الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

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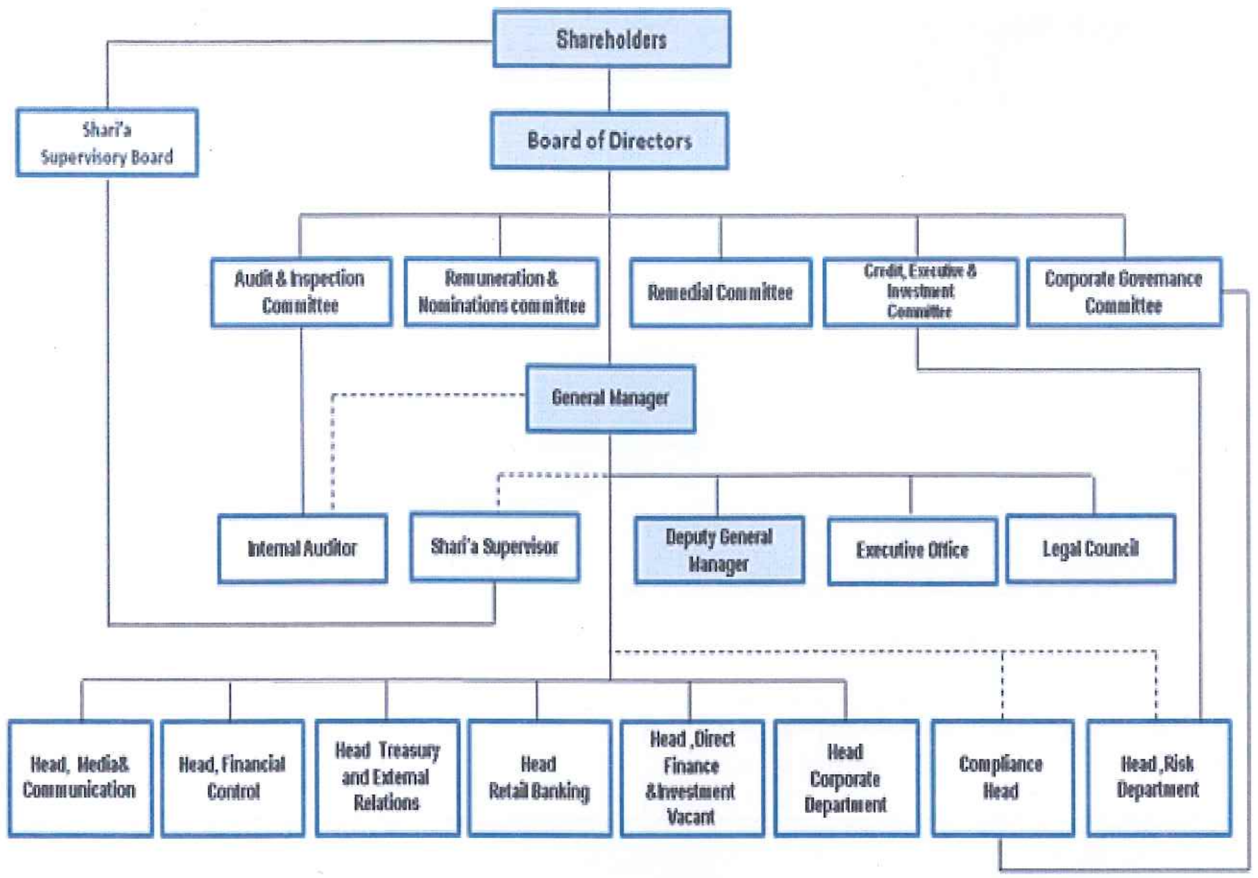
APPENDIX 3:

Organization Chart



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

Medium to Long Term

IIRA uses a scale of AAA to C to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted 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.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

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*

APPENDIX 2:

Senior Management Profile:		
Name (Residence)	**Designation**	**Profile**
Mr. Faisal Fadl (Sudanese)	Deputy CEO / GM	He joined BOK as CFO in 2006 and later appointed as Deputy CEO in 2008, he has held senior management positions in global and regional companies including Arab Petroleum Investment Corporation, Norwich Union Insurance and the Sudanese Insurance and Re-Insurance Company. He has a bachelor in Commerce and Accounting from Cairo University, and also a CPA and a Chartered Insurance Professional.
Mr. Yacoub Mohamed Zafer Al-Alem (Jordanian)	Head of Corporate Banking	He has been associated with the bank since 2008; with past experiences in Arab Bank and BLOM Bank. Graduated from Arab Institute for Banking & Finance Studies, Jordan University.
Mr. Kashif Naeem (Pakistani)	EVP & Group Head – Retail, SME & Microfinance	He has been associated with the bank since 2006. Previously, he had 22 years of experience with Citibank UAE & Pakistan, DIB UAE and Societe Generale Bank. He has a BBA degree.
Mr. Khaled Mahmoud Zadeh (Jordanian)	Head of Treasury and Foreign Relations	He has been associated with the bank since 2007, and has over 15 years of experience in Jordanian banks before joining BOK. He has an MBA in Financial Management from the University Of Exeter, UK and Bachelor in Business Administration from the University of Jordan.
Odai Ahmad Hindawi (Jordanian)	Chief Financial Officer	Before joining BOK in March 2015, he was associated with Jordan Dubai Islamic Bank in similar capacity.
Mr. Fuad Al Bahu (Jordanian)	Chief Operating Officer	He has been associated with the bank since 2007; with previous experience in Standard Chartered Bank Jordan. He holds a Diploma in Banking Studies from IBS, Amman.
Mr. Faisal Abdullateif Nassir (Sudanese)	Chief Internal Auditor	He has been associated since 2006 with the bank; he had previously held various positions in risk management, finance and audit in the Kingdom of Saudi Arabia and Sudan including institutions like Al Rajhi Banking and Investment Corporation, and several CPA firms in various capacities. He has a BSC of Commerce in Accounting from Cairo University and also Certified Public Accountant.

Mr. Salah Abdul Rahim (Sudanese)	Head of Risk	He has been associated since 2008 with the bank; he had over 25 years of banking experience with Al Baraka Islamic Bank, Al Jazira Bank, Ariyadah Development Company and Al Rajhi Banking and Investment Corporation. He has a BSc in Economics from Cairo University, Khartoum and is currently enrolled in an MBA program at Al Jazeera University, Sudan.
Ms. Nadia Youhanna (Sudanese)	Head of Human Resources	Associated since 2006, she has over 33 years of international HR experience, including UNDP, CARE International, Elie Group Holdings Co. Ltd, United Nations Children's Fund, and Citibank. She holds Master's and Bachelor's degrees in human resources from USA and a Diploma in Banking and Finance from Institute for Banking Studies, Khartoum.
Mr. Ammar Abbas Elsayed (Sudanese)	Head of Legal & Compliance	Joined the bank in 2013, and had earlier been associated as banking supervisor with CBoS for the last 13 years. He has an MBA from Morgan State University in USA.

APPENDIX 1:

Board Profile:

Name (Designation)	Representation / Nationality / Residence	Profile and Experiences
Mr. Mohamed Saeed ElShareef (Chairman)	Dubai Islamic Bank / Emirati / UAE	A CPA (USA) and Masters in Accounting from the Catholic University, Washington; he is a seasoned banker with 26 years of experience in Islamic and Central Banking, having served as CFO at DIB and CEO at DIB Capital. Currently, he is the CEO of DAT Capital and also serves on the boards of DIB Pakistan and Bank of Jordan.
Mr. Fadl Mohammed Khair (Deputy Chairman)	Individual Shareholder / Sudanese / Sudan	Holds a diploma in mechanical engineering. He serves as executive and non executive director on board of several companies.
Mr. Mohamed Magbool Aalim (Non Executive)	Dubai Islamic Bank / Pakistani / UAE	A bachelors in commerce and an associate member of IBP Pakistan; he currently serves as GM of Align Enterprises L.L.C., previously served at senior positions at Mashreq bank and UBL. He also serves on the BOD of DIB Pakistan.
Mr. Obeid Mohamed Rashid Elshamsi (Non Executive)	Dubai Islamic Bank / Emirates / UAE	An MBA from Middlesex University, Dubai; he is currently serving as the Chief of Human Resources at Dubai Islamic Bank, UAE and has more than 13 years of experience in the HR Industry. He also serves on the board of DIB Pakistan.
Mr. Mohamed AbdAlla Amir Elnahdi (Non Executive)	Dubai Islamic Bank / Emirates / UAE	Bachelors in Accountancy & Administration from Al Mustansiriya University, Baghdad; he currently serves as Deputy CEO at DIB, UAE and has over 27 year experience of banking operations, and project management.
Mr. Gehad Abdalla Elhussein (Non Executive)	Minority Shareholder / Sudanese / China	Bachelors in Engineering, he currently serves as an executive director of a private company.
Dr. Nabeel Mohamed Galab (Non Executive)	IDB (Minority Shareholder) / Tunisia / KSA	A PhD in finance; he is presently working with IDB and is managing the investment portfolio of IDB in the MENA region. He is a certified Islamic Banker and a member of Investment Technical Committee at IDB.
Mr. Mohammed Almurtada Abdul Rahim (Non Executive)	Minority Shareholder / Sudanese / Sudan	Holds a bachelor in engineering from Scotland; has worked with Nile Safari Company, Sudanese Airlines and Blue Nile Company in various capacities. Currently, serving as executive director on board of United Company for Construction.

