



**CIHAN BANK**  
FOR ISLAMIC INVESTMENT AND FINANCE P.S.C  
مصرف جیہان | بانکی جیہان

**CIHAN Bank for Islamic Investment and Finance**  
**Private Joint Stock Company**  
**Financial Statements & Audit Report**  
**For The Financial Year Ended **December 31, 2017****

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## **AUDIT REPORT**

**To: Shareholders of CIHAN Bank for Islamic Investment and Finance**

**Subject: Audit Report on the Financial Statements of CIHAN Bank for Islamic Investment and Finance for the Financial Year ended December 31, 2017**

### **Opinion:**

We have audited the financial statements of CIHAN Bank for Islamic Investment and Finance (the Bank), which comprise the statement of financial position as of December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material aspects the financial position of the Bank as of December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and Islamic Financial Accounting Standards.

### **Basis for Opinion:**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters:**

**The audit activities performed by us revealed the following notes:**

1. The Islamic Banking Law No. 43 of 2015 as well as the resolutions of CBI required all banks to prepare and present its financial statements in accordance with IFRS. However, the Bank continued in preparing its accounts in accordance with Uniform Accounting System during 2017 as the core banking system programmed with that system. In our opinion, the system involves recording all Bank's assets, liabilities, revenues and expenditures. The internal control system as well contained all necessary procedures to secure the correctness and accuracy of those statements. The financial statements were reorganized in accordance with IFRSs at the end of the year.
2. The ad hoc committee on anti-money laundering continued in its work during the year in accordance with CBI directions and relating laws.
3. The internal audit sections in the main office and other branched performed their audit tasks and provided periodical reports. We believe that these reports were generally acceptable. We recommend supporting these sections with qualified auditors to enable them to cover all Bank operations effectively.

## **Other information:**

The management is responsible for other information. The other information contain the information included in the annual report other than financial statements and audit report. Our opinion on financial statements does not cover the other information and we do not give any assurance or conclusion on the same.

With regard to the auditing of the financial statements, our responsibility is to read the other information when it is available to us, considering whether the other information are not corresponding materially with the financial statements or with knowledge concluded by our audit or whether the other information materially misstated.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements:**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements:**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Report on other regulatory requirements:**

In addition to above mentioned, we express the following notes in accordance with legal requirements adopted in Iraq:

1. The Bank accounting system is according to the Bookkeeping System requirements and contains all the Bank's assets, liabilities, revenues and expenses.
2. The Bank's management conducted a physical verification of the fixed and cash assets in proper manner under our supervision. The results came in conformity with the Bank's books. The evaluation of those assets made in accordance with adopted accounting principles and standards.
3. The Sharia Advisory Boards conducted its tasks in accordance with the related directions.
4. The annual report, including the financial and accounting information, reflects the view of Bank's Management.

Erbil- Iraq



Faeq M. Al Obaidi  
Chartered Accountants & Auditors



Faeq H. Newroz

## CIHAN Bank for Islamic Investment and Finance

### Statement of Financial Position as at Dec.31, 2017

	Notes	31/12/2017 IQD '000	31/12/2016 IQD '000
<b>ASSETS</b>			
Cash and balances with Central Bank of Iraq	4	249,708,025	259,885,001
Balances with other banks	5	54,775,634	94,283,631
Islamic financing assets (net)	6	142,931,871	154,957,028
Qardh Hasan (Interest Free loans)	7	28,425,937	29,298,889
Investments (net)	8	250,000	250,000
Other assets (net)	9	118,870,251	87,813,079
Intangibles	10	7,535,420	8,457,871
Property, plants and Equipment (net)	11	1,692,403	2,081,590
Project in progress	12	5,708,671	6,047,587
<b>Total assets</b>		<b>609,898,212</b>	<b>643,074,676</b>
<b>LIABILITIES &amp; OWNERS EQUITY</b>			
<b>LIABILITIES</b>			
Customers' deposits	13	256,518,446	260,536,571
Deposits on banking operations	14	16,256,081	55,054,872
Other liabilities	15	1,302,812	592,079
CBI Financing	16	1,500,000	1,850,000
Provisions	17	16,831,196	23,940,273
<b>Total liabilities</b>		<b>292,408,535</b>	<b>341,973,795</b>
<b>EQUITY</b>			
Capital		255,000,000	255,000,000
Reserves		31,718,900	27,621,701
Retained earnings		30,770,777	18,479,180
<b>Total equity</b>		<b>317,489,677</b>	<b>301,100,881</b>
<b>Total liabilities &amp; equity</b>		<b>609,898,212</b>	<b>643,074,676</b>

Hamza Dizayee

FCO

Subject to our report No.

