

**Blue Nile Mashreg Bank**  
**Financial Statement for the year**  
**Ended 31 December 2010 and Auditor's Report**

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## Independent Auditor's Report

To: The Shareholders of Blue Nile Mashreg Bank

### Report on the Financial Statement

We have audited the financial statements of Blue Nile Mashreg Bank ("the Bank"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Shari'a a Rules and Principles as determined by the Shari'a a Board of the BNMB and the accounting standard of AAOIFI and comply with the Companies' Ordinance 1925, the Banking Regulation Act 2003 and other relevant regulatory laws.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Generally Accepted Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

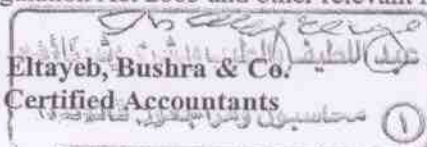
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In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

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

#### *Audit Opinion*

In our opinion, the financial statements reffer to above present fairly, in all material respects, the financial position of the bank as at 31 December 2010 , and its financial performance and its cash flows for the year then ended in accordance with the Shari'a a Rules and Principles as determined by the Shari'a a Board of the BNMB and the accounting standard of AAOIFI and comply with the Companies' Ordinance 1925, the Banking Regulation Act 2003 and other relevant regulatory laws.

Abdellatif, Eltayeb, Bushra & Co.  
Chartered Certified Accountants



Khartoum 12, June 2011

**Blue Nile Mashreg Bank**  
**Balance sheet as at 31 December 2010**

	<u>Note</u> <u>No.</u>	<u>31\12\2010</u> <u>S.D.G</u>	<u>31\12\2009</u> <u>S.D.G</u>
<b><u>Assets:-</u></b>			
Cash & Cash equivalents	(5)	312,215,399	249,280,253
Sales receivable	(6)	10,571,853	10,089,028
Investment	(7)	338,550,822	245,613,777
Long term investment	(8)	401,927	401,927
Other assets	(9)	15,730,855	13,164,512
Capitalized expenditure	(10)	3,402,197	3,115,537
Fixed assets (net book value)	(11)	47,555,476	14,198,681
Building under construction		-	<u>16,307,082</u>
<b>Total Assets</b>		<b><u>728,428,529</u></b>	<b><u>552,170,797</u></b>
<b><u>Liabilities, Unrestricted investment accounts</u></b>			
<b><u>And Equity:-</u></b>			
<b><u>Liabilities :-</u></b>			
Current Accounts and Saving accounts	(12)	406,103,771	316,920,728
Payables	(13)	71,424,054	50,617,606
Proposed dividends		-	80,621
Other liabilities	(14)	18,273,487	12,434,398
<b>Total liabilities</b>		<b><u>495,801,312</u></b>	<b><u>380,053,353</u></b>
Unrestricted investment accounts		<u>38,436,283</u>	<u>40,248,586</u>
<b>Total liabilities &amp; Unrestricted investment accounts</b>		<b><u>534,237,595</u></b>	<b><u>420,301,939</u></b>
<b><u>Equity</u></b>			
Paid – up capital	(15)	112,199,974	74,869,312
Statutory reserve		20,004,754	21,220,393
Retained earnings	(16)	61,986,206	35,779,153
<b>Total equity</b>		<b><u>194,190,934</u></b>	<b><u>131,868,858</u></b>
<b>Total liabilities &amp; Unrestricted investment accounts and equity</b>		<b><u>728,428,529</u></b>	<b><u>552,170,797</u></b>
<b><u>Contra accounts :-</u></b>			
Letters of credit		88,189,223	80,622,424
Letters of guarantee		6,492,633	4,097,754
Others	(17)	2,958	13,498
<b>Total Contra Accounts</b>		<b><u>94,684,814</u></b>	<b><u>84,733,676</u></b>

The notes set out on pages (5) to (17) form an integral part of these financial statements.

Chairman.....

Auditor's Report "attached"



General Manager.....



