

CAPITAL BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2006

MUBARAK

For Accounting, Auditing & Financial Consultancy
Certified Public Accountants

Independent Firm, Correspondent of
ERNST & YOUNG

مبارك

للمحاسبة والمراجعة والاستشارات المالية
محاسبون قانونيون

مكتب مستقل، مراسلون
إرنست ويونغ

AUDITORS' REPORT TO THE SHAREHOLDERS OF CAPITAL BANK KHARTOUM - SUDAN

We have audited the accompanying statement of financial position of Capital Bank as of December 31, 2006 and the related statement of income, cash flows and changes in equity for the period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital Bank as of December 31, 2006 and the results of its operations and its cash flows for the period then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Board of the Bank and the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions



Mubarak Ali Ibrahim – Partner

March 18, 2007



CAPITAL BANK

STATEMENT OF FINANCIAL POSITION

As at December 31, 2006

	<u>Note</u>	<u>2006</u> <u>SDD 000</u>
Assets		
Cash and balances with banks and financial institutions	3	1,588,817
Investments with banks and financial institutions	4	13,210,963
Investments in securities available for sale	5	1,781,673
Finance to customers and investment portfolios, net	6	1,771,255
Other assets	7	489,218
Fixed assets, net	8	<u>555,421</u>
Total Assets		<u>19,397,347</u>
Liabilities and shareholders' equity		
Liabilities		
Customers' deposits	9	6,964,158
Other liabilities	10	<u>542,580</u>
Total Liabilities		<u>7,506,738</u>
Shareholders' equity		
Issued share capital	11	13,000,000
Receivable from shareholders (unpaid shares)	11 & 23	<u>(943,500)</u>
Paid up capital		12,056,500
Reserves	12	100,923
Accumulated loss		<u>(266,814)</u>
Total Shareholders' equity		<u>11,890,609</u>
Total liabilities and Shareholders' equity		<u>19,397,347</u>

The financial statements were authorized for issue in accordance with a resolution of the directors on March 18, 2007.

Mr. Saad Al Wazzan
Chairman and Managing Director

Mr. Kamal El Zubair
General Manager

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

INCOME STATEMENT

Period ended December 31, 2006

	<u>Note</u>	<u>2006</u> <u>SDD 000</u>
Income		
Income from investments with banks and financial institutions, net	13	604,110
Income from investments in securities	14	124,788
Income from finance to customers		37,650
Income from banking services	15	<u>51,966</u>
		<u>818,514</u>
Expenses		
Staff cost		267,320
General and administrative expenses	16	339,853
Depreciation	8	50,266
Provision for finance losses	6	<u>12,867</u>
Total operating expenses		<u>670,306</u>
Operating Profit		148,208
Exchange loss	17	<u>(262,044)</u>
Net loss before zakat		(113,836)
Provision for zakat		<u>(152,978)</u>
Net loss		<u>(266,814)</u>

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

STATEMENT OF CASH FLOWS

Period ended December 31, 2006

	<u>Note</u>	<u>2006</u> <u>SDD 000</u>
OPERATING ACTIVITIES		
Net loss for the period		(266,814)
Adjustments for:		
Depreciation	8	50,266
Zakat provision	10	152,978
Provision for finance losses	6	12,867
Provision for end of service benefits	10	21,234
Provision for staff bonus	13	32,208
		<u>269,553</u>
Operating cash flows before working capital changes:		<u>2,739</u>
Changes in:		
Statutory cash reserve	3	(619,787)
Cash margin on letters of credit	3	(237,615)
Finance to customers	6	(1,784,122)
Other assets	7	(489,218)
Customer deposits	9	6,964,158
Other liabilities	10	336,160
Cash provided from operations		4,169,576
Net cash from operating activities		<u>4,172,315</u>
INVESTING ACTIVITIES		
Purchase of investments		(1,680,750)
Purchase of fixed assets	8	(605,687)
Net cash used in investing activities		<u>(2,286,437)</u>
FINANCING ACTIVITIES		
Payment of share capital	11	12,056,500
Net cash from financing activities		<u>12,056,500</u>
Increase (Decrease) in cash ad cash equivalents		13,942,378
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at the end of the period	18	<u>13,942,378</u>

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Period ended December 31, 2006