Ahmed Abdulkhaliq Ismael

CEO

on

Chartered Accountant & Auditor

Azad Y.S. Bajger

Chairman

The accompanying notes from 1 to 30 form an integral part of the financial statement

**CIHAN Bank for Islamic Investment and Finance**

**Statement of Profit or Loss and Other Comprehensive Income for the  
financial year ended Dec. 31, 2017**

	Notes	2017 IQD '000	2016 IQD '000
<b>Operating income</b>			
Islamic finance income	18	17,514,967	15,214,972
Fees & commissions income (net)	20	4,165,964	5,158,341
Investment income	19	112,581	9,822
Income from trade of foreign exchange	21	13,887,073	20,658,396
Misc. banking income	22	736,985	85,541
<b>Total operating income</b>		<b>36,417,570</b>	<b>41,127,072</b>
<b>Operating expenses</b>			
Salaries and related charges	23	4,290,046	3,945,440
Administrative & general expenses	24	4,397,376	4,255,253
Depreciation & amortization	11/10	2,494,767	4,287,010
Taxes & duties	25	7,964	40,068
Other expenses	26	1,789,481	842,451
<b>Total expenses</b>		<b>12,979,634</b>	<b>13,370,222</b>
<b>Profit before distribution to depositors</b>		<b>23,437,936</b>	<b>27,756,850</b>
Minus: distributions to depositors		(4,157,000)	(4,201,706)
<b>Profit before tax</b>		<b>19,280,936</b>	<b>23,555,144</b>
Minus: Income tax	17	(2,892,140)	(3,840,512)
<b>Profit after tax</b>		<b>16,388,796</b>	<b>19,714,632</b>
Other comprehensive income		0	0
<b>Comprehensive income for the year</b>		<b>16,388,796</b>	<b>19,714,632</b>

**Comprehensive income distributed as follows:**

	2017 IQD 1000	2016 IQD 1000
<b>Expansion reserve</b>	2,458,319	1,792,240
<b>Capital reserve</b>	819,440	1,280,171
<b>Legal reserve</b>	819,440	1,280,171
<b>Retained Earnings</b>	12,291,597	15,362,050
<b>Total</b>	<b>16,388,796</b>	<b>19,714,632</b>

The accompanying notes from 1 to 30 form an integral part of the financial statements



**CIHAN Bank for Islamic Investment and Finance**

**Statement of Changes in Equity**

**For the year ended December 31, 2017**

	<b>Capital IQD '000</b>	<b>Capital reserve IQD '000</b>	<b>Expansion Reserve IQD '000</b>	<b>Legal reserve IQD '000</b>	<b>Retained earnings IQD '000</b>	<b>Total IQD '000</b>
<b>Balance at Jan,1, 2017</b>	255,000,000	7,534,957	10,636,819	9,449,925	18,479,180	<b>301,100,881</b>
Additions		819,440	2,458,319	819,440	12,291,597	<b>16,388,796</b>
Deductions						<b>0</b>
<b>Balance at Dec. 31,2017</b>	<b>255,000,000</b>	<b>8,354,397</b>	<b>13,095,138</b>	<b>10,269,365</b>	<b>30,770,777</b>	<b>317,489,677</b>

**Statement of Changes in Equity**

**For the year ended December 31, 2016**

	<b>Capital IQD '000</b>	<b>Capital reserve IQD '000</b>	<b>Expansion Reserve IQD '000</b>	<b>Legal reserve IQD '000</b>	<b>Retained earnings IQD '000</b>	<b>Total IQD '000</b>
<b>Balance at Jan,1, 2016</b>	255,000,000	6,254,786	8,844,579	8,169,754	82,622,898	<b>360,892,017</b>
Additions	0	1,280,171	1,792,240	1,280,171	15,362,050	<b>19,714,632</b>
Dividend	0	0	0	0	(79,505,768)	<b>(79,505,768)</b>
<b>Balance at Dec. 31,2016</b>	<b>255,000,000</b>	<b>7,534,957</b>	<b>10,636,819</b>	<b>9,449,925</b>	<b>18,479,180</b>	<b>301,100,881</b>

