

ANNUAL REPORT 2012



CIHAN BANK
FOR ISLAMIC INVESTMENT AND FINANCE P.S.C

www.cihanbank.com

CIHAN BANK FOR ISLAMIC INVESTMENT & FINANCE P.S.C.- Erbil

Sub: Auditor's report

Dear Sir's

We have audited The balance sheet of Cihan bank for investment & finance P.S.C as at December 31, 2012 and the annual report for the prepared bank pursuant to the provisions of the Banking and the Companies Law No.(21) for the year 1997 and the related regulations and instructions issued accordingly.

We have obtained the information and the explanations which in our opinion were necessary to perform our duty according to the legislation in force and in accordance to generally accepted auditing procedures which includes the necessary examinations on a test basis of the bank activities falling within our jurisdiction. We have the following Notes and explanations.

First : On 11 December 2011 The nominal and paid up capital was increased from ID 100 billion to ID 150 billion and the Central bank of Iraq confirmed on 19/1/2012 according to letter No. 34. Also, Ministry of Trade – Office of Registrar Companies had confirmed by the letter No. 699 on 12-12-2011 and confirmation letter received by the office of Registrar Companies No. 2730 on 02/02/2012.

Second: The Anti Money Laundering and financing terrorism committee are active under the guidance of the Central Bank of Iraq, since its establishment according to order no. 726 dated 23-3-2012.

Third: We recommend more support to the internal control system Department and replenish them with efficient staff.

Fourth: The Shari'aa Board (fatwa committee) is active since its establishment according to order No.38 on 1/2/2009 and amended by order no. 169 on 20-12-2009.

Fifth: We recommend the expansion of other banking services as well as the currency exchange.

Sixth: We have perused the report of the Audit Committee on the final accounts of the Bank for the year ended 31/12/2012, which supports the matching figures of final accounts with the records of the bank.

In our opinion and according to above notes which based on our examinations in addition to the bank's reports, information's and explanations given to us we confirm :

1. The accounting records used by the bank comply with Book keeping system required and properly kept containing according to our judgment all Bank's Assets, Liabilities, expenses and revenues.
2. The annual report and its contents, the financial and accounting information reflects in a comprehensive way the bank financial progress during audited period. These information contained therein do not contradict with the accounts or the provisions of the financial laws and legislations that are in force.
3. The financial statements and final accounts have been prepared according to the accounting rules and legislations currently in force and it coincides exactly with what is shown in the records which are prepared according to the companies law, the regulations and information issued accordingly and the Central Bank of Iraq law and presents fairly the financial position of the Bank as on 31 Dec. 2012 .

Delshad A. Al-Totnchi

Chartered Accounting and Auditor

Cihan Bank for Islamic Investment and Finance P.S.C

The Balance Sheet for 31 December 2012

Statement No.	General Ledger (GL)	Name of the Account	2012 Thousands in IQD	2011 Thousands in IQD
ASSETS				
4	18	Cash on hand	249 895 837	141 634 307
	1553	Short term Investments	250 000	250 000
	1427-1429	Murabaha and Musharaka	157 349 910	61 998 838
	1443	Receivable bonds	36 621 611	40 032 729
	1445	Qard Hassan	173 663	9 806 413
	1497	Misc. Lendings	288 235	295 270
3	16	Debit Accounts Clearing Checks	6 995 638 ----- <u>451 574 894</u>	4 641 627 ----- <u>258 659 184</u>
Fixed Assets				
1	11	Fixed Assets	781 789	622 700
2	118	Deferred Revenue Expense	1 244 924	902 308
	12	Projects under implementation	<u>14 267 135</u>	<u>1 945 243</u>
			16 293 848	3 470 251
		Total	<u>467 868 742</u>	<u>262 129 435</u>
5	19	Contra A/Cs	<u>428 813 661</u>	<u>356 520 611</u>
Shareholder's Funds				
	211	Paid-up Capital	150 000 000	100 000 000
6	214	Reserves	50 008 337	19 601 854
Current Liabilities				
7	25	Current and Saving Accounts	224 042 087	119 003 311
8	26	Creditors	13 375 760	12 359 722
9	22	Allowances	30 442 558	11 164 548
		Total	<u>467 868 742</u>	<u>262 129 435</u>
	29	Contingent	<u>428 813 661</u>	<u>356 520 611</u>