	<u>Capital</u>	<u>Reserves</u>	<u>Accumulated loss</u>	<u>Total</u>
	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>
Payment of Share capital	12,056,500	—	—	12,056,500
Investments fair value reserve	—	100,923	—	100,923
Net loss for the period	<u>—</u>	<u>—</u>	<u>(266,814)</u>	<u>(266,814)</u>
Balance at December 31,2006	<u>12,056,500</u>	<u>100,923</u>	<u>(266,814)</u>	<u>11,890,609</u>

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

1. Incorporation and activities

Capital Bank (the Bank) is a private limited liability company registered and incorporated in the Republic of Sudan on August 8, 2005 under the Companies' Act of 1925 with registration certificate number 25575. The Bank is engaged in providing full range of Islamic banking services to corporate and institutional customers. The bank commenced its banking operations on August 1, 2006. The bank performs all its banking activities in accordance with the Islamic Sharia rules.

The Central Bank of Sudan requires the bank to undertake initial public offering (IPO) within two years from the date of registration.

Capital Bank's registered office is located at Building No. 5, Square 9, Street 25, New Extension, PO Box 8210, Alamarat Area, and Khartoum, Sudan. Fax no. 249-83-587000, web site : www.bankalmal.com

2. Significant Accounting Policies

2/1 Basis of preparation

- The financial statements are prepared in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as required by the Central Bank of Sudan.
- The financial statements are presented in Sudanese Dinars (SDD).
- The financial statements are prepared for the period from August 8, 2005 through December 31, 2006.

2/2 Accounting convention

The Bank uses the historical cost concept except for the remeasurement at fair value of securities classified as available for sale. The Bank uses the accrual basis in recording its assets, liabilities, revenues and expenses.

2/3 Fixed assets

Fixed assets and intangible assets are stated at cost less accumulated depreciation, amortization and any impairment loss.

Depreciation is calculated on a straight line basis over the estimated useful lives, as follows:

IT equipment and computer software	4 years
Office equipments, Furniture and fixtures	5 years
Motor vehicles	4 years

The cost of leasehold land is amortized over the lease term of 50 years.

Capital work in progress is not depreciated.

2/4 Impairment and uncollectibility of financial assets

The carrying amounts of the Bank's financial assets and tangible assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2/5 Fair values

Investment:

For investments traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the market value of similar investments, or is based on other acceptable valuation models. Investments with no reliable measures of their fair values or for which fair value information could not be obtained are carried at their initial cost less impairment losses, if any.

Financial assets and liabilities:

For financing to customers, fair value is approximately equal to their net book value, after deduction of deferred profit and provision for impairment.

For the other financial assets and financial liabilities, fair value is determined based on expected future cash flows or management's estimate of the amount at which this asset could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

2/6 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash, current account balances and investment accounts with banks and other financial institutions that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2/7 Provisions

Provisions are recognized when the Bank has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the balance sheet date.

2/8 Taxation

The Bank is subject to business profit tax at the rate of 35% of taxable profit. However, there is no taxable income for the period due to losses incurred.

2/9 Zakat

Zakat is calculated and provided for in accordance with the regulations of the Chamber of Zakat. Zakat is allowed as deduction for income tax purposes.

2/10 Employees' end of service benefits

A provision is made for amounts payable to employees for end-of-service benefits, which is calculated in accordance with the provisions of the Labour Law.

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2/11 Available for sale investments

Investments which are classified as available for sale are initially recognized at cost. These investments are subsequently measured at fair value unless fair value cannot be determined. Available for sale investments where fair value cannot be reliably measured are carried at cost less any impairment.

The unrealized gains or losses resulting from the re-measurement at fair value are reported as "Investments fair value reserve" in the shareholders' equity in the statement of financial position until the investments are derecognized or the investments are determined to be impaired. On de-recognition or impairment the cumulative gain or loss previously reported as "Investments fair value reserve" within equity, is reported in the income statement for the period.

2/12 Recognition and measurements of investments and financing activities

2/12/1 Deferred sales receivables

Deferred sales receivables are initially recorded at cost. At the end of the financial period sales receivables are measured at their net realizable value.

2/12/2 Mudaraba including investment with banks & financial Institutions

Mudaraba is measured by the amount paid or the amount placed under the disposition of the Mudarib less the portion of the Mudaraba capital recovered from the Mudarib or impairment, if any.