**The accompanying notes from 1 to 30 form an integral part of the financial statements**

**CIHAN Bank for Islamic Investment and Finance**

**Statement of Cash Flows for the year ended dec.31, 2017**

	Notes	2017 IQD '000	2016 IQD '000
<b>Cash flows from operating activities</b>			
<b>Net Profit for the year</b>		<b>16,388,796</b>	<b>19,714,632</b>
<b>Adjustment for:</b>			
Depreciation & amortization for the year	11/10	2,494,767	4,287,010
Minus: depreciation of disposals	11	(5,179)	(738,091)
Net impairment of credit facilities	6	(2,702,748)	0
Income tax provision	17	2,892,140	3,840,512
Other provisions		(10,001,217)	2,077,278
<b>Sub- total</b>		<b>9,066,559</b>	<b>29,181,341</b>
<b>Changes in operating assets &amp; liabilities</b>			
Islamic financing	6	14,727,905	104,055,055
Other assets	9	(31,057,172)	(39,221,971)
Customers' deposits	13	(4,018,125)	94,497,843
Deposits on banking operations	14	(38,798,791)	23,034,192
Other liabilities	15	710,733	(494,025)
Qardh Hasan	7	872,952	(30,119)
<b>Sub- total</b>		<b>(57,562,498)</b>	<b>181,840,975</b>
<b>Minus: Income tax paid</b>		<b>0</b>	<b>(8,689,345)</b>
<b>Net cash flows from operating activities</b>		<b>(48,495,939)</b>	<b>202,332,971</b>
<b>Cash flows from investing activities</b>			
Acquisition/ disposal of fixed assets	11	(653,905)	(298,019)
Intangibles	10	(524,045)	(936,678)
Projects in progress	12	338,916	388,950
<b>Net cash flow from investing activities</b>		<b>(839,034)</b>	<b>(845,747)</b>
<b>Cash flows from financing activities</b>			
Finance received from CBI	16	(350,000)	850,000
Dividend paid		0	(79,505,768)
<b>Net cash flow from financing activities</b>		<b>(350,000)</b>	<b>(78,655,768)</b>
<b>Net cash flows</b>		<b>(49,684,973)</b>	<b>122,831,456</b>
<b>Cash and its equivalent at Jan. 1</b>	<b>4&amp;5</b>	<b>354,168,632</b>	<b>231,337,176</b>
<b>Cash and its equivalent at Dec. 31</b>	<b>4&amp;5</b>	<b>304,483,659</b>	<b>354,168,632</b>

The accompanying notes from 1 to 30 form an integral part of the financial statements

# CIHAN Bank for Islamic Investment and Finance

## Notes Statements

For the year ended December 31, 2017

### 1. General Information:

CIHAN Bank for Islamic Investment and Finance, Private Joint Stock Company (the Bank) was incorporated in 2008 and commenced his activities on April 1, 2009. The Bank provides all banking and financial services throughout 13 branches: three of them in Erbil, two in each of Baghdad, Sulaimania and Duhok and one branch in Basra, Najaf, Kirkuk and Mosul. The Bank acts in accordance with the Islamic Sharia (doctrine) principles and provisions. The Bank has a Sharia Supervisory Board to check and direct all of its activities.

The Bank is subject to Iraqi companies' law No. 21 of 1997 as amended, banking law No. 94 of 2004 and Islamic banking law No. 43 of 2015. The Governing Board of Iraq Stock Exchange Market approved the listing of the Bank stock by its resolution No. 9 on January 9, 2017.

### 2. Accounting Policies:

a. The financial statements of the Bank were prepared in accordance with Financial Accounting Standards (FASs) issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) and in accordance with International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB) in all aspects not covered by FASs, as well, in accordance with local laws and instructions issued by CBI.

b. **New and revised IFRSs applied with no material effect on the financial statements:** The following revised IFRSs have been adopted in the financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior periods:

- Amendments to IAS 12 Income Taxes relating to recognition of Deferred Tax Assets for unrealized Losses.
- Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendment to IFRS 12 related to disclosure requirements of interest in other entities.