Mr. Salah Eldeen Abu ElNaja (Independent)	Expert Nominated by CBoS / Sudanese / Sudan	A seasoned banker with experience over 50 years, including GM at Tadamon Islamic Bank and DGM at Faisal Islamic Bank. He also serves on the board of Sudanese French Bank.
Dr. Awad Elkareem Osman (Independent)	Expert Nominated by CBoS / Sudanese / Sudan	He holds a PhD in Economics from the University of Khartoum.
Mr. Fadi Salim AlFaqih (Executive)	CEO / General Manager / Jordanian / Sudan	A professional banker with over 15 years of experience at Citigroup in Jordan as CFO, Egyptian Arab Land Bank and Standard Chartered Bank, before joining BOK in August 2006; Bachelor in accounting / finance from University of Jordan.

opinion on the bank's compliance with Shari'a principles as per the format given in AAOIFI standards. This review statement is included in the bank's Annual Report.

FSB also holds at least one meeting annually with the senior management, chief internal audit and the representatives of external auditors to discuss the financial statements and review Zakah provisions.

Best practices entail representation of an FSB member on the BCGC of the Board of Directors. Although this practice is not currently in place, FSB ensures sufficient interaction with BCGC by meeting them on a quarterly basis.

Shari'a Audit and Compliance Function

BoK does not have any specialized Shari'a audit or compliance function, and the same is carried out through coordination and usage of the internal audit resources. A checklist has been provided to the internal audit department, who thereby perform Shari'a checks simultaneously with their regular audits. Best practices however recommend a clear segregation of duties between the internal audit and Shari'a department, whereby a separate department or a sub function is required within internal audit department, reporting functionally to the FSB. As per the Shari'a Advisor representation, very few cases of non compliance occurred during the year with the average amount per case standing less than SDG 3,000.

Training on Shari'a Compliance

BOK actively pursues staff training and ensuring awareness of the Shari'a rules and principles. Newly inducted staff is required to take a "Certified Islamic Banker" course which is conducted at the bank's premises by Bahrain based CIBAFI. The training imparts basic knowledge of Islamic finance, contractual arrangement and structuring of finance, important Shari'a rulings related to banking and financing activities and overall professional code of ethics. Regular in-house trainings are also conducted by FSB members.

Product Design & Development

Since our last review, there is no new product pending for structuring or approval by the FSB. Banks have been pursuing adoption of Ijara Muntahia Bittamleek, however, the same remained pending for approval from the HSSB.

Islamic Modes of Finance

Table 15: Gross Financings and Investments Mix

Gross Financing and Investment Portfolio (%)	2014	2013	2012	2011
Murabaha	26%	29%	30%	33%
Mugawala	24%	26%	25%	17%
Deferred Sales	21%	18%	17%	14%
Ijara, Salam and Expired LC/LGs	4%	4%	5%	7%
Musharaka	3%	4%	4%	5%
Mudaraba	1%	2%	2%	3%
Money Market Investments (Including Liquidity Fund and Shehamas)	14%	12%	12%	13%
Equity Instruments	6%	5%	5%	8%

BOK's gross financing and investment portfolio is mainly concentrated in the three financing categories Murabaha, Deferred Sale Receivables and Mugawala. Any investments made, require approval from FSB. FSB has laid down an appropriate investment screening and income purification mechanism.

Profit & Loss Distribution

The bank forms a joint investment pool by combining the funds received from Investment Account Holders (IAHs) with its own equity fund, to utilize the same in financings and investments. Earnings out of this pool are firstly adjusted by deducting a Modarib charge in favor of the bank acting as manager of the pool, and the adjusted earnings are then apportioned between IAHs and the Bank in proportion to their respective funding in the pool. Modarib fee charged by the bank on saving accounts and fixed-term deposit accounts varies. An Investment Risk Reserve is maintained by the bank which is calculated as a percentage of the year's profit as recommended by IFSB.

Fee based income included from Letters of Credit or Guarantee are not shared with the IAHs. Any investment in subsidiaries or associates is made purely out of the bank's own equity, and therefore any returns thereof are attributable to the bank's equity holders.

Distribution rate for profit or loss to the Investment Account Holders is recommended to the Board of Directors, on the basis of annual performance, for approval. The recommended rates are reviewed and approved by FSB and also have to be approved by CBoS. The returns are distributed on an annual basis, and any IAH withdrawing its investments also has to forfeit the related profit portion.

Income Purification

The bank has a clearly defined policy with regards to the exclusion of Shari'a non compliant income from the bank's profits and the utilization of the same as disbursement to approved list of charities. FSB members are also members of the bank's charity committee. Detailed charity related records and supporting documents are maintained at the bank.

Transparency in Shari'a Affairs

IFSB guidelines emphasize on the need for transparency and disclosures. It requires the Investment Account Holders to be clearly informed of the mechanisms for profits calculation, investment risk reserve and asset allocation along with the investment strategies. The bank has not made any such disclosures in its annual report or on its website.

University of Sudan for Banking and Financial Science has embarked on collectively reproducing all banking fatwas in Sudan in the form of a book. BoK is in the process of compilation, which is expected to be completed by the end of 2015.

proposal for acquisition of a risk management module enabling automation and integration of the bank's early warning mechanism in the core banking software is pending approval at the BRC level.

Currently, there is no regulatory requirement to implement the Basel II framework, except for the calculation of CAR using a simple standardized approach. However, as per management, CBoS has initiated a study for complete implementation of Basel II framework. Obligor Risk Rating has been assigned to all the new clients since 2006; however, the same is in process for earlier generated accounts. The bank has recently updated its risk management manual and is in the process of upgrading an active operational risk management unit.

Stakeholder Relations

Shareholder - Management Relations

The bank has a dedicated Shareholders Affairs section, housed within the board secretary office, with the primary responsibility of acting as a liaison between the BoD and shareholders. Notice of the AGM is circulated at least seven days prior to the meeting and has to be published in leading newspapers.

Officials required to be present in the AGM include the Chairman (or Deputy Chairman), GM, DGM, Chief Internal Auditor, Bank's Union representative and external auditors of the bank. Members of FSB are also present in the AGM to present Shari'ah Compliance Review report and answer relevant queries.

The bank does not have a formal dividend policy in place. Performance of the bank is taken into account by the BOD while deciding cash payouts. The bank has mostly issued bonus dividends to capitalize and retain profits.

Employee - Employer Relations

Table 13: Dividend Payout Trend

In SDG Millions	2007	2008	2009	2010	2011	2012	2013	2014
Cash Dividend	27.2	-	-	38.1	-	-	62.9	-

An HR policy & procedures manual is in place. Formal exit interviews of all employees are conducted at the time of discontinuation of service. HR department has the mandate to address employee grievances. In line with local norms, a labor union exists in the bank. Staff members are given bonuses at the end of each year, based on their performances. The bank also provides social security as required by the local law in addition to medical benefits. Salary levels in the bank are in the third quartile when compared to peers.

Social Responsibility

Table 14: Donations

(In SDG Millions)	2014	2013	2012	2011
	2.6	2.4	1.6	0.5

The bank recognizes the importance of supporting the social development of the country through its Corporate and Social Responsibility (CSR) program, with a primary focus on initiatives that provide direct benefit to the communities. The bank has actively participated in initiatives directed towards Health and Education sectors, consistently donating for the construction, modernization or up-gradation of several schools, universities and hospitals. It has also actively supported the construction of mosques and a library. However, the bank does not have a formal policy; preparation of the same along with highlighting priority sectors would streamline CSR initiatives.