2/13 Revenue Recognition

- Income from Murabaha is recognized on a time proportion basis over the period of the contract based on the balance outstanding.
- Profits from Mudaraba investments with banks and financial institutions are recognized in the income statement based on profit rates declared at maturity dates or accrued if profit can be reliably estimated.
- Fees from banking services and exchange income are recognized when contractually earned at the time the related services are provided.

2/14 Pre-operating expenses

All preoperating expenses, except those capitalized as fixed assets, are charged to operating expenses.

2/15 Foreign currencies

The financial statements are denominated in Sudanese Dinars (SDD). Transactions in foreign currencies are translated into SDD at exchange rates prevailing on the transaction date. Monetary assets and liabilities at balance sheet date, denominated in foreign currencies, are translated into SDD at the exchange rates prevailing at the balance sheet date. Realized and unrealized gains or losses on foreign exchange are credited or charged to income statement.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

	<u>2006</u> <u>SDD 000</u>
3. Cash and balances with banks and financial institutions	
Cash in hand	63,883
Central Bank of Sudan – Current Account	616,109
Bank of Sudan – Statutory cash reserve	619,787
Foreign correspondent banks – Current Accounts	51,423
Cash margin on letters of credit with foreign correspondent bank	<u>237,615</u>
Total	<u>1,588,817</u>

4. Investments with banks and financial institutions

Represent investment accounts placed with banks and financial institutions according to the Mudaraba contract for renewable periods not exceeding one month.

Partial and total withdrawals are allowed without significant cost. The account balances are subject to immaterial change in value.

Balances at December 31, 2006 are as follows :

Local Banks	6,880,561
Foreign banks and financial institutions	<u>6,330,402</u>
Total	<u>13,210,963</u>

5. Investments in securities available for sale

	<u>Cost</u> <u>SDD 000</u>	<u>Market value at</u> <u>Dec 31, 2006</u> <u>SDD 000</u>	<u>Unearned</u> <u>re measurement gains</u> <u>SDD 000</u>	<u>Carrying value</u> <u>at Dec 31, 2006</u> <u>SDD 000</u>
Quoted government securities	1,480,750	1,581,673	100,923	1,581,673
Units in listed investment fund	<u>200,000</u>			<u>200,000</u>
Total	<u>1,680,750</u>			<u>1,781,673</u>

- Government securities (named: Shahama) are issued by the Ministry of Finance and are based on a Musharakah contract. The securities are traded at Khartoum Stock Exchange.

- Units in listed investment fund represent securities (sukok) in Emar Real-Estate fund managed by a local Bank. These securities were listed in Khartoum Stock Exchange in January 2007. It was not possible to reliably measure their fair value and accordingly they are stated at cost. No indication of impairment existed at December 31, 2006.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

	<u>Note</u>	<u>2006</u>
		<u>SDD 000</u>
6. Finance to customers and investment portfolios		
<i>a) By type:</i>		
Receivables from deferred sales :		
Murabaha receivables		1,306,314
Mugawala receivables		<u>34,595</u>
		1,340,909
Less : deferred profits		(156,787)
Less : General provision for finance losses	6-1	<u>(12,867)</u>
Receivables from deferred sales , net		<u>1,171,255</u>
 Syndicated financing with banks :		
Agricultural Bank of Sudan	6-2	300,000
Animal Resources Bank	6-3	200,000
Export Development Bank	6-4	<u>100,000</u>
		<u>600,000</u>
Total syndicated financing with banks		<u>600,000</u>
 Total finance to customers and investment portfolios		<u>1,771,255</u>

6-1. General provision for finance losses

	<u>Specific</u>	<u>General</u>	<u>Total</u>
	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>
Balance at beginning of the period	—	—	—
Provided during the period	<u>—</u>	<u>(12,867)</u>	<u>(12,867)</u>
Balance at end of the period	<u>—</u>	<u>(12,867)</u>	<u>(12,867)</u>

At December 31, 2006 non-performing finance facilities amount to SDD Nil.

The analysis of specific and general provision stated above is based on the Central Bank of Sudan requirements.