Accountant: Suheel Shahab Alwan

Financial Manager: Hamza Hassan Dizayee

General Manager: Mwuaffaq Taher AlChalaby

Chairman: Azad YeiHYa Saeed

Chartered Accountant and auditor: Dilshad Aziz Altotengy

Subject to Report No. (SH /7/20/1/2013)

Cihan Bank for Islamic Investment and Finance P.S.C

REVENUES

			<u>2012</u>	<u>2011</u>
	4	<u>Banking Operations Revenue</u>		
10	44-49	Revenue of Banking Operations	60 642 403	37 410 611
LESS EXPENSES				
11	31	Salaries and Wages	2 566 479	1 702 845
12	32	Commodity Supplies	170 240	115 350
13	33	Service Supplies	2 516 695	1 536 486
1 and 2	37	Depreciation & Amortization	424 721	383 882
14	38	Other Expenses	13 974 506	7 271 169
	3431	Miscellaneous Banking Commissions Paid	1 500 823	9 661 316
		Total Expense	<u>21 153 464</u>	<u>20 671 048</u>
		Net Profit	39 488 939	16 739 563
		Custom Tax	5 923 341	2 510 934
		Expansion Reserves	3 948 894	1 673 956
		Legal Reserves	1 974 447	836 978
		Capital Reserves	1 974 447	836 978
		Custom exchange rate fluctuations	3 159 115	-----
		Surplus of Distribution	<u>22 508 695</u>	<u>10 880 717</u>
			<u>39 488 939</u>	<u>16 739 563</u>

Cihan Bank for Islamic Investment and Finance P.S.C

Cash Flow for the year ended on 31December 2012

Details	2012 Thousands in IQD
Cash as at 01-01-2012	141 634 307
Plus	
Increase in Debtor A/C	2 354 011
Revenue of 2012	60 642 403
Depreciations	424 721
Increase in deposits and other movements	<u>50 000 000</u>
Movement of others debit and credit accounts	<u>31 778 728</u>
Total of Flows	<u>286 834 170</u>
Less	
Assets Purchases	339 798
Expenses of Deferred Revenue	586 628
Increase in Creditor A/C	1 016 038
Total expenses for 2012	20 728 734
Projects under implementation	<u>14 267 135</u>
Total outflows	<u>36 938 333</u>
The cash balance sheet as on 31-12-2012	<u>249 895 837</u>

Cihan Bank for Islamic Investment and Finance P.S.C

Statement No. 1: Table of Fixed Assets and Depreciation for the year ended on 31 December 2012

Fixed Assets	Machinery and Equipment	Transport and Transmission Means	Tools and Molds	Furniture and Office Equipment	Total
	(Thousands in IQD)	(Thousands in IQD)	(Thousands in IQD)	(Thousands in IQD)	(Thousands in IQD)
GL No.	113	114	115	116	
Cost as on 01-01-2012	172 463	47 095	1 127	716 994	937 679
New purchased item	55 228	-----	-----	284 570	339 798
Total Cost as on 31-12-2012	227 691	47 095	1 127	1 001 564	1 277 477
Depreciation 01-01-2012	36 890	9 419	295	268 375	314 979
Plus: Depreciation from last year	22 678	9 419	226	148 386	180 709
Total Depreciation	59 568	18 738	521	416 761	495 688
Book value as on 31-12-2012	168 123	28 257	606	584 803	781 789

Statement No. 2: Establishment Expenses on 31 December 2012

GL No.	A/C Name	2012 (Thousands in IQD)	2011 (Thousands in IQD)
1811	Establishment Expenses	90 208	909 728
	Additions	586 628	239 287
378	Depreciation Building freehold	<u>(244 012)</u>	<u>(246 707)</u>
	Total	<u>1 244 924</u>	<u>902 308</u>