Penalties by CBoS

Penalties imposed by CBoS on the bank declined to zero for 2014 while it was nominal at SDG 29,000 in 2013.

SHARI'A GOVERNANCE & CONTROL:

Sudan has broadly aligned its entire financial system with Shari'a precepts. Currently, there are 37 banks operating in Sudan, all as Islamic banks.

Higher Shari'a Supervisory Board

The overall Shari'a governance structure in Sudan is regulated through a centralized body. The "Higher Shari'a Supervisory Board (HSSB)" has been instituted, as an arm of CBoS, to supervise the overall Shari'a framework and oversee operations of financial institutions working in Sudan. It is also a consultative board to the Ministry of Finance. Its responsibilities include setting, governing and regulating every matter relating to financial institutions, formulating contracts and agreements as specimens for all financial transactions and ensuring that financial products are Shari'a compliant. HSSB is authorized to issue fatwa on any Shari'a related query of Islamic Institutions, institute centralized research on product structuring and developments, and organize training, lectures and seminars. HSSB also acts as a forum of appeal and review in case of any disputes on any Shari'a related matter between the banks and the customers.

It comprises eleven members and includes a diverse mix of Shari'a scholars, banking practitioners, economists and the governor of Central Bank, complementing each others' skills and experiences. A full time secretary general is appointed for the Board, and the Board members are required to meet on a weekly basis.

Any in-house Shari'a board constituted by any bank is subordinate to the rules and procedures as ordained by the HSSB. The in-house Shari'a board operates as an advisory cum supervisory board, enabling the management as well as the board of directors in understanding and enabling Shari'a principles and opinions as laid out by the HSSB. Members of the bank's Shari'a board are appointed after the approval from HSSB.

Fatwa and Supervisory Board

BoK's in-house Shari'a board "Fatwa and Supervisory Board (FSB)" comprises 3 members. Chairman of the board is Dr. Ahmed Ali Abdulla Hamad, who is also a member of HSSB, having considerable experience in Shari'a supervision and compliance. Other members of FSB include Maulana Abdul Hadi Yaqoob, who is also a resident Shari'a advisor of the bank and acts as secretary to the FSB. Dr. Al Tejani Abdul Qader Ahmed joined FSB in 2014, replacing Dr. Mustafa Muhamed Musnad. Except for Dr. Ahmed Ali Abdulla Hamad, the other two members have been appointed by General Assembly.

FSB is involved in providing Shari'a opinions, approving new product structures and other Shari'a related matters. FSB is also responsible for the overall Shari'a audit of the bank, which it undertakes in coordination with the internal audit department.

Minor issues, revert back to the relevant head of department for correction, while in case of any significant non compliance, the issue is reported to the CEO, requiring cancellation of the transaction. The FSB, in its annual report, has declared that all the transactions of BoK are in accordance with Shari'a rules.

Meetings, Deliberations and Annual Statement of Shari'a Review

FSB is in practice of meeting at least once per month. Meetings include deliberations analyzing new product lines and services, their contractual structures and documentation and providing clarification and opinions to management queries.

FSB also reviews Shari'a related highlights of internal audit reports and also reviews financing arrangements on a sample basis. FSB is also responsible for ensuring that any income arising out of Shari'a non-compliance is taken to charity. The provision for Zakah is given special attention. Subsequently, FSB prepares an annual banking and finance imparted at the bank's premises. Also, an annual training program is in place for all the employees. Senior management cadre is also sent abroad for training in their specific domains. The bank's HR department also acts as advisor to its subsidiaries regarding their HR issues.

There is a self evaluation mechanism for employees which is reviewed by the supervising manager, approved by the relevant head of the department and then finally by HR department. Employees are categorized in five rating grades based upon their performance, and remuneration is affixed accordingly.

Internal Audit Function

The structure of internal audit department remained unchanged from our previous review, with 3 sub functions, namely business audit, technical department, and information technology audit. IT audit department is responsible for the Information Technology and Management Information Systems audit, but is still non-functional due to lack of available expertise. Currently, IT/MIS audit is being performed by Ernst and Young once in every three years, with the last such audit conducted in 2013; next audit is planned in 2016. As per best practices external auditors may not be engaged in internal audit function, which is primarily a management function. This issue has been recently resolved with the appointment of new auditors.

Internal audit function does not feature a separate fraud investigation sub-department, because of low incidence of fraud and forgery, and therefore staff is allocated on need basis.

Internal audit plan is prepared at the beginning of each year, with audit of all branches and head office at least once a year with higher risk areas to be audited twice. Internal audit department is also responsible for auditing the bank's subsidiaries. All the branches are associated with a risk category based on their size of operations, transactions and strength of staff along with the risk projections using various risk factors, trend of issues associated and exceptions noted in the previous audits along with their resolution status. Risk based audit frequency is planned to be implemented, requiring low risk branches or functions to be audited once in two years.

A gap analysis assignment is also being undertaken by Ernst and Young Bahrain, for manual, policies and procedures in place in all the departments, corporate governance framework, compliance mechanism, the overall internal audit methodology, internal audit techniques used and reporting mechanism. This assignment has been approved by BCGC. This will help provide an independent quality assurance review of the internal audit function, enabling the bank to implement best practices as per international standards. This will also help in enhancing the confidence of correspondent banks.

Till recently, the department has been using manual processes to conduct its audit activities. Specialized audit software has been procured to rationalize and streamline its internal audit procedures. The software is expected to be available for use by end of 2015.

The IA department reports directly to the BAIC, presenting a summary of all the findings and exceptions noted on a quarterly basis, along with the expected resolution date. As per management, most issues were minor in nature and nearly all the audit exceptions were resolved in the on-going year.

Scope of the bank's comprehensive IT/MIS audit conducted by Ernst and Young included detailed independent evaluation, review and assessment of BOK's network architecture, IT Strategy, IT General Controls, External Attack and penetration, Internal Threat and Vulnerability, IT Policies and Procedures implementation and BCP/ DRP. The assessment highlighted major IT risks faced by the bank. Complete implementation will be tracked.

Legal and Compliance Function

The structure of Legal & Compliance Department (LCD) remained unchanged during 2014; divided into three

sub-departments namely Review & Check, Anti-Money Laundering (AML) & Safety and Legal. The total staff strength of the department is 13.

The bank has updated its Know Your Customer (KYC) and AML procedures and policies in line with local regulations. New KYC forms have been developed in line with the regulations and best practices. KYC information is required to be updated every five years, but for riskier profiles, the frequency to update KYC information increases. As per management, KYC of nearly 80% of the old accounts have been completed. New accounts are opened at branches only after review at the head office level, with any discrepancy passed back to the branches for resolution.

FATCA compliance was added to the overall responsibilities of the department. The bank became one of the first Sudanese banks to have implemented a system to ensure compliance. The bank has fully integrated AML as an independent module with the iMal system as per the best practices globally. All transactions above SDG 30,000 are required to be monitored by the AML & Safety department and in case of any suspicious activity; the transaction is reported to the Financial Investigation Unit (FIU) at CBoS.

A compliance matrix has been prepared during 2015, listing all the major rules and regulations, applicable to each department as set out by CBoS and internal manuals. This is then provided to each department in the form of a checklist for self assessment with options to note as fully compliant, semi compliant or non compliant. Internal audit department is responsible for ensuring the application of this self assessment in all departments.

Legal and Compliance function has met 4 times with the BCGC in 2014, and 2 times in 2015. In November 2014, a comprehensive compliance report was prepared and presented to BCGC.

Compliance function has been instrumental in increasing the overall awareness of the bank's staff regarding the processes, policies and regulations involved in their functional roles. Also the compliance department is developing an evaluation mechanism, whereby all the relevant employees will be tested on their AML knowledge.

Compliance department has also developed a clear mechanism and policy during 2014 for reporting of any non compliance or deviation and whistle blowing on violation. BoK has a formal code of ethics policy signed by every employee preventing misuse of confidential information for personal gains. All employees are required to report any purchase of the company's shares to the HR department, and annually submit a statement of their assets, disclosing any specific income other than the salary.

Risk Management

Risk management department at BoK is responsible for measuring, monitoring and controlling all possible sources of risks and providing independent credit risk assessment and maintaining a list of high risk performing accounts.

While no exposure limits have been prescribed under the regulations, the bank has set a maximum of 25% limit on group exposures. This is a relatively high cap and requires setting of lower internal limits to reduce the concentration risk faced by the bank.

Acceptable collaterals for financings include real estate, bank guarantees and fixed deposits. Real estate properties are required to be revalued every three years from amongst the approved list of valuers. A 25% haircut is applied on the value of properties located in Khartoum and 50% on those based outside the capital.