**Blue Nile Mashreg Bank**

**Income statement for the year ended 31 December 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
	<u>No.</u>	<u>S.D.G</u>	<u>S.D.G</u>
<b><u>Income :-</u></b>			
Deferred sales		2,977,055	2,226,903
Investment securities	(18)	11,251,967	11,311,037
Other investment	(19)	<u>18,496,881</u>	<u>12,097,204</u>
		<u><b>32,725,903</b></u>	<u><b>25,635,144</b></u>
<b><u>Less</u></b>			
Return on unrestricted investment accounts		<u>(403,148)</u>	<u>(1,421,199)</u>
Bank s' share in income from investment (as Mudarib and as fund owner)		32,322,755	24,213,945
<b><u>Add</u></b>			
Revenue from banking services	(20)	85,348,248	47,017,434
Other revenues	(21)	<u>4,151,152</u>	<u>2,272,864</u>
Total income		<u><b>121,822,155</b></u>	<u><b>73,504,243</b></u>
<b><u>Less:-</u></b>			
Staff cost	(22)	9,679,007	6,218,671
Administrative & general expenses	(23)	16,154,455	8,817,752
Depreciation		810,084	918,055
Amortization		<u>565,202</u>	<u>578,929</u>
Net income (loss) before tax & zakat		<u><b>94,613,407</b></u>	<u><b>56,970,836</b></u>
<b><u>Less:-</u></b>			
Provision for zakat		2,466,085	2,842,741
Provision for business profit tax		<u>12,131,259</u>	<u>6,422,558</u>
Net income (loss) after tax & zakat		<u><b>80,016,063</b></u>	<u><b>47,705,537</b></u>
<b><u>Less:-</u></b>			
Statutory reserve		<u>20,004,754</u>	<u>11,926,384</u>
Net income		<u><b>60,011,309</b></u>	<u><b>35,779,153</b></u>

The notes set out on pages (5) to (17) form an integral part of these financial statements.

Chairman.....



General Manager.....

**Blue Nile Mashreg Bank**  
**Statement of changes in equity**  
**for the year ended 31 December 2010**

Description	Paid up Capital	Statutory Reserve	Retained Earnings	Total
Balance as at 1\1\2009	55,261,778	9,762,729	29,288,186	94,312,693
Net income	-	-	47,705,537	47,705,537
Transfer to paid up capital	19,607,534	-	(19,607,534)	-
Transfer to statutory reserve	-	21,220,393	(21,220,393)	-
Distributed profit	-	-	(8,274,490)	(8,274,490)
Dispute tax adjustment	-	-	(1,874,882)	(1,874,882)
Statutory reserve adjustment	-	(9,762,729)	9,762,729	-
<b>Balance as at 31\12\2009</b>	<b><u>74,869,312</u></b>	<b><u>21,220,393</u></b>	<b><u>35,779,153</u></b>	<b><u>131,868,858</u></b>

Description	Paid up Capital	Statutory Reserve	Retained Earnings	Total
Balance as at 1\1\2010	74,869,312	21,220,393	35,779,153	131,868,858
Adjustments	-	-	(77,708)	(77,708)
Distributed profit	-	-	(17,616,279)	(17,616,279)
Net income	-	-	80,016,063	80,016,063
Transfer to statutory reserve	-	20,004,754	(20,004,754)	-
Transfer to paid up capital	37,330,662	(21,220,393)	(16,110,269)	-
<b>Balance as at 31\12\2010</b>	<b><u>112,199,974</u></b>	<b><u>20,004,754</u></b>	<b><u>61,986,206</u></b>	<b><u>194,190,934</u></b>

The notes set out on pages (5) to (17) form an integral part of these financial statements.

Chairman.....



General Manager.....