Statement No. 3: Indebtedness Accounts on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
166	Receivable A/Cs		
1631	Interbranch A/Cs	-----	-----
1661	Deposits with third parties	5 163 532	3 312 291
1662	Due Revenues	989 494	1 321 251
1663	Expenses paid in advance	12 335	2 860
167	Lending	-----	5 225
	Other Debit Accounts	830 277	-----
	Total	<u>6 995 638</u>	<u>4 641 627</u>

Statement No. 4: Cash Statement as on 31 December 2011

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
181	Cash	65 345 276	17 313 328
183	Balances with local banks	116 425 325	106 398 370
187	Balances with foreign banks	<u>68 125 236</u>	<u>17 922 609</u>
	Total	<u>249 895 837</u>	<u>141 634 307</u>

Statement No. 5: Contra Assets and Contingent Liabilities (Counter Obligations)

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
192 – 292	Letter of Guarantees Obligations		
1921 – 2921	Direct Letter of Guarantees Obligations	355 040 303	316 994 050
	Less Deposits	(13 652 279)	(5 236 279)
	Total	341 388 024	311 757 771
193 – 293	Letter of Credit Obligations		
1931 – 2931	Confirmed Letter of Credit Obligations	91 941 641	55 246 470
	Less Deposits	<u>(15 330 799)</u>	<u>(10 501 217)</u>
	Total	76 610 842	44 745 253
194 – 294	Remittances		
1941-2941	LC Remittances	10 814 795	17 587
	Less Deposits	-----	-----
	Total	<u>10 814 795</u>	<u>17 587</u>
	Total	<u>428 813 661</u>	<u>356 520 611</u>

Statement No. 6: Reserves as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
22 (Allowances)	Expansion Reserves	6 487 251	2 538 357
	Legal Reserves	3 066 369	1 091 922
	Surplus for distribution	37 189 209	14 680 514
	Capital Reserve	<u>3 265 508</u>	<u>1 291 061</u>
	Total	<u>50 008 337</u>	<u>19 601 854</u>

Statement No. 7: Current, Saving and Deposit Accounts as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
251	<u>Current A/Cs</u>		
2516	Private Sector-Companies	94 323 322	31 639 707
2517	Private Sector-Individual	19 862 191	4 545 344
2519	Reserved Amount by Telephone	-----	-----
	Total	<u>11 4185 513</u>	<u>36 185 051</u>
252	<u>Deposits-Investment A/Cs</u>		
2521	Saving A/Cs	60 438 859	16 332 323
2532	Deposit on A/Cs	2 204 885	50 672 876
255	<u>Margin A/Cs</u>		
2551-2552	Margin A/Cs – LC and LG	28 983 078	15 737 496
2563	Withdrawal bank Cheques	<u>145 430</u>	<u>75 565</u>
	Certified Cheques	<u>13 988 995</u>	-----
2562	Safatig Cheques	<u>4 095 327</u>	-----
	Total	<u>47 212 830</u>	<u>15 813 061</u>
	Grand Total	<u>224 042 087</u>	<u>119 003 311</u>

Statement No. 8: Creditors as on 31 December 2011

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
261	Depositors Current Activity	96 466	96 474
265	Guarantee Booking Commissions	707 708	31 646
266	Various Creditors	12 566 819	12 228 761
267	Deductions for the Expense of Others	4 500	2 574
269	Other Payable Accounts	<u>267</u>	<u>267</u>
	Total	<u>13 375 760</u>	<u>12 359 722</u>

Statement No. 9: Reserved Statement as on 31 December 2011

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
224	Custom Tax	9 497 815	3 574 474
225	Variety of Allowances	6 039 616	2 880 501
226	Allowance for distributing profit for Saving A/Cs	5 308 390	2 349 683
227	Allowance for Doubtful debts	9 596 737	2 359 890
	Total	<u>30 442 558</u>	<u>11 164 548</u>

