a sizable portion of the portfolio. Other product structures used by the bank include Musharaka, Ijara and Salam to extend financings. Shari'a scholars recommend greater diversification across product structures.

Murabaha and Deferred Sales: The standard agreements for Murabaha and Deferred Sales transactions have been found to be in compliance with Shari'a principles and as approved by the FSB. The accounting treatment and relevant disclosures are also in line with the requirements of AAOIFI standards. Murabaha transactions carried out during the year were tested by the FSB through the audit process and any issues identified were resolved and noted for future compliance. Overall compliance of Murabaha and deferred sales transactions is considered excellent.

Musharaka: Standard agreements for Musharaka transactions have been approved by the FSB and its accounting treatment and disclosures in the annual report is in line with the AAOIFI standards. The portfolio is mainly based on property financing. Overall compliance of Musharaka transactions is considered good.

Ijara: The bank has a small Ijara portfolio comprising automobile and education financing. Standard agreements and other relevant documents have been approved by the FSB. Moreover, the accounting treatment and disclosure provided in the annual report are in compliance with the requirements of AAOIFI Standards. Upon review of minutes of the meetings of SSB and the reports of Shari'a Internal audit, it was observed that the Ijarah transactions were in compliance with Shari'a rules and principles. Compliance of Ijarah transactions is considered good.

Salam: The bank has a very small portfolio based on agriculture financing. Compliance of Salam financing with Shari'a principles is considered satisfactory.

Investments: Investment portfolio of the bank mainly comprises Sukuk issued by the government and other public sector entities. Information available on the Shari'a conformance of these Sukuk in the public domain is limited. Other investments of the bank include equities, investment funds and investment in Mudaraba. The bank is in practice of obtaining Shari'a approval from FSB for all investments made by it. Appropriate disclosure for investments has been provided in the annual report. Non-Shari'a compliant revenues as identified by the FSB are transferred to the charity account.

Deposits: Unrestricted Mudaraba structure is used by the bank to generate deposits under unrestricted investment accounts. Deposits under current accounts are raised through Qard model. Profit rates are not declared to the depositors in advance and Hiba, if any, is given across the board to all categories of depositors. However, it has been noted that the terms and conditions of the deposits obtained on the basis of Modaraba are not clearly stated in detail in the Account Opening Form of the bank.

Profit Distribution Mechanism and Reserves for Future Protection

Return on unrestricted investment accounts is distributed on yearly basis in line with the bank's profit distribution policy. Accountholders are allowed to withdraw funds from their investment accounts on the condition that they forfeit any accrued profits. In case of a Mudaraba transaction with a specified period of investment, the bank as Mudarib retains the right to hold the Mudaraba instrument to its maturity. Profit rate for distribution is based on revenues earned for the year and is approved by the Board of Directors and Fatwa & Shari'a Board on annual basis.

The bank charges a Modarib fee on returns on investments, and commingles its own equity in the joint investment pool, hence earning investment return on its own fund as a Rubbulmaal and Modarib fee on investments made on behalf of accountholders. Return from investment in associates/subsidiaries and revenues earned from banking services such as, letters of credit (LCs), letters of guarantee (LGs), ATMs etc. are not shared with the investment accountholders, given that these are backed by equity.

Modarib's share charged by the bank on saving accounts and fixed-term deposit accounts is varied to differentiate between the return earned by two main types of investment accountholders. Modarib's share for saving accounts is 30%, while the same in case of fixed term deposits is 20%. No distinction is made between different maturities of fixed term deposits. These disclosures have not been made in the annual report as recommended.

While profit equalization reserve (PER) is not maintained by the bank, it is in practice of creating investment risk reserve (IRR) as recommended by IFSB.

Transparency in Shari'a Affairs

In line with the IAHs' right to monitor the performance of their investments under IFSB guidelines, they should be entitled to be informed of the methods of profit calculation, asset allocation, investment strategies and mechanics of smoothing of returns (including creation of IRR) in respect of their investment account. The bank has not made any such disclosures in its annual report or on its website. Best practice also entails that non-Shari'a compliant revenues are disclosed in the annual report. Transparency and disclosures constitute a major pillar of the IFSB guidelines, and it is recommended that the management addresses this issue in its reporting framework on an urgent basis.

The bank is in the process of compiling its Fatwa & Shari'a book, expected to be completed by early next year. Meanwhile, a local Islamic institute in Sudan has published a book, compiling key Fatwas issued by Shari'a Boards of Islamic banks operating in the country.

Appendix - A: Profile of Board Members

- **Dr. Tariq Hameed Matar (Chairman)** is the representative of Dubai Islamic Bank on the Board. Dr. Matar holds a PhD in civil engineering and is also a member of the National Advisory Council of United Arab Emirates.

- **Mr. Fadl Mohammed Khair (Deputy Chairman)** is the Deputy Chairman of the bank's BoD. He holds a diploma in mechanical engineering and is also a director on the Board of several other companies.