**Blue Nile Mashreg Bank**  
**Cash flows statement for the year ended 31 December 2010**

	<u>2010</u>	<u>2009</u>
	<u>S.D.G</u>	<u>S.D.G</u>
<b><u>Cash flows from operations:-</u></b>		
Net income before tax & zakat	94,613,407	56,970,836
<b><u>Adjustments to reconcile net income</u></b>		
Net cash provided by operating activities:-		
Depreciation	810,084	918,055
Amortization	565,202	-
Provision for zakat	2,466,085	2,842,741
Provision for tax	12,131,259	6,422,558
Tax paid	(11,609,211)	(8,982,378)
Return on unrestricted investment accounts	403,148	1,421,199
Gain on sale of fixed assets	328,201	178,616
Depreciation of leased assets	(251,925)	(88,854)
Add capitalization	(851,862)	-
Purchase of fixed assets	(17,936,073)	(11,641,752)
<b>Net cash flows provided by operations</b>	<b><u>80,710,778</u></b>	<b><u>48,041,021</u></b>
<b><u>Cash flows from investing activities:-</u></b>		
Increase in investment	(92,937,045)	(60,174,682)
Net decrease in sales receivable	(482,825)	20,635,503
<b>Net cash flows from (used in) investing activities</b>	<b><u>(93,419,870)</u></b>	<b><u>(39,539,179)</u></b>
<b><u>Cash flows from financing activities:-</u></b>		
Net (increase) in unrestricted investment	(2,215,451)	(26,575,684)
Net decrease in current accounts	89,183,043	116,403,890
Dividend paid	(19,832,705)	(10,089,038)
Legal reserve	(1,215,639)	11,926,384
Increase in credit balances	12,291,333	10,953,543
Decrease in other assets	(2,566,343)	537,543
<b>Net cash flows provided by financing activities</b>	<b><u>75,644,238</u></b>	<b><u>103,156,638</u></b>
Increase (decrease) in cash & cash equivalent	62,935,146	111,658,480
Cash and cash equivalents at beginning for the year	249,280,253	137,621,773
Cash and cash equivalents at end for the year	<b><u>312,215,399</u></b>	<b><u>249,280,253</u></b>

The notes set out on pages (5) to (17) form an integral part of these financial statements.



**Blue Nile Mashreg Bank**  
**Notes to the financial statement**  
**for the year ended 31 December 2010**

**1\ General Information**

Blue Nile Mashreg Bank (BNMB) was established in Sudan on Oct.2003 due to the merger of Mashreg Bank Psc Khartoum. Into Blue Nile Mashreg Bank (BNMB) which were established on 1979 and 1983 respectively.

Mashreg Bank Khartoum started with an authorized and fully paid share capital of US\$ 10,000,000 where as Blue Nile Bank started with an authorized share capital of US\$ 20,000,000 of which US \$ 17,114,000 was paid on commencement of business and the remainder during 2002.

BNMB is authorized to undertake all banking operation, according to Bank of Sudan (B.S) approval dated 1.1.2003, in compliance with B.S regulation, laws and instructions.

**2\ Basis of preparation**

**2-1 Statement of compliance :**

The financial statements are prepared in accordance with the Shari'a a Rules and Principles as determined by the Shari'a a Board of the BNMB and the accounting standard of AAOIFI and comply with the Companies' Ordinance 1925, the Banking Regulation Act 2003 and other relevant regulatory laws.

**2-2 Basis of measurement :**

These financial statement have been prepared under the historical cost basis

**2-3 functional and presentation currency:**

The financial statements are presented in the functional currency. Sudanese Pounds

**2-4 Use of estimates and judgments**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.



**Blue Nile Mashreg Bank**

**Notes to the financial statement for the year ended 31 December 2010**

**3\ Accounting Policies:-**

**3-1 ) Translation of Foreign currencies**

Transactions in foreign currencies during the year are translated at rates ruling at the transaction dates. Monetary Assets and liabilities at the balance sheet date that are in foreign currencies are translated into Sudanese Pounds at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement.

**3-2 Revenue recognition**

Income from Islamic modes of finance is recognition when actually received except ebara income which is recognized on accrual basis .Income from other banking operation & other income are recognized when accrued .

**3-3 Cash and cash equivalent**

For the purpose of the cash flows statement cash equivalent include cash balance, cash with Bank of Sudan and current account with other banks.

**3-4 Fixed Asset**

Fixed asset are valued at cost less accumulated depreciation . Routine reparaie and maintenanc are accounted for as expenses when incurred.

Depreciation of fixed assets is calculated on the basis of the straight –line method applying rates ranging between 25%-30%.