An Early Warning mechanism / Watch list is currently in place for presentation in Credit Committee. Currently, there are 15 clients in this list; all of them fall under the retail category with low average financing size. A

Table 12: Management Committees' Composition							
Members	MANCOM	ALCO	HRC	Credit	IT&MPC	Legal	Risk
General Manager	C	C	C	C	C	C	C
Deputy General Manager	DC	M	M		DC	DC	DC
Head of Treasury & FIs	M	DC	M	M			M
Head of Corporate Banking	M	M	M	M			M
Head of Retail Banking	M	M	M				M
Chief Financial Officer	M	M	M	M	M	M	M
Chief Operating Officer	M	M	M		M	M	M
Chief Internal Auditor	M						M
Chief Risk Officer	M	M		DC			M
Head of Human Resources	M		DC			M	M
Head of Retail Operations			M				
Head of Legal & Compliance			M			M	M
Head of IT					M		
Head of Admin					M		
Frequency of Meetings	Monthly			As per need	Quarterly		
Legend: C - Chairman; DC - Deputy Chairman; M - Member							

Appointment, Evaluation and Remuneration Criteria

GM, DGM and all the HoDs can only be appointed or removed after approval of the BOD. Similarly, the board is responsible for evaluation and remuneration of CFO, Board Secretary, Chief Internal Auditor, Head of Risk Management and Head of Compliance. Likewise, FSB is responsible for appraisal of Shari'a Advisor. Performance evaluation of other senior executives is carried out by the executive HR committee in collaboration with the HR department.

Financial Transparency

Quality of financial and governance related disclosures

The bank's financial statements are prepared on the basis of Financial Accounting Standards issued by AAOIFI. The notes to the accounts provide simple breakup of line items and limited disclosures. While these limited disclosures satisfy the reporting standards under AAOIFI, as well as the general reporting standards in Sudan, there is a wide margin of improvement relative to disclosures being followed globally. Such disclosures can include greater detail regarding asset quality and the bank's risk framework including stress testing results for operational, credit, market and other risks and their impact on profitability and capital adequacy.

The bank makes governance related disclosures in its annual report and website. The report for the year-ended 2014 included the composition of BOD, Fatwa & Shari'a Board, senior management team, list of subsidiaries and Shari'a Supervisory Report. However, the same can be further improved by providing shareholding pattern, brief profile of directors, FSB members and senior management team, composition of board level committees along with their ToRs and attendance levels in the meetings of the board and its committees. Best practice as applicable internationally also entails providing Statement of Compliance with

the Code of Corporate Governance and the Code of Conduct, Statement on internal controls and Risk Management framework.

Disclosures that are generally made available by reputed Islamic financial institutions also include policies with regards to investment risk reserves and profit purification mechanism. The bank may also consider providing disclosures recommended under IFSB's risk management guidelines that are largely similar to those recommended under Basel II Pillar III framework.

Quality of website disclosures

Disclosures regarding the bank's products and services have been adequately provided. Information regarding the bank's subsidiary and correspondent banks has also been provided. Separate portal for Hassa services is also available.

The website however is not updated on a regular basis. Newly appointed CFO is yet to appear in the management profile section of the website. Websites may also disclose quarterly and half yearly results of the bank in the form of financial statements and/or highlights.

Quality of External Auditors

According to CBoS regulations, auditors are allowed to conduct bank audits for a period of two years only, with an extension of one year by CBoS upon request of shareholders. Upon completion of three years by "Mubarak for Accounting, Auditing & Financial Consultancy", a correspondent firm of Ernst & Young in Sudan, the bank engaged Hassabo & Co. as its external auditor during 2014. No other engagements or assignments were noted with the new external auditors.

Self-Regulation

Policy framework

As per the management, the bank has all requisite policies and manuals in place. These policies have been approved by the board on the recommendation of its sub-committees and executive management. No new policy or manual was issued or implemented during 2014. All the policies and manuals have been reviewed and updated in Feb 2015. A comprehensive revision is being undertaken against all the policies and procedures for major departments of the bank as part of the gap analysis, conducted by Ernst and Young's.

Human Resource Management

The bank has a formal succession plan available for GM, DGM and head of each department. In order to enable fast track growth of its junior employees, the bank has introduced "High Potential Employees" program to select and develop high caliber staff. These employees will be given rotational training in all departments. Selected staff will be required to sign a bond for three years.

During 2014, around 300 employees were hired while 259 employees tendered resignations along with 3 retirements and 9 terminations, as the net number of employees at year end 2014 was 1260 in number (as of May 2015 the total stood around 1567). The bank has a high turnover rate. This is mainly on account of qualified Sudanese professionals opting to work abroad due to uncertain economic and regional conditions at home. The bank is positioned in the third quartile among the Sudanese banks in terms of remuneration, which may also account for higher turnover. The collective resignations, retirements and terminations during 2014 represented 22% of the opening count of staff and 4.5% in the first quarter of 2015.

The bank has in place a comprehensive training program for its new staff alongside detailed training on Islamic

Composition of Board Committees

Currently, there are four Committees functioning at the board level; namely Board Audit & Inspection Committee (BAIC), Board Corporate Governance Committee (BCGC), Board Credit, Executive & Investment Committee (BCEIC) and Board Remedial Committee (BRC).

Table 11: BOD Committees' Composition

Name	Designation	BAIC	BCGC	BCEIC	BRC
Mr. Mohamed Saeed ElShareef	CM - DIB Representative			M	
Mr. Fadl Mohammed Khair	Deputy CM			©	©
Mr. Mohamed Magbool Aalim	DIB Representative			M	
Mr. Obeid Mohamed Rashid Elshamsi	DIB Representative		©		M
Mr. Mohamed AbdAlla Amir Elnahdi	DIB Representative	M			
Mr. Gehad Abdalla Elhussein	Non Executive - Minority Representative	M		M	
Dr. Nabil Mohamed Galab (IDB)	Non Executive - Minority Representative	©	M		
Mr. Mohammed Almurtada Abdul Rahim	Non Executive - Minority Representative				M
Mr. Salah Eldeen Abu ElNaja	Expert nominated by CBOS – Independent				
Dr. Awad Elkareem Osman	Expert nominated by CBOS – Independent	M			M
Mr. Fadi Salim AlFaqih	CEO – Executive Director		M	M	

Legend: © - Chairman; M – Member

BAIC is responsible for supervising the activities and monitoring the performance of the internal audit department. Head of Internal Audit is secretary to the committee. Chairman of the committee is a minority representative. The committee also includes an independent director to give overall effectiveness to BAIC. It met four times during 2014.

Head of Legal & Compliance is the secretary of BCGC. According to the IFSB recommendations, a member of the FSB should also be present on this committee to ensure that the Shari'a related matters are sufficiently addressed. BCGC met four times during 2014.

BCEIC supervises the key business activities of the bank. The committee has two tier functions: as risk management body responsible for review of the bank's financing and investment portfolios, its credit policies as well as its liquidity position; and as the approving body for any financing or investments of over SDG 10m. The committee is chaired by Deputy Chairman, with adequate balance between minority and parent bank representatives. As per best practices the function of approving and reviewing must be segregated to prevent a self-review threat. BCEIC met three times during 2014.

Tenure and Terms of Board of Directors

The board is elected for a term of three years by the shareholders in the annual general assembly in line with the local regulations and all directors are eligible for re-election upon expiry of the term. Last elections were held in 2013. Mr. Mohamed Saeed ElShareef replaced Dr. Tariq Hameed Matar as Chairman to the board while Mr. Fadl Mohammed Khair maintained his position as Deputy Chairman. Among the remaining nine members,

five members of the BOD remain unchanged, including the two experts, nominated by the CBoS.

Code of ethics and business conduct for the directors has been defined in the bank's Articles of Association. Roles and responsibilities of the Chairman and CEO have been distinctly defined and segregated in the Articles of Association. A full time dedicated secretary to the board has been employed as per CBoS regulations.

While regulations do not present any guidelines in respect of directors' shareholdings or positions in other concerns; BoK has implemented a policy to restrict the same to two directorships at a time. Similarly, BOK restricts its members from taking up any position in businesses which may be deemed to be in direct conflict with the bank's operations.

Orientation of Board members

The bank has a formalized orientation program where new members are made familiar with the overall organizational structure, rules, policies and manuals in place, their specific roles and responsibilities as directors, functioning of sub committees and other fiduciary responsibilities. The members are authorized to avail services of external consultants whenever a need arises.