- **Mr. Muhammed Maqbool Aalim** holds a bachelor's degree in commerce and is an associate member of the Institute of Bankers Pakistan. He is also the General Manager of Align Enterprises L.L.C., one of the companies of Al-Ghurair Group.

- **Mr. Mohammed Saeed Alshareef** is a Certified Public Accountant from United States of America. He is a seasoned banker and has served as Chief Financial Officer of DIB from 1999 to 2010.

- **Mr. Abdul Al Aziz Al Neimi** holds a bachelor's degree in accounting and has extensive experience in the banking sector and telecom industry. His professional experience includes working as Head of Banking Transactions Department at AIB, Head of Operations at British Middle East Bank and Head of Revenue at Etisalat.

- **Dr. Nabil Mohammed Gulab** holds a PhD in finance and is presently working with Islamic Development Bank responsible for managing its investment portfolio in Africa and Middle East. He is a certified Islamic Banker and a member of Investment Technical Committee at IDB.

- **Mr. Mohammed Al Murtada Abdul Rahim** is the representative of smaller shareholders on the Board and is considered to be an independent director. He holds a bachelor's degree in engineering from Scotland and has worked with Nile Safari Company, Sudanese Airlines and Blue Nile Company in various capacities.

- **Mr. Mohammed Haj Alsheikh Alzaki** is the representative of smaller shareholders on the Board and is considered to be an independent director. He holds a bachelor's degree in computer sciences.

- **Mr. Salah Aldein Abu Alnaja** is a seasoned banker and is a nominee of CBOS as an expert on the Board. His banking career spans over fifty years and includes serving as GM at Tadamon Islamic Bank and as Deputy GM at Faisal Islamic Bank.

- **Dr. Awad Alkarem Osman** is nominated by CBOS on the bank's Board as an expert by CBOS. Dr. Osman holds a PhD in Economics from the University of Khartoum.

Appendix - B: Profile of Senior Management Team

- **Profile of the General Manager – Jordanian – Mr. Fadi Salim Al Faqih** has over 15 years of professional experience in the banking industry and was associated with the Citigroup in Jordan as Chief Financial Officer before joining BOK in August 2006. He has served in Egyptian Arab Land Bank and Standard Chartered Bank at senior management positions. Mr. Al Faqih holds a bachelor's degree in accounting and finance from University of Jordan.

- **Deputy General Manager – Sudanese – Mr. Faisal Abbas Mohammed Fadl** has over 20 years of professional experience to his credit in insurance, petroleum and banking industries. Prior to joining BOK in February 2006, he was associated with Millennium Capital Limited, the investment banking subsidiary of DIB, Dubai. Mr. Fadl is a Certified Public Accountant (CPA) from USA and Certified Insurance Practitioner (CIP) from UK.

- Chief Financial Officer – Jordanian – **Mr. Ayman Said Al-Badri** joined the bank in November 2012 as its Chief Financial Officer, having previously served in the same capacity at Bank Audi – Jordan Branches. Mr. Al-Badri holds a Bachelor's degree in Accounting and an MBA in Finance from University of Jordan.

- **Head of Corporate Banking – Jordanian – Mr. Yacoub Mohammed Zafar** joined BOK in September 2008 having prior experience in the area. Prior to this, he has served in Arab Bank and BLOM Bank.

- **Head of Retail Banking – Pakistani – Mr. Kashif Abbasi** joined the bank in July 2006 following BOK's takeover by DIB. He has relevant banking experience and was associated with DIB before joining BOK.

- **Head of Risk Management – Sudanese – Mr. Salah Abdel Rahim** has over 20 years of experience in corporate & retail banking, credit risk and project financing. He is an MBA from Aljazeerah University, Sudan and was the Head of Credit Review & Analysis in Al-Baraka Islamic Bank, Bahrain prior to joining BOK in December 2008.

- **Head of Treasury & Financial Institutions – Jordanian – Mr. Khalid MJ Gokcezadeh** has been associated with the bank since April 2007 prior to which he was the Head of Operations & Market Risk at The Egyptian Arab Land Bank, Jordan and held several senior position at the Housing Bank for Trade & Finance, Jordan. Mr. Zada is an MBA Financial Management holders from UK, Certified Management Accountant (CMA), Certified Anti Money Specialist (CAMS).

- **Head of Human Resources – Sudanese – Mrs. Nadia Yohanna Abdel-Massieh** has over 30 years of professional experience in Human Resources Management. She joined BOK in July 2006, prior to which she was associated with the United Nations. She has also worked with Citibank N.A. Khartoum in the HR department.

- **Head of Legal & Compliance – Sudanese – Mr. Ammar Abbas Elsayed** joined the bank in 2013 and has an MBA from Morgan State University in USA. Prior to joining the bank he worked as Banking Supervisor at the Central Bank of Sudan for thirteen years.

Appendix - C: Profile of Higher SSB Members

- **Abdullah Al-Zubair Abdul Rahman Saleh** is presently the Chairman of the Higher SSB. He holds a PhD in Shari'a (Islamic jurisprudence). He has a long standing career in academia and has deliver lectures in several universities in Sudan, Yemen and Saudi Arabia. He is the author of several books and research papers.