In accordance with the Central Bank of Sudan guidelines, a general provision of 2% has been accounted on all credit facilities not subject to specific provision, net of certain collaterals.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

6-2 Agricultural Bank of Sudan syndication

Represents participation, based on the Mudaraba contract, in a syndicated financing managed by the Agricultural Bank of Sudan to finance the agricultural sector. The fund's principal is 100% guaranteed by Central Bank of Sudan.

The facility is for one year.

6-3 Animal Resource Bank syndication

Represents participation, based on the Mudaraba contract, in a syndicated financing provided by a consortium of banks and managed by Animal Resources Bank, for financing the export of livestock to Saudi Arabia.
The facility is for duration of six months.

6-4 Export Development Bank syndication

Represents participation, based on the Mudaraba contract, in a syndicated financing provided by a consortium of banks for financing purchase and exporting of different agricultural products. The facility is for duration of nine months.

	<u>2006</u> <u>SDD 000</u>
<i>b) By industry:</i>	
Trading	763,935
Manufacturing	445,405
Agriculture	400,000
Transportation	<u>331,569</u>
Total	1,940,909
Less : deferred profit	(156,787)
Less : General provision for finance losses	<u>(12,867)</u>
	<u>1,771,255</u>

7. Other assets

	<u>2006</u> <u>SDD 000</u>
Assets acquired (for Murabaha financing)	188,277
Accrued income	224,668
Prepaid expenses	17,171
Staff loans	34,367
Other	<u>24,735</u>
	<u>489,218</u>

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

8. Fixed Assets

	Land and capital work in progress	IT equipment and computer software	Office equipments, Furniture and fixtures	Motor vehicles	Total
<i>Cost</i>	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>	<u>SDD 000</u>
Balance at beginning of the period	-	-	-	-	-
Additions	255,005	240,688	61,569	48,425	605,687
At December 31,2006	<u>255,005</u>	<u>240,688</u>	<u>61,569</u>	<u>48,425</u>	<u>605,687</u>
 <i>Depreciation</i>					
Balance at beginning of the period	-	-	-	-	-
Charge for the period	3,262	28,481	9,851	8,672	50,266
At December 31,2006	<u>3,262</u>	<u>28,481</u>	<u>9,851</u>	<u>8,672</u>	<u>50,266</u>
Net book value at December 31,2006	<u>251,743</u>	<u>212,207</u>	<u>51,718</u>	<u>39,753</u>	<u>555,421</u>

Capital work in progress (SDD 10,345,000) represents amounts paid to the consultant (Architect) in connection with the construction of the bank's office building.

9. Customer deposits

	<u>2006</u> <u>SDD 000</u>
Current accounts	6,960,230
Margin on letters of credit	<u>3,928</u>
	<u>6,964,158</u>

10. Other Liabilities

Accounts payable to suppliers	70,779
Payable to shareholders	17,354
Margin on letters of credit	40,450
Bills payable	174,114
Provision for end of service benefits	21,234
Provision for zakat	152,978
Provision for bonus	32,208
Other	<u>33,463</u>
Total Other Liabilities	<u>542,580</u>

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

	<u>2006</u> <u>SDD 000</u>
11. Share Capital	
Paid up Capital	<u>12,056,500</u>
Issued share capital	<u>13,000,000</u>

Divided into 13,000,000 ordinary shares of SDD 1,000,000 each.

Initial share capital of SDD 6.5 million divided into 6,500,000 ordinary shares was fully paid in July 2005. The General Assembly of the shareholders resolved in September 2006 to increase share capital to SDD 13 billion to be issued to the shareholders according to their initial share holding percentages.

Capital increase has been fully paid except for SDD 943,500,000 which has been paid subsequent to December 13, 2006 (note 23)

At December 31, 2006 amounts receivable for the unpaid portion of capital increase (SDD 943,500,000) are presented in the statement of financial position as deduction from issued share capital.

12. Reserves

Reserves represent the net unrealized gains of available for sale investments. These reserves are not available for distribution.

13. Income from investments with banks & financial institutions

Realized income	<u>Note</u>	<u>2006</u> <u>SDD 000</u>
Local Banks		583,679
Foreign Banks		<u>34,372</u>
		618,051
Accrued income		
Local Banks		<u>47,887</u>
Total		665,938
Less : share of unrestricted investment accounts during the period	13/1	<u>(61,828)</u>
Income from investments with banks and financial institutions ,net		<u>604,110</u>

13/1 Unrestricted investment accounts

Represents profit allocated to unrestricted investment account holders for their deposits during the period , which have been fully redeemed at maturity dates prior to December 31, 2006.