Board Evaluation

Directors are evaluated on the basis of their representation in the board meetings and its committee meetings. However, best practices entail a detailed evaluation procedure for the performance of members through formal questionnaires for self assessment or through an external third party evaluation mechanism.

Management Profile

Organization Structure

The organizational structure of the bank depicts two main lines of reporting i.e. direct reporting to GM and direct reporting to DGM, who then reports to GM. In line with best practice, Chief Internal Auditor and Shari'a Advisor have direct reporting lines to the BAIC and Shari'a Supervisory Board respectively. Chief Risk Officer also functionally reports to BCEIC while the Head of Legal and Compliance reports to the BCGC. All the four positions administratively report to General Manager (as indicated by dotted line in the organogram)

The bank plans to add a dedicated investment banking function by the end of 2015, the primary focus of which shall be to undertake industry and market research, investment advisory, evolving an internal trading function, and assisting local corporates in launch of IPOs and mobilization of funding.

Senior Management Profile

Senior management team of the bank comprises experienced professionals having prior experience in their respective areas. Relative stability has been witnessed at the senior management level; except at the CFO position – a critical control position requiring stability.

Management Committees

Seven committees have been established at the management level, namely, Management (Executive) Committee, Assets and Liabilities Committee, Information Technology & Major Projects Committee, Human Resources Committee, Credit Committee, Legal Committee and Risk Committee. All management level committees are chaired by the GM.

Capitalization

Minimum regulatory requirement for paid up capital is SDG 100m, as against which the bank's paid up capital stood at SDG 524m as at end-Sept'15. Total equity of the bank has increased to SDG 1.55b (end-2013: SDG 1.1b) with retention of profits and increase in revaluation estimates on real estate assets. Share capital has increased during the last few years by virtue of bonus share issuances while cash dividends were paid intermittently. Average retention rate has been high at 76% over the last four years (2010-2013).

The minimum capital adequacy ratio is 12% as per regulatory requirements. The bank's CAR stood at 15.75% at end-2014. CAR calculations under Sudanese regulations are based on the standard approach in Basel II. An alpha of 50% is applied to risk weighted assets funded by unrestricted investment accounts in line with the local regulations. The eligible capital for CAR calculation only considers 45% of revaluation reserve and a similar proportion of investment risk reserve. CBoS has directed banks to refrain from classifying current statutory reserves and the retained profits in capital adequacy calculations, incorporating previously approved values only. This has resulted in conservative estimates of capital adequacy. Tier 1 leverage ratio has declined in recent years, standing at 9.8x as of end-Sept'15 (2014: 10.9x, 2013: 11.7x). However, in the context of Sudan with its challenging macroeconomic pressures, capitalization related indicators, suggest room for improvement.

Table 9: Capital Adequacy Ratio

	2014	2013	2012	2011
Capital Adequacy Ratio	15.75%	14.0%	19.0%	17.65%

CORPORATE GOVERNANCE:

The CBoS through its circular 18/2009 has put forward a baseline for the banks in drafting the necessary framework for corporate governance, comprising matters relating to overall corporate governance environment and including guidance on administrative and organizational structure, internal control & audit functions, nomination and Terms of Reference (TORs) of board members, composition and terms of board committees, specifically Audit Committee, Shari'a board constitution and appointment, and administration of General Assemblies. While BoK complies with all the guidelines of CBoS circular, it has also consciously made efforts to incorporate various best practices as applicable internationally in the banking sector.

Board of Directors

Composition of the BOD:

As of end-2014, the board comprised a total of eleven directors with four representatives of DIB as the parent bank, an individual shareholder Mr. Fadl Mohammed Khair, three representatives of institutional and minority shareholders, two experts nominated by CBoS (as proposed by the bank's BOD to the CBoS) and the General Manager (as allowed under the Sudanese code).

Board composition depicts healthy diversification, with the representation of minority shareholders and independent experts combined outweighing the representation of majority shareholders, which may be expected to effectively enable investor protection.

Members of the board collectively represent a mix of skills and experience, garnered over years of service, internationally and locally, at top management level, in the fields of banking, finance, accounting, economics, engineering and industry. It equips the board with necessary effectiveness toperform its oversight functions and guide the management in achieving strategic targets.

Attendance, Frequency and Remuneration of Board Meetings

The board met 4 times during 2014, meeting in each quarter. The average attendance was 7 members per meeting. Other than 2 minority representatives and the GM, members maintained at least 50% attendance vis-a-vis a minimum of 75% indicated by best practices. Board attendance records highlight the need for greater involvement of directors. Remuneration of the board members is regulated under the circular of CBOS for both the board and the committees. Board members are remunerated on a month to month basis.

Any member of the board, who is found to be personally interested in any matter that is taken up during the meeting for discussion or decision, is required to be excluded from decision making.

Expenses relating to Board of Directors and Shari'a Board as shown in the Financial Statements are indicated below:

Table 10: BOD & SB Expenses

	2014	2013	2012	2011
In SDG Millions	7.5	8.1	7.5	3.5

(Note: Only Around 1.5% of the above expenses relate to Shari'a Board Members):

disadvantage against the relatively cheaper imported sugar. Impairment in the retail portfolio stands in stark contrast to non-performance in other business segments, with quality indicators being significantly superior. Overall portfolio quality, adjusted for pre-acquisition NPLs was within the CBoS prescribed limit of 6%.

Liquidity and Deposits

With continued supply of fresh liquidity, given steady growth in deposits and a slowdown in financing, there has been significant increase in cash holdings and investments in Shehama securities. Total liquid assets as a percentage of total assets increased to 32.6% as at end-Sept'15 (2014: 31.4%, 2013: 27.5%). However, its ratio over deposits decreased to 39.4% as at end-Sept'14 (2014: 42.5%, 2013: 37.1%), given the extremely rapid volume growth in depositors' investment accounts during the three quarters of the current year and reflective of the bank's mobilization drive witnessed during this period. Total deposits amounted to SDG 7.4b as of end-2014 (end-2013: SDG 6.0b) having increased over the year by 23%, and closely tracking the CAGR of deposits for the past five years. The momentum further accelerated over the three quarters of the current year, as the bank grew at an annualized rate of 34.8%). Deposit composition remains favorable with current accounts representing 41.5% of total deposits as of end-Sept'15 (2014: 40.3%, 2013: 42.3%).

Table 6: Deposit Mix

In SDG millions	3Q '15	2014	2013	2012
Current Accounts	3,872	2,983	2,557	2,057
Cash Margins	341	388	423	353
Equity of unrestricted investment accountholders	5,118	4,029	3,065	2,577
Total Deposits	**9,331**	**7,400**	**6,045**	**4,987**
Bank and CBoS Investments	**729**	**652**	**623**	**451**

Concentration of the largest 20 deposits at 22.6% of the total deposits as of end-2014 is noteworthy, although about half of the deposit base is composed of granular deposits of less than SDG 1m, with nearly 20% of the bank deposits falling in high value "SDG 50m and above" bracket. Overall retail deposits constituted nearly 67% of total deposits, depicting a diversified base and a cost effective deposit structure.

Table 7: Maturity Mismatch Analysis

Buckets	>1 month	1-3 months	3 - 6 months	6 months - 1 year	1-3 years	> 3 years
Assets	2,839,112	621,460	663,752	1,465,941	2,077,513	2,372,015
Liabilities	513,305	1,390,615	1,754,998	4,245,409	645,238-	-
Cumulative Gap	2,325,807	1,556,652	465,406	(2,314,062)	(881,787)	1,490,228

The bank's maturity mismatch analysis shows a significant structural gap in the short-term, although high available liquidity on books mitigates concerns. The bank has developed internal control processes and contingent plans for managing liquidity risk, and ALCO reviews liquidity on a regular basis.

Liquidity access from the capital markets, generally helpful in managing maturity mismatches, is underdeveloped. The treasury department has been assigned the task to formulate a mechanism for securitization of the bank's financing portfolio into securities issuable in the market. The department is also in the process of developing a mechanism for securitizing a working capital pool to generate further liquidity for the bank.

Profitability

The bank has exhibited considerable growth in net earnings on a timeline basis with profits of SDG 197m during the three quarters ending Sept'15. The improvement is noteworthy as a trend (2014: SDG 238m, 2013: SGD 152m), and is attributable mainly to considerable growth in top-line revenues. This was an outcome of both continued volume expansion and higher average return on performing financing book, translating into wider spreads(end-Sept'15: 12.0%, 2014: 11.8%, 2013: 9.3%). With higher proportion of URIA in the deposit mix, the average cost of deposits has increased to 3.5% (2014: 3.1%, 2013: 2.7%) during 2015, and is reflective of the increasing trend in market rates. However, spreads continued to widen to 8.5% for the period ending Sept'15 (2014: 8.4%, 2013: 6.5%), with a consequent impact on earnings and also given the much larger business volumes.