Statement No. 10: Banking Operations Revenues as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
441	Income from Foreign Exchange	42 759 789	25 222 013
442	Income From Islamic Financing & Investments	6 038 767	4 559 509
443	Remittance Commission	208 384	428 242
444	Trade Finance fees – Letter of Credit	495 487	645 948
445	Trade Finance fees – Letter of Guarantees	3 596 750	2 962 110
447	Fees and Commission Income	1 706 909	45 521
448	Recovered Expenditure	-----	76 122
463	Income from Investments	5 477 898	2 983 834
492	Other Revenues	394 420	459 011
483	Duty and Penalty	-----	28 301
	Total	<u>60 642 403</u>	<u>37 410 611</u>

Statement No. 11: Salaries and Wages as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
3111	Salaries	557 991	409 370
3112	Family Wages	151 955	112 050
3113	Overtime Wages	138 646	64 167
3114	Bonuses	661 298	403 291
3115	Technical and Professional Wages	110 328	80 655
3116	Compensatory Wages	151 631	106 274
3129	Other customs	760 375	502 982
3151	Social Security	<u>34 255</u>	<u>24 056</u>
	Total	<u>2 566 479</u>	<u>1 702 845</u>

Statement No. 12: Commodity Requirements as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
322	Fuel and Oils	35 153	31 569
3251	Supplies and Equipment	14 178	7 178
3252	Stationery	104 269	63 363
327	Water and Electricity Fees	<u>16 640</u>	<u>13 240</u>
		<u>170 240</u>	<u>115 350</u>

Statement No. 13: Services Requirements as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
331	Maintenance Services	64 231	27 917
3331	Advertising and Media	58 484	44 770
3332	Publishing and Printing	20	20 884
3333	Hospitality	20 800	11 501
3334	Public Relation Expenses	-----	-----
3341	Staff Transfer	277 544	207 264
3343	Transfer and Dispatchal	469 047	249 419
3344	Public Telecommunications	128 030	51 376
3352	Rent of Buildings and Facilities	506 493	372 781
3361	Contributions and Affiliations	227 928	132 040
3363	Services Rendered	266 764	127 781

	Rewards for non-working		
3365	Legal services	13 919	3 538
3366	Banking services	142 821	63 481
3368	Audit fees	43 200	25 750
3369	Other Service Expenses	<u>297 414</u>	<u>197 984</u>
	Total	<u>2 516 695</u>	<u>1 536 486</u>

Statement No. 14: Production Expenses Statement as on 31 December 2012

GL No.	A/C Name	2012 Thousands in IQD	2011 Thousands in IQD
3831	Charity Donations	16 165	23 571
3832	Compensation and Penalties	1 681	41
392	Incidental Expenses	18 191	27 415
3441	Expenses of Differences on Foreign Exchange Revaluation (Gain and Loss)	2 075 753	2 489 749
3421	Paid Savings Account Profits	4 250 000	23 496 883
384	Duties	<u>19 115</u>	<u>20 820</u>
3833	Allocation for Doubtful debts	7 593 601	2 359 890
	Total	<u>13 974 506</u>	<u>7 271 169</u>

In the Name of Allah**Cihan Bank for Islamic Investment and Finance (P.S.C)****Board of Directors Annual Report for the Bank's Activities****For the Period of 1/1/2012 to 31/12/2012****Cihan Bank and its Future Plans:**

Cihan Bank was established in June 2008 and started operating on 01/04/2009 in the general headquarters of its administration in Erbil and followed by Baghdad, Sulaymania, Zakho Branches, Bajger/Erbil Branch and Jamila Branch in Baghdad as well as Kirkuk and Musul Branches. In addition, during the year 2013 other branches will open in Basrah, Najaf and Duhok. Primary approvals will be obtained to open branches in all provinces, districts and areas in Iraq respectively.