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

14. Income from Investments in Securities

	<u>2006</u> <u>SDD 000</u>
Revenue from liquidated Shahama securities	187,600
Less : cost	<u>(62,812)</u>
Income from investments in securities	<u>124,788</u>

15. Income from banking services

Letters of credit commission	20,271
Draft cheques, transfers and remittances	12,107
Fund management income	3,016
Forex gain, net	10,080
Other	<u>6,492</u>
Total	<u>51,966</u>

16. General and administrative expenses

Bank Premises (Note 16.1)	88,128
Communications	18,007
Maintenance of quipment, furniture & motor vehicles	9,775
Computer expenses	12,517
Marketing & promotional	10,987
Office supplies	6,042
Business travel	26,231
Legal, consultants expenses	64,802
Board expenses	23,165
Training	3,693
Government dues	40,807
Conferences	7,101
Bank charges	3,080
Subscriptions	8,308
Other	<u>17,210</u>
Total	<u>339,853</u>

16.1 Bank Premises

Include all bank premises related expenses such as rent, maintenance, electricity & water, security and other expenses.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

17. Exchange loss

The exchange loss is mainly arising from the devaluation of the US dollar during the period between the time of depositing the bank's Capital in US dollars with the Central Bank (US 26.3 million at the rate of 247 SD) and the time of transferring such funds to local currency (at the rates of 238.5 and 235 respectively).

	<u>Note</u>	<u>2006</u> <u>SDD 000</u>
18. Cash and cash equivalents		
Cash and balances with banks and financial institutions	3	1,588,817
Mudaraba with banks and financial institutions	4	<u>13,210,963</u>
		14,799,780
Less:		
Bank of Sudan - Statutory cash reserve	3	(619,787)
Cash margin on letters of credit with correspondent bank.	4	<u>(237,615)</u>
		<u>13,942,378</u>

19. Related party transactions

The Bank has transactions in the ordinary course of business with related parties. In the opinion of management and the board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the regulations issued by the Central Bank of Sudan. Balances with related parties at the balance sheet date are as follows:

	Shareholders, Board members and their affiliated entities <u>SDD 000</u>	Senior Management <u>SDD 000</u>	Total at December 31, 2006 <u>SDD 000</u>
Assets:			
Financing (Murabaha)	594,480	-	594,480
Letters of credit	932,895	-	932,895
Liabilities:			
Other payables (Related parties)	17,354	-	17,354
Statement of income items:			
Profit from finance	4,287	-	4,287
Fee and commission	13,529	-	13,529

The accompanying notes from 1 to 23 form an integral part of these financial statements

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

20. Commitments and contingencies

20/1 Capital commitments

At December 31, 2006 the bank had capital commitments of SDD 49 million in respect of building and equipment purchases.

20/2 Credit related commitments and contingencies

The primary purpose of these financial instruments is to ensure that funds are available to customers as required.

Documentary letters of credit, which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk, except documentary letters of credit financed through Murabaha.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of financing to customers, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The maturity structure of Bank's commitments and contingencies is as Follows:

	<u>2006</u> <u>SDD 000</u>				<u>Total</u>
	<u>Within 3 Months</u>	<u>3-12 Months</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	
Letters of credit	2,575,011	-	-	-	-
Letters of guarantee	-	-	-	-	-
Acceptances	-	-	-	-	-
Irrevocable commitments to extend credit	<u>166,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>2,741,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

20/3 Funds under management

The Bank manages restricted investment funds, on a fiduciary basis, with assets totaling SDD 2,287,756,826 (USD 11,364,912) at December 31, 2006.

These transactions are governed by the regulations of the Central Bank of Sudan.

The financial statements of these funds, and assets held in trust or in a fiduciary capacity, are not included in the financial statements of the Bank.

CAPITAL BANK

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

21. Financial instruments and risk management

21/1. Financial instruments

Financial instruments cover all financial assets and liabilities of the bank. Financial assets include cash balances, placements with banks and other financial institutions, financial investments and financing to customers and banks. Financial liabilities include customers' current accounts and other liabilities. Financial instruments also include unrestricted investment accounts and contingent liabilities and commitments included in off balance sheet items.