Addition Irrespective of he date of acquisition.

**3-5 Investments**

Investment carried at fair value through profit or loss.

Investments carried at fair value through profit or loss are acquired or incurred principally for the purpose of selling or repurchasing in the near term or is designated by the group as such, upon initial recognition. Such investment are measured initially at cost, which is the fair value of the consideration given.

After initial recognition, the group shall measure these investment at their fair values, without any deduction for transaction cost it may incur on sale or other disposal.

Unrealized gains and losses arising from a change in the fair value of these investment are recognized in the consolidated income statement. When the investment are sold, collected for otherwise disposed of, the realized gain or loss thereon are recognized in the consolidated income statement.

**Blue Nile Mashreg Bank**

**Notes to the financial statement for the year ended 31 December 2010**

**Available for sale investment**

Available for sale investment are non- derivative investments that are not designated as another category of financial assets.

Investment are initially measured at cost, which the fair value of te consideration, puls directly attributable transaction cost. Gains and losses arising from subsequent changes in fair value are recognized directly in equity, until the security is disposed or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated income statement for the year.

**3-6 Provision for anticipated losses on investment:**

Provision is made after the banks' management examines its receivables according to the guidance of the Bank of Sudan central Bank.

**3-7 investment risk provision:**

Provision for investment risks is made after the banks' management examines each transaction.

**3-8 Deferred, Instalment sales and Murabaha receivable:**

These are recorded at the time of occurrence at their fair value & at their cash equivalent value at the end of the financial period.

**3-9 Zakah & Tax treatment:**

The bank is subject to the Zalal & tax regulations prescribed by Sudanese fiscal regulations.

**3-10 Employees benefits:**

The bank provides for end of service benefits to its employees. Entitled to theses benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of Employment.

**3-11 Shari 'a Supervision:**

The bank's business activities are subject to the supervision of a Shari' a Supervision.

**(4) Financial instruments and risk Management:**

**4-1 Financial instrument**

(A)The Banks financial instruments are represented in the financial assets and liabilities. The financial assets include cash, due from banks, investments and loans to customers, customer's deposits, long term loans, rights and obligations stated under "contingent liabilities and commitments.

The financial statements includes the accounting policies applied to measure and recognize significant financial instruments and related revenues and expenses.

**(B) Fair value financial instrument:**

In accordance with the applied of valuation the bank's assets and liabilities included in the notes of the financial statement, the financial statements' fair value do not substantially differ from their book value at the balance sheet date.

**(c) Forward contract:**

The bank does not carry out forward contracts except to the limit to cover its needs of foreign currencies or customers' need to meet their foreign currencies obligations that may result from their transactions through the bank to meet their liabilities in foreign currencies resulting from their dealings through the bank. All forward contracts are characterized that they are short-time contracts.

**4-2 Risk Management:**

**A-Interest rate risk:**

The value of some financial statements fluctuated due to the fluctuation in interest rates related thereto. The bank adopts some procedures to minimize this risk such as:

- Correlating between interest rates on borrowing and lending.
- Determining interest rates in consideration with the prevailing discount rates on various currencies.



Blue Nile Mashreg Bank

Notes to the financial statement for the year ended 31 December 2010

**B - Credit Risk:**

Loans to customers and banks, investment in bonds, current account balances, deposits due from banks and reights from others are financial assets exposed to credit risk which expressed in the inability of these parties to settle part or all of due amount in due date.

Preparing credit studies about potential customers before dealing with them and determining credit risk rated related thereto.

Obtaining adequate guarantees to reduce the risks resulting from defaulting of customers of bank.

Monitoring and preparing periodic studies on customers in order to evaluate their financial and credit positions and estimate the required provision for non-performing loans.

Distribute the loans portfolio over the various sectors.

**C-Foreign Currencies Risk:**

The nature of Bank's activity requires the bank to deal in many foreign currencies, which exposes the bank to the risk of fluctuation in exchange, rates. To minimize this risk, the Bank monitors balancing of foreign currencies positions according to the central Bank of Sudan instructions in that respect.