Table 8: Profitability Ratios

	3Q '15 *	2014	2013	2012
Return on Average Equity	17.3%	18.3%	14.2%	21.8%
Return on Average Assets	2.4%	2.6%	2.0%	3.2%
Average Return on return bearing assets	12.0%	11.8%	9.3%	9.5%
Average Cost of depositors	3.5%	3.4%	3.0%	3.4%
Net Spreads	8.5%	8.4%	6.3%	6.1%
Provision % of Incomes from Investment and Financing	6.8%	6.4%	9.8%	10.8%
Banking Services Inc % of Total Income	18.3%	22.8%	38.4%	35.5%
Efficiency Ratio	55.9%	54.4%	58.3%	48.1%

**Profitability ratios (Returns and Costs) have been annualized for 3Q '15*

Income from banking services has registered a decline during 2014 and 2015 and remains constrained. Ancillary revenue from banking services represents an area of improvement given its falling contribution to revenues. The management expects growth in overall trade business, and remittances, with resultant increase in the related income, going forward. The bank plans to establish a separate investment banking function in order to capture capital market transactions, IPOs, structured financings and investment advisory business in Sudan, with the objective of diversifying income streams.

Provision charges against non-performing loans remained at a level similar to the last two years at SDG 45m for the year 2014. General and administration costs were notably higher, in line with increase in branch network. Efficiency ratio has in general improved on the back of higher core income. The components for Zakah calculation changed slightly in 2014 as it now takes into account income on Shehama securities held by the bank, which previously stood exempted.

ROAA and ROAE indicators have also marked a significant increase over time to 2.6% and 18.3% during 2014 (2013: 2.0% and 14.2% respectively), before dipping slightly to 2.4% and 17.3% respectively for the three quarters of the ongoing year. Given that the bank experienced sharp business growth during this period, a more meaningful improvement may become apparent in later periods, potentially rehabilitating return indicators. In nominal terms, we expect the bank's return indicators to remain strong in 2015 and 2016.

represents an additional investment in 2014, the remaining increase is attributed to revaluation of assets. Acquired as settlement against a non-performing account, this investment represents 7.3% of the balance sheet footing and nearly 50% of equity, and coupled with the financing exposure on the same counterparty, accounts for 85.5% of equity. The mall is functional, although hotel and office space are yet to be fully operational. While the bank has made gains on this investment, given a weakening Sudanese pound and inflation, risks faced on the investment include lack of real returns and future salability. As of end-Sept'15, investments in real estate amounted to SDG 738m.

Increase in equity investments is attributable to conversion of SDG 33m worth of financing to another significant counterparty, taking total equity investment in the company to SDG 159m, and making up around 5% of the company's equity. These equities represented 6% of the bank's total investment portfolio.

The bank also has exposures through Musharaka and Mudaraba modes of finance reflected in the investments portfolio, which on a cumulative basis, declined to SDG 390m (end-2013: SDG 413m), representing 3.9% of total assets.

Financing

The bank witnessed a decline in growth of gross financing, to 17% in year 2014 (2013: 20%, 2012: 41%), which is in line with the overall industry's slowdown in terms of financing activities. However, financings grew about 25.5% over the next three quarters of the 2015 (Annualized growth rate of 34%), compensating for its slow growth during 2014.

While BoK is a pioneer in retail banking, its portfolio largely comprises corporate financing. Microfinance segment of the bank has been transferred to its subsidiary IRADA Microfinance Co. Ltd. The loan book of IRADA has crossed SDG 100m by end-2014, amounting to under 2% of the consolidated BOK portfolio. The management envisages agriculture as the primary sector for growth in microfinance portfolio in future. The bank also expects to fulfill the CBoS guideline of developing a microfinance portfolio of at least 12% of the consolidated portfolio in forthcoming periods.

Corporate Banking

With over 75% financing portfolio pertaining to corporate exposures, the bank's approach to financing remained conservative during 2014 with focus on maintaining customer relations. There is significant concentration in the real estate and construction sector, followed mainly by the sugar industry – an inherently cyclical industry, and a key crop in Sudan. The bank is leading the market in financing of some of the key commodity exports.

The management plans to expand its footprint in agriculture, with special emphasis on export oriented commodities such as Alfalfa (a high yielding fodder crop). At the same time, the bank remains focused on industrial lending and government led infrastructure, technology and power projects. Financings to government led projects are fully guaranteed by the CBoS. Financings related to other key agricultural commodities are also expected to receive impetus from the government's policy direction to promote investment in the agriculture sector of the country. The management foresees a possible government led rehabilitation of cotton/textile industry. This is expected to attract foreign investment, leading to financing opportunities.

The bank has also made efforts towards expanding its ancillary services to the corporate clients. BoK exclusively offers corporate internet banking solution, which has built-in trade finance functionalities. The bank has offered its customers a prepaid fuel card, which was initiated in 2014 and is the largest facilitator in

to open branches in free zones, pursuant to which a branch was opened in Garri during 2014 and another is expected to be opened in Port of Sudan during 2015. The bank has set up corporate counters in various branches fully dedicated to the corporate clientele.

Retail Financing

BOK is considered a pioneer of retail banking in Sudan, and has on an average introduced at least one new product annually since 2006. The portfolio consists of a large number of retail clients, around 600,000 in number, with an average loan size of less than SDG 7,500, generally comprising consumer durables financing.

The retail portfolio has traditionally comprised home and auto loans. Since the implementation of moratorium on the same during 2014, BOK has witnessed a decline in the overall growth rate of retail financing. With the said moratorium, the retail department shifted its focus from lending to deposit mobilization; focusing on the largely unbanked deposits. Also, the retail department has been active in developing banking relationships with small and medium enterprises.

Credit Risk and Asset Quailty

Top 20 corporate exposures (funded and non-funded) constituted 49% of gross exposures as of end-Dec'14 (end-Jun'14: 52%; end-Dec'12: 60%). As such concentration is high and recent partial non-performance in some of the bank's largest counterparties, highlights the risk inherent in exposures which are significant in relation to the bank's loss absorption capacity. Non-funded exposures comprise around 25% of the total combined exposures.

BOK's largest financing exposure has been taken in Wahat Al-Khartoum, against which the bank also has an equity exposure. Another significant exposure mostly unfunded in nature stood against a large local group having a major stake in food and agricultural sector. This exposure stood around SDG 463m at end-2014, which is about 5% of the total assets and 31% of the bank's equity.

Exposure to an unlisted corporate in the sugar sector is also significant. Despite being the second largest sugar producing corporation in Sudan, the exposure has been affected by financial and operational issues causing delay in repayments. The bank has converted a portion of its financing into equity. Although not classified, the exposure may be considered high risk, particularly in the context of its quantum.

<table>
<tr><th colspan="5">Table 5: NPL Ratios</th></tr>
<tr><th></th><th colspan="2">Gross Infection %</th><th colspan="2">Adjusted for Pre Acq NPL</th></tr>
<tr><th>Segment</th><th>2014</th><th>2013</th><th>2014</th><th>2013</th></tr>
<tr><td>Consumer</td><td>0.8%</td><td>0.5%</td><td>0.8%</td><td>0.5%</td></tr>
<tr><td>Corporate (funded & unfunded)</td><td>2.7%</td><td rowspan="2">7.4%</td><td>2.7%</td><td rowspan="2">4.2%</td></tr>
<tr><td>Other business (Remedial)</td><td>98.5%</td><td>51.8%</td></tr>
<tr><td>Micro Finance</td><td>5.6%</td><td>4.5%</td><td>5.6%</td><td>4.5%</td></tr>
<tr><td>Total</td><td>7.5%</td><td>6.4%</td><td>5.2%</td><td>3.7%</td></tr>
</table>

Nonperforming loans of the bank increased by SDG 150m (28%) to SDG 691m as of end-2014 (FY13: SDG 542m), posting a gross impairment ratio of 7.5% (FY13: 6.4%). About 40% (SDG 227m) of non-performing loans comprise legacy accounts classified in the period prior to DIB's acquisition in 2005, with the remaining having become impaired subsequently. SDG 320m worth of deposits have been placed by the CBoS to compensate for the pre acquisition nonperforming loans. Post acquisition gross impairment stood at 5.1% as at end-2014 (FY13: 3.7%), while provision coverage against these, stood at 64%. Impairment in the corporate portfolio is also contributed by financing to the sugar industry. Local sugar companies were deeply affected by the regulatory change that allowed imports of refined sugar to be tax free. This has put local producers at a cost employment (80% of total employment). Gold has been critical in sustaining growth as it accounted for 30% of Sudan's exports. Efforts are being made to double this output as government has so far issued 200 gold exploration licenses to 73 different companies post South Sudan secession.