Cihan Bank being Islamic bank and all its transactions with its customers is committed to apply the terms of Islamic law. Despite the short time of establishment, the Bank managed to preoccupy its place in the Iraqi Banking Market as it is clarified in the 2012 financial annual report by the large amount of the bank's deposits. Cihan Bank's administration and employees are committed to Shariah guidance that consists of a group of specialists who monitor and demonstrate the suitability of each transaction submitted with the requirements of Islamic Law.

Due to the bank's commitment to the directives, instructions and regulations issued by the Central Bank of Iraq (CBI), Cihan Bank is required to provide all the statistics and data to the CBI. The bank has been ranked the third place among the Iraqi private banks under the assessment of the CBI in accordance with the standard CAMEL.

Cihan Bank Board of Directors:

The Board of Directors is composed of seven members, including the General Manager as follow:-

<u>Name</u>	<u>Position</u>
1. Mr. Azad Yahya Saeed Bajger	Chairman
2. Mr. Nawzad Yahya Saeed Bajger	Vice Chairman
3. Mr. Talat Yahya Saeed Bajger	Member
4. Mr. Sabah Yahya Saeed Bajger	Member

Total bank revenue on 31/12/2012 is 60,642 billion Iraqi dinars and the share of main branch is 38,562 billion Iraqi dinars, followed by Baghdad branch with an amount of more than 10 billion Iraqi dinars, as clarified in the below table:

Branch Name	Revenue	Expenses	Grand Total	Percentage
Main Branch	38,562,476,112	16,504,331,690	22,058,144,422	%55,9
Baghdad	10,150,602,401	1,054,181,115	9,096,421,286	%23,59
Jamila	2,722,068,362	498,387,114	2,223,681,248	%5,64
Bajger	1,072,234,514	405,230,248	667,004,266	%1,69
Al-Sulaimania	5,724,467,540	2,258,534,070	3,465,933,470	%8,8
Zakho	1,825,928,294	201,803,610	1,624,124,684	%4,12
Mousl	573,120,688	230,996,440	342,124,248	%0,08
Kerkuk	11,506,262	-----	11,506,262	%0,03
Total	60,642,404,173	21,153,464,287	39,488,939,886	-----

The above table shows that all our branches were profitable during the year 2012. As it is seen the main branch has the highest percentage for the gross profit which is 55.9%. Following to the main branch, Baghdad Branch has a contribution of 23.05%, and then Sulaymania Branch comes with a percentage of 8.8%, Jamila Branch 5.64% and finally Kirkuk Branch which was opened at the last quarter of 2012.

Foreign Transactions:

The below statistical chart shows the level of activity of the international division in head quarter through the implementation of foreign transactions as letter of credits, counter letters of guarantee and foreign remittances, as follow:

(all values in Iraqi Dinar)

<u>Type of Transaction</u>	<u># of transaction</u>	<u>Amount/ (Million IQD)</u>
Credits	34	376 818
Letters of Guarantee	48	92 249
Transactions	1 859	1 322 449

Foreign Relations

No bank is able to expand its activities abroad unless the bank has an extensive network of correspondent banks. Cihan Bank has exerted its efforts in this direction for the purpose of expanding its foreign activities. During 2012, the bank has established correspondent relationship with 6 banks, which they are mentioned below. As for 2013, we are targeting to expand the banking relationships in Europe, America and Southeast Asia as well as the Gulf States.

1. **Byblos Bank**-Beirut.
2. **Jordon Ahli Bank**-Amman.
3. **Fransa Libanais Bank**- Beirut.
4. **Abu-Dhabi Islamic Bank**- Dubai.
5. **Credit Libanais**- Beirut.
6. **British Arab Commerz Bank (BACB)**- Beirut

So, the number of the correspondent banks has come to a total of 30 Banks as the names shown below:

Correspondents Bank:

1. INTERNATIONAL BANK OF LEBANON IBL	2. AKTIF BANK	3. ABU DHABI- ISLAMIC BANK
4. FIRST NATIONAL BANK FNB	5. AL-BARAK	6. UNION BANK
7. BANK OF BEIRUT	8. AL BARAK- BAHRAIN	9. DENIZ BANK
10. FRANSA BANK	11. UBAE BANK	12. CREDIT LIBANAIS
13. COMMERZ BANK	14. ASYA BANK	15. EMIRATES BANK
16. VAKIF BANK	17. YAPI KREADI BANK	18. ABU DHABI BANK
19. BBAC	20. UBAF BANK	21. BYBLOS BANK
22. HOUSING BANK	23. IS BANK	24. FRANSA LIBANAIS BANK
25. KUYEYT TURK	26. ALTERNATIF BANK	27. BRITISH ARAB COMMERCIAL BANK
28. KUYEYT TURK-DUBAI	29. JORDAN AHLI BANK	30. CREDIT LIBANAIS

Bank Staff

161 employees work in Cihan Bank during the financial year 2012 after that the staff was 135 employees for the previous year and most of the staff held a Bachelor or an Institute degree. Despite this increase influenced the increase of expenses, but the results reflected an increase operating profits.

Bank Activity

The bank activities are clear during the year 2012 in the field of Islamic Banking presented under the form of Murabaha and partnerships that makes a total of (IQD 157

344 910 000) during the financial year of 2012 versus (IQD 61 998 838 000) in 2011 that makes an increase of 253.8% which is more than two and half times.

In addition, the amount of vouchers has reached IQD 36 621 611 000 at the end of the year and the amount of granted loans reached IQD 173 633 000. For instance, the current accounts (Islamic Savings) at the end of 2012 reached an amount of IQD 114 185 513 000 versus IQD 36 185 053 in 2011 related to an increase of 300% which forms a major source of lending and funding in the bank during the meant year.

The Islamic saving accounts have seen a significant increase compared to the previous year, amounted to IQD 60 438 859 000 in 2012 compared to IQD 16 332 323 000 during the year 2011, which makes an increase of 370% and a total amount of IQD 224 042 087 000 for current accounts and deposits versus IQD 119 003 311 000 during the year 2011 that made an increase of 188%.

Letter of Credits and Letter of Guarantee

- A. The balance of letters of guarantee after deposit of insurance executed by the bank during the year 2012 amounted to IQD 341 388 024 000 versus IQD 311 757 771 000 which makes a rate increase up to 10% from the previous year.
- B. The vouchered letter of credits implemented by the bank during the year 2012 amounted to IQD 91 941 641,000, compared to IQD 55 246 470 000 and through these numbers, obvious increase in the volume of letter of credits executed by the percentage increase up to 166% over the previous year.

Modern Technology Utilization

The implemented modern techniques in the banking operations during 2012 are:

- 1- The process of secured system and sophisticated connection to prevent any unauthorized access to the network to connect all branches of the bank in all of Iraq's provinces.
- 2- Implementation and matching the new banking system for the actual work in all branches.
- 3- Preparation and organization of required reports and notices by the new banking system in accordance with the requirements of the administration and the Central Bank of Iraq.
- 4- Obtaining the approval of the Central Bank of Iraq to start preparing and implementing all the requirements of electronic card management system for processing Visa and Master Cards to bank customers by contracting the competent companies.
- 5- Dealing with competent companies to process and implement the electronic card management system to be owned by the bank.

- 6- Dealing with competent companies to process ATMs to be connected with the electronic card management system.
- 7- Dealing with competent companies to process the electronic messaging system through mobile phones to notify the bank customers of all their account movements.

The bank aspires to apply all banking techniques and electronic services during the year of 2013 as follow:

- 1- Completion and activating electronic cards (Visa and Master Cards) through global issuing and managing the cards locally and globally.
- 2- Allow the activation link network of ATMs in all of Iraq's provinces.
- 3- Processing the local market POS and linking to bank systems.

In conclusion, we host Cihan Bank employees with excessive gratitude for their efforts during the year of 2012 and our great ambition and hopes for this year and for the coming years to provide Cihan Bank services to the public in the Iraqi provinces and regions.

God Bless

Muwaffak Taher Al-Chalabi

General Manager

Azad Yahya Saeed Bajger

Chairman