- **Ahmed Ali Abdullah Hamad** is the Secretary General of the Higher SSB. He has considerable experience in Shari'a supervision and compliance, having served in executive position at an Islamic bank in Sudan. He received doctorate degree in Shari'a in 1985 and has authored several books and research papers in the field of Islamic banking and takaful.

- **Al Saddiq Mohamed Al-Ameen Al-Dareer** is the founding Chairman of Higher SSB for both Islamic banks and takaful companies in Sudan. He is also the member of the Shari'a Board of AAOIFI. He received his doctorate in Islamic finance in 1967. He has to credit several publications in the field of Shari'a and Islamic finance.

- **Suleiman Mohamed Karam Allah Mahi** is currently a Professor at the College of Shari'a and Islamic Studies at International University of Africa. He is career academician and has written several papers in the field of Islamic finance.

- **Mohammed Ser Al-Khatim Ahmed Mohamed** is also the member of Supreme Council of Trustees of Zaka'ah and member of Board of Advisors to the Government. He is served in the Shari'a department of several universities. He received PhD degree in Shari'a from Al-Azhar University in Egypt.

- **Tayeb Faki Moussa Mohammed** is also a judge at the Supreme Court of Sudan, Chairman of the Shari'a Supervisory Boards of Sudanese French Bank and Blue Nile Mashreq Bank. He has authored several books and research papers.

- **Mohammed Al-Hassan Bareema Ibrahim Mohamed** is currently a Professor at the University of Gezira in Sudan. He is also a member of the SSB of Khartoum Stock Exchange and Al-Jazeera Sudanese National Bank. He has also previously served as the member of the Board of Directors of Bank of Khartoum. He holds a doctorate degree in economics and has authored several research papers.

- **Al-Tijani Ahmed Abdul Qadir Mohamed Khair** is the Advisor of the Minister of Finance and National Economy and also the Chairman of the Higher Advisory Committee for Government Sukuk. He holds a doctorate degree in Islamic banking from University of Hull in Britain.

- **Ibrahim Ahmad Sheikh Mohamed Al-Ameen Al-Dareer** is the presently and Assistant Professor at the University of Holy Quran. He is also a member of the Advisory Committee of the Ministry of Finance for Sukuk and is serving on Shari'a Supervisory Boards of several Islamic banks operating in the country. He has several research papers and books to his credit.**Tayeb Faki Moussa Mohammed** is also a judge at the Supreme Court of Sudan, Chairman of the Shari'a Supervisory Boards of Sudanese French Bank and

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IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of 'AAA' and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Long Term

The obligations having an original maturity exceeding one year are considered long term. IIRA uses a scale of AAA to C to rate credit worthiness of the banks' long term obligations, with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Obligations rated AAA are considered the best quality. They present the least investment risk. While changes can be anticipated in business and economic conditions such changes as can be assessed are not likely to impact the fundamentally strong position of such obligors.

AA: Obligations rated AA are considered high quality in all respects. Combined with the AAA obligations they constitute the high grade group. The differentiation is in the magnitude and range of fluctuations in elements that assure safety. Such elements in this category will not be as stable or predictable as for AAA category.

A: Obligations rated as A are considered upper medium grade obligations possessing sound credit characteristics and reflect safe margins of protection at this time but may be susceptible to changes in future due to industry or product characteristics.

BBB: Obligations rated BBB normally posses sound credit characteristics. The safety elements are adequate at present but hostile business factors may bring about a change in the credit characteristics.

BB: Obligations rated BB reflect significant speculative characteristics and volatility in protection factors. The obligation is not well assured even in positive economic environment.

B: Obligations rated B do not typically reflect characteristics of desirable investment. There is significant doubt that obligation can be met over any period of time.

CCC: Obligations rated CCC are high risk and unpredictable with very poor protective elements.

CC: Obligations rated CC are highly speculative. Such obligations are often in default or reflect limitations on repayment capacity.

C: Obligations rated C have extremely high level of risk and they are unlikely to meet their commitments.

D: 'D' rated Obligors are in default with respect to their obligations.

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category. Ratings in the BBB band or above are deemed to be in the investment grade.

Short Term

The obligations having an original maturity not exceeding one year are considered short term. IIRA uses a scale of A1+ to C to rate credit worthiness of the banks' short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+: Obligations rated A1+ have a superior ability for repayment of obligations and is evidenced by extremely strong liquidity conditions.

A1: Obligations rated A1 have a strong ability for repayment and reflect very good liquidity conditions.

A2: Obligations rated A2 have a sound capacity of repayment but could be effected by external market conditions.

A3: Obligations rated A3 have an acceptable ability to repay the obligations. However, they are more susceptible to adverse market conditions and require careful management.

B: The obligations rated B have weak capacity for repayment and economic changes can harm the liquidity conditions.

C: Obligations rated C shows considerable uncertainty towards timely payments of obligations. The liquidity conditions appear very weak.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-56), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*

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