21/2. Risk management

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

a) Profit rate risk

The profit rate risk refers to the risk due to change of profit rates, which might affect the future earnings of the Bank. Exposure to profit rate risk is managed by the Bank through diversification of assets portfolio and by matching the maturities of assets and liabilities.

In line with the policy approved by the Board of Directors, the assets and liabilities committee performs regular review of the assets and liabilities in order to ensure that the maturity gap between assets and liabilities is maintained at minimum levels and also to ensure that financing and investments are made for quality assets at higher rate of return.

b) Credit risk

The bank seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate.

The debt securities included in investment are mainly sovereign risk. Analysis of investments by counterparty is provided in note (5). For details of the composition of the loan and advances refer to note (6). For commitments and contingencies refer to note (20).

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers.

c) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind.

The table below summarises the maturity profile of the bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

The management regularly reviews the maturity profile of the assets and liabilities to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at December 2006, was as follows:

CAPITAL BANK

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December 31, 2006

	SDD 000				
	<u>Within 3</u> <u>Months</u>	<u>3 – 6</u> <u>Months</u>	<u>6 m – 1</u> <u>year</u>	<u>More than</u> <u>1 year</u>	<u>Total</u>
Assets					
Cash and balances with banks and financial institutions	1,588,817	-	-	-	1,588,817
Investments with banks and financial institutions	13,210,963	-	-	-	13,210,963
Investments in securities	418,904	623,524	539,245	200,000	1,781,673
Finance to customers	503,144	711,052	490,007	67,052	1,771,255
Fixed assets	-	-	-	555,421	555,421
Other assets	459,294	4,443	4,443	21,038	489,218
Total assets	<u>16,181,122</u>	<u>1,339,019</u>	<u>1,033,695</u>	<u>843,511</u>	<u>19,397,347</u>
Customer's deposits	6,964,158	-	-	-	6,964,158
Other liabilities	542,580	-	-	-	542,580
Equity	-	-	-	11,890,609	11,890,609
Total liabilities and Equity	<u>7,506,738</u>	<u>-</u>	<u>-</u>	<u>11,890,609</u>	<u>19,397,347</u>

d) Foreign currency risk

The bank incurs foreign currency risk on transactions that are denominated in a currency other than the Sudanese Dinar. The Bank has a set of limits to the level of exposure by currency and in total which are monitored on a daily basis to ensure that the net exposure is kept to an acceptable level.

The Bank has the following significant net balances of assets denominated in Sudanese Dinar equivalent:

Currency	<u>December 31, 2006</u>
US Dollar	710,212
Other currencies	2,250

e) Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Bank is not exposed to any risk in terms of the reprising of its liabilities since in accordance with Islamic Shariah the Bank does not provide contractual rates of return to its depositors.

g) Risk of managing customers' investment

The Bank provides custody and corporate administration services to third parties in relation to funds provided by them. These services give rise to legal and operational risk. Such risks are mitigated through detailed daily procedures to ensure compliance.

The accompanying notes from 1 to 23 form an integral part of these financial statements

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h) Operational and other risks

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risk having an impact on the operations. The Bank seeks to minimize actual or potential losses from operational risk failure through a framework of policies and procedures that are approved by its Board of Directors and are applied to identify, assess, control and manage operational risk in addition to other types of risks to which the Bank is exposed such as regulatory risk, legal risk, and reputation risk. Regulatory risk is controlled through the framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisors. Reputation risk is controlled through regular examinations of issues that are considered to have reputation repercussions for the bank, with guidelines and policies being issued as appropriate.

The operational risk function of the Bank is in line with the Central Bank of Sudan's instructions regarding the general guidelines for internal controls and sound practices for managing and supervising operational risk in banks.

22. Shari'a Supervisory Committee

The bank activities are subject to supervision of the Shari'a Supervisory Committee which is appointed by the General Assembly. The committee supervises all the bank's transactions to ensure compliance with Shari'a rules, prepares and submits annual report to the General Assembly.

23. Subsequent events

The amounts outstanding from shareholders SDD 943,500,000 on December 31, 2006 in lieu of capital increase have been fully paid as follows :

- Amount of SDD 930,000 thousand paid on February 22, 2007.
- Amount of SDD 13,500 thousand paid on March 5, 2007.