The currency was officially depreciated during 2012 in an attempt to eliminate the gap between the official and black market exchange rate. The exchange rate has fallen further to 5.85 SDG/USD as of end-2014 and depreciation pressures persist. Sudanese economy has suffered much from the existence of a strong parallel market for foreign exchange due to distortion in the relative pricing for imports and exports, and diversion of private transactions, particularly remittances from the official channel, accounting between 20-25% of the total exchange transactions.

Sudan is exposed to unsustainably large external debt overhang, the correction of which, alongside macroeconomic adjustments, requires normalization of relations with external creditors, which includes IMF, multilateral institutions, and bilateral creditors.

Sudan's economy is heavily dependent on foreign investments, as it plans on introducing eight investment free zones in the country. Chinese trading partners have invested in the oil industry and infrastructure such as pipelines, refineries and oil terminals for transporting crude oil. Saudi Arabia has also developed a sizeable trade portfolio with Sudan, exporting plastics, petroleum, and agricultural products while importing livestock, and has lately invested more than USD 13 billion in Sudanese agriculture, food, and mining products.

Banking Sector Overview:

Sudan's financial system remains dominated by the banking sector which accounts for about 90% of the total financial assets in the Sudanese economy. The remaining comprises insurance companies, the Khartoum Stock Exchange (KSE) and microfinance institutions. As of end-2013, the total banking industry comprised 37 banks: 5 fully foreign-owned, 11 private joint ventures, 7 state-owned, 3 specialized banks with the remaining being fully owned by private domestic investors. The banking industry is dominated by the state owned banks with the top four of them accounting for 50% of the economy's financial assets.

Indicators for banking sector growth showed significant improvement over the average CAGR for the period 2009 – 2013 as total assets grew by 19.1% (CAGR 16.1%), financings by 17.3% (CAGR 15.9%) and deposits by 21% (CAGR 15.7%)in 2014. There is significant growth potential, given the size of unbanked population in Sudan. In terms of financing, the banking sector looks forward to tap in the infrastructure, technology, and export sector, as well as micro financing. Average CAR for the sector stood at 14.9% as of end-2013 against regulatory requirement of 12%. Impairment as of end-September '14 stood lower at 10.4% compared to 14.4% as of end-2010.

However, central bank announced decline in the banking sector profits for 2015, while stressing on the need to follow up on distressed loans and new measures to monitor blacklisted clients. Enhancements in the credit registry system introduced during 2013 are expected to improve the overall monitoring of credit risk. Recent CBoS regulations have increased emphasis on the overall anti money laundering and combating terrorist financing in the overall banking governance and control framework.

FINANCIAL ANALYSIS:

Asset Mix

BOK was able to sustain its growth trend in 2014 with an increase of 23% in total assets, which also represents the compound annual growth rate (CAGR) over the past five years. A further 21.3% asset growth was posted during the three quarters of the ongoing year (Annualized growth rate of 28.4%). Net financings gained proportion over total assets to 47% of the total assets, having declined to 45% by the end of 2014. Excess liquidity is reflected in significantly increased cash equivalents and net investments, attributable in part to increasing returns on government securities.

On an average, about one third of cash represents mandatory cash reserve with the Central Bank. Also, with the expansion in the overall banking network, general cash holdings at branches and ATMs have posted commensurate increase during 2014.

Table 4: Asset Mix

In SDG Millions	3Q '15	%	2014	%	2013	%	2012	%	CAGR 2009-14
Cash and Cash Equivalent	2,136	17	2,012	20	1,402	17	930	14	35%
Net Investments	3,181	26	2,484	25	2,001	25	1,244	18	23%
Net Financings	5,672	47	4,519	45	3,861	47	3,235	48	25%
Others	1,189	10	1,025	10	867	11	1,393	20	5%
Total Assets	12,178		10,040		8,132		6,802		23%

Investments

As the bank's liquidity generating ability exceeded deployment opportunities, investments increased by SDG 483m (24%) to SDG 2.48b as at December 2014 and further to SDG 3.18b as of end-Sept'15, primarily reflected in increased holding of government securities. Increase in investment in 2014 was also on account of placement of funds in a newly established liquidity management fund. Net investments in 2014 also showcased an increase in the fair value of real estate holdings.

While the bank's investment in Shehama securities (short term musharaka certificates) stood higher at SDG 839m as at end-2014 (end-2013: SDG 678m), the same has nearly doubled over the three quarters ending September 2015 to SDG 1.56b. The increase in shehama accounted for one third of the increase in total assets over this period. These securities are issued by Government of Sudan, and are traded at Khartoum Stock Exchange. Shehama investment comprises a considerable proportion i.e., 34% of the bank's net investments. Going forward, BOK's strategy entails passive stance on investment in Shehama instruments. The returns remain tax free (Zakah has been implemented on such investments from the ongoing year), and the bank has registered an average of 12% – 15% return on the investment.

The bank became a leading liquidity contributor to Liquidity Management Fund, established in 2014; total investment amounted SDG 97m as of end-Sept'15. This has been instituted as part of CBoS's strategy to develop a comprehensive mechanism for liquidity management amongst banks through collaborative redistribution of liquidity surpluses to support banks with liquidity shortages.

BOK's investment in real estate increased by SDG 198m (37%) to SDG 732m as of end-2014, representing the bank's investment in subsidiary Wahat Al-Khartoum Urban Development Co. Ltd. It operates and manages Waha Tower, comprising a shopping mall, hotel and commercial offices. While SDG 50.5m of the increase

RATING RATIONAL:

Challenging Macroeconomic and Regulatory Environment

Sudanese banks remain influenced by the financial and economic challenges facing the country. The government has enforced austerity measures to control inflation, alongside a moratorium on mortgages and motor vehicles, which has led to tightening of credit supply to the private sector. Persistently high inflation has dampened real returns.

Strong Retail Market Penetration and Funding Access

BoK operates as the largest banking franchise in terms of deposits and financings, making up 13.8% and 8.5% of the Sudanese banking industry respectively, alongside commanding the largest banking network in Sudan. Deposit base is diversified with nearly 67% comprising retail deposits as at end-2014.

High Liquidity Reserves

Continued supply of fresh liquidity is reflected in a significant increase in cash equivalents and investments, including Shehama securities and placements with a newly set up liquidity fund. Liquid assets as a percentage of total assets have gradually increased, being 32.6% as of end-Sept'15.

Credit Risk and Asset Quality Indicators

Impairment indicators trended upwards, as bank's post acquisition gross impairment ratio increased from 3.7% to 5.1%. Non-performance appeared in financing lines extended to some of the bank's largest counterparties over the period, and highlights the risks of concentration in the business portfolio.

Moderate Capitalization and adequate Profitability Indicators

Capitalization levels are considered moderate, with CAR standing at 15.75%, and above the minimum requirement of 12%. The previously declining trend in capitalization may resume, if additional provisioning requirements dampen profitability or sharper growth in risk assets is observed.

While profitability indicators depict ongoing improvement, real returns are affected by the significant depreciation of the Sudanese pound.

Adequate Governance Practices

Overall Corporate and Shari'a governance in place at the bank is considered adequate, supporting effective oversight of the bank's management. Board of Directors composition comprises an adequate representation of minority shareholders and experts from the Central bank of Sudan (CBoS). Shari'a governance practices are reinforced by the centralized Higher Shari'a Supervisory Board, serving as an additional layer governing Shari'a practices at the bank level.

SUDAN ECONOMIC AND BANKING SECTOR OVERVIEW:

Sudan's economy has suffered from political turmoil, internally, regionally as well as internationally, being subject to long standing US sanctions, and turbulence at the border with South Sudan, in Southern Kordofan, Darfur, and the Blue Nile states. Secession of oil-rich South Sudan in 2011 resulted in loss of nearly three fourth of oil production, reducing its fiscal revenues by half and international payments capacity by two third.

Table 3: Key Economic Indicators

Key Economic Indicators	2012	2013	2014 (est.)	2015 (projected)
GDP Growth Rate, constant prices (%)	-3.5	3.7	3.4	3.3
Gross domestic product, current prices (in SDG Billions)	224.0	316.2	423.5	516.1
Gross domestic product, current prices (in USD Billions)	62.7	66.5	73.8	76.2
Inflation, end of period consumer prices (% Change)	44.4	41.9	25.7	12.4
Unemployment rate (% of total labor force)	14.8	14.8	13.6	13.3
Population (in Millions)	35.1	36.2	37.3	38.4
General government revenue (% of GDP)	9.9	10.9	11.7	10.8
General government total expenditure	94.7	90.5	74.2	78.5
Current account balance (in USD Billions)	-5.8	-5.8	-3.8	-3.2
Current account balance (% of GDP)	-9.3	-8.6	-5.2	-4.2
Volume of imports of goods and services (% Change)	4.3	7.9	-9.6	4.5
Volume of exports of goods and services (% Change)	-57.2	12.1	13.1	19.9
Exchange Rate (SDG per USD)	3.6	4.8	5.8	6.4
FDI - Net inflows (in USD Millions)	570	690	480	-
Interest Rates (Averages)	11.1%	11.5%	12.5%	-

Sources include IMF World Economic Outlook Database April 2015, CIA World Fact-book and Trading Economics

Economic performance in 2014 has been a case of mixed elements. While the growth rate was relatively low and inflation relatively high, the budget deficit narrowed further on account of improved revenue collection and tighter control over expenditures. Lack of infrastructure (especially transportation system), external debt overhang, currency devaluation and inflation are key challenges facing Sudan. Macroeconomic adjustments involve austerity measures to reduce expenditures, tax exemptions and phased reduction in subsidies. The central bank has capped government financing and withdrew from acquiring GMC securities in the primary market, to ease inflationary pressures. The economy is also set to make the most out of reduced oil and wheat prices, being two major imports.

Presently, economic growth in Sudan is driven primarily by agriculture, gold and oil transit fees, as Sudan focuses on developing non-oil revenue sources, with growth target of about 4.7 percent in 2019.Agriculture remains the leading sector in the Sudanese economy, both in terms of economic activity (42% of GDP) and

CORPORATE PROFILE:

Established in 1913, the Bank of Khartoum (BoK or 'the bank') has seen a series of shifts to its identity and culture, with ownership and management changing hands. BoK was converted into a public limited company on January 1, 2002, and was listed on Khartoum Stock Exchange. In 2005, the Government of Sudan sold its 60% stake in the bank to Dubai Islamic Bank P.J.S.C. (DIB). The bank, thereafter, witnessed organization-wide restructuring with a comprehensive change in the senior management team and centralization of risk and internal control systems, along with improved accountability and governance framework.

Subsequently in 2008, the bank underwent a merger with Emirates and Sudan Bank. While diluted, the controlling sponsorship is still held by DIB, followed by a sizeable stake of Mr. Fadl Mohamed Khair. Prominent financial institutions, namely, Islamic Development Bank, Abu Dhabi Islamic Bank (AIB) and Sharjah Islamic Bank (SIB) also have notable stake in the bank. Other minor corporate shareholders include Al Nahyan and Al Maktoom, Etisalat Emirates, RAK Gas and Arab Investment Company. Shareholding as at end 2014 is as follows:

Table 1: Shareholding Pattern	
Title / Name of the Shareholder	Percentage of Shareholding
Dubai Islamic Bank	28.4%
Mr. Fadl Mohamed Khair	20.3%
Islamic Development Bank	4.4%
Abu Dhabi Islamic Bank	3.2%
Mr. Salah bin Rashid bin Abdulrahman (Al Rashid Group)	2.5%
Sharjah Islamic Bank	2.2%
Others	39%

Currently, there are 37 commercial banks operating in Sudan. BoK has a considerable market share of 10.9% of total assets, 8.5% of net financing and 13.8% of total deposits as of end-2014. BoK has the largest branch network in Sudan, comprising a total of 78 branches, including 55 main branches. Reflecting the bank's growth ambitions, plans are afoot to considerably enhance outreach. The overall network is targeted to increase to 90 by end-2015. The bank has installed 178 Automated Teller Machines (ATMs) with nearly half also serving as Cash Deposit Machines (CDMs). The management intends to increase the number of ATMs to 200 by end 2015. The bank has a 24/7 call centre dedicated to customer services.

BoK has also cultivated a correspondent banking network, superior to peers in Sudan. While BoK presently enjoys a large share of remittances by Sudanese abroad, the bank plans to set up branches to extend full banking services to cater to the large expatriate community in foreign locations. The Central Bank of Bahrain has recently awarded the bank permission to open a Bahrain based branch. This will facilitate the bank's trade transactions and give it an international presence. BoK has been awarded the Best Retail Bank and Best Microfinance Bank in East Africa in 2014.

Over the years, BoK has significantly expanded its service offering with innovative solutions, often deemed the first of their kind in Sudan. The bank has developed an innovative model for Shari'a compliant microfinance and cultivated a sustainable portfolio, which has been transferred to its recently set up subsidiary - IRADA - during 2014. The other key stakeholder in the subsidiary is Islamic Development Bank (IDB) with 20% equity.

Another such innovation is a mobile money service launched in 2014 as Hassa, the first such service in Sudan in collaboration with a leading telecom partner (Zain). The service would allow any registered mobile subscriber in Sudan to conduct a wide range of financial transactions by using their mobile phone or through designated Hassa Shops, to deposit or, withdraw cash, send and receive money, pay utility bills, and purchase mobile airtime, without needing a bank account. Though initially allowed, Hassa was later suspended by the Central Bank of Sudan, due to lack of regulatory structure or precedence to regulate such a service.

Parent Bank Profile

Established in 1975 as the first modern Islamic commercial bank in the world, Dubai Islamic Bank has emerged as the largest Islamic and the fifth largest bank by total assets, operating in United Arab Emirates. Through its subsidiaries and affiliates, DIB has a presence in Pakistan, Jordan, Indonesia, Sudan and Europe. The consolidated balance sheet footing of DIB stood at AED 124b as at end-2014 (9% increase YOY) with core financing and investments increasing substantially around 30%. It posted a net profit of AED 2.8b (71% increase YOY) in 2014.

Subsidiaries

BOK has seven subsidiaries diversified into different sectors including stock brokerage, foreign exchange, retail, trading, microfinance and real estate. The brokerage house commands nearly 17% of market share. Irada Microfinance Company Limited and Alfahad Valuable Assets in Transit Co. Ltd. were added to the list during 2014.

Table 2: Subsidiaries		
Name	Business	Holding
SudaCash Company	Foreign Exchange Company	100%
A to Z Installment Sales Company	Operating within the retailing sector focusing on home improvement	100%
National Trading and Services Co. Ltd.	Trading, export and marketing services across several sectors and countries	100%
Sanabil Financial Securities Co.	Stock brokerage arm of the Bank	100%
Wahat AlKhartoum	Manages Waha Tower	60%
Irada Microfinance Co. Ltd	Microfinance	80%
AlFahed United Co. Ltd.	Transfer of valuable assets across Sudan	50%

Subsequent to year-end, BoK acquired a strategic stake of 20% in a local Islamic insurance firm, diversifying its business lines.

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

FIDUCIARY RATING REPORT

Bank of Khartoum

Report Date:
December 09, 2015

Analysts:
Maimoon Rasheed
Syed Huzaifah Musharraf, ACA

Credit Rating

	Latest Ratings (December 09, 2015)	Previous Ratings (March 05, 2015)
National Scale (LT/ST)	AA-(sd)/A1(sd)	AA-(sd)/A1(sd)
Rating Outlook	Stable	Stable

Fiduciary Score

	Latest	Previous
Total 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 indicates that rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

Company Information

- Incorporated in **1913**
- **Listed** on Khartoum Stock Exchange
- Key Shareholders:
  - **Dubai Islamic Bank- 28.4%**
  - **Mr. Fadl Mohamed Khair- 20.3%**
  - **The Islamic Development Bank- 4.4%**
  - **Abu Dhabi Islamic Bank- 3.2%**
  - **Mr. Salah bin Rashid bin Abdulrahman- 2.5%**
  - **Sharjah Islamic Bank- 2.2%**
- External auditors (2014): **Hassabo & Co**
- Chairman of the Board:
  Mr. Mohamed Saeed Ahmed Abdulla Alsharif
- Chief Executive Officer: **Mr. Fadi Salim Subhi Alfaqih**