**c. New and revised standards in issue but not yet effective:**

- IFRS 16 Leases (Application date: 1 January 2019): IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset have a low value.
- IFRS 17 Insurance contracts (Application date: 1 January 2022): This standard is related to insurance companies and activities.
- IAS 40 Investment properties (Application date: 1 January 2018): The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- IAS 28 Investment in associates and joint ventures (Application date: 1 January 2018): A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (Application date: 1 January 2018): When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.
- IFRS 9 Financial Instruments (Application date: 1 January 2019): The International Accounting Standard Board issued the final version of IFRS 9 Financial Instruments in July 2014, which replaces IAS 39. The revised standard brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. About classification and measurement, the standard reclassified the financial instruments into three categories: at amortized cost, at fair

value through profit or loss and at fair value through other comprehensive income.

About hedge accounting, the standard introduced new rules that intend to align hedge accounting with the risk management practices. IFRS9 included an accounting policy choice to defer the adoption of hedge accounting.

About the impairment, the standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 replaces the current “incurred loss” model of IAS 39 to a forward-looking expected credit loss model.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank will develop methodologies and models taking into account the relative size, quality and complexity of the portfolios.

The Expected Credit Loss (ECL) model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

#### **Assessment of significant increase in credit risk**

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increase significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at

origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

### **Macroeconomic factors, forward looking information and multiple scenarios**

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

### **Experienced credit judgment**

The IFRS9 ECL allowance methodology requires the use of experienced credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

When measuring ECL, the Bank consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options.

### **Transition impact**

In accordance with IFRS 9, the Bank will not restate comparative information with respect to impairment changes.

Any differences in the carrying amounts of financial assets and financial liabilities consequent to the adoption of IFRS 9 will be recognized in retained earnings and reserves as at 1 January 2018.

The estimated impact relates primarily to the implementation of the ECL requirements in the Bank.

- d. **Basis of preparation:** The Bank adopted the principle of historical cost in the preparation of its financial statements, except of properties investments and equity instruments stated in fair value throughout equity items or profit or loss items, which are measured by fair value.
- e. **Reporting Currency:** The financial statements of the Bank were presented in Iraqi Dinar (IQD). All values were approximated to the nearest IQD '000 unless otherwise stated.
- f. **Foreign Currencies:** In preparing the financial statements of the Bank, transactions in currencies other than functional currency are recognized at the rate of exchange prevailing at the dates of transactions. At the end of

each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date of financial position statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. The Bank adopted the following exchange rates:

	At Dec. 31,2017	At Dec. 31,2016
Exchange rate of 1USD against IQD	1,182	1,182
Exchange rate of 1Euro against IQD	1,380	1,229

- g. **Islamic Financing Assets:** Islamic financing assets comprise Sharia compliant financing contracts with fixed or determinable payments. These include financing provide through Murabaha, Mudharaba, Musharaka, Ijarah, Istisna and Salam. Islamic financing assets are recognized on the date at which they are originated and carried at their amortized cost less impairment allowance, if any, and less any deferred profits.

Murabaha financing consists mainly of credit sales transactions, where the Bank purchases the commodity and then resell it to the customer after adding profit margin to the cost. The Customer should settle the sale price in installments within agreed upon period.

Musharaka financing are a form of capital partnership. Musharaka financing are stated at the fair value of consideration given less impairment, if any. Musharaka financing capital provided by the Bank at the inception in assets (other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognized as profit or loss to the Bank.

Assets acquired for the purpose of leasing (Ijarah Muntahia Biltamleek) are stated at cost less accumulated depreciation and any impairment in value under the terms of lease. The legal title of assets passes to the lessee at the end of lease term, provided that all lease instalments are settled. Depreciation is calculated on the straight line basis at the rate that systematically reduce the cost of the leased assets over the period of the lease.

In case of Mudharaba, financing assets are represented by amounts submitted by the Bank to customers (Mudharaba capital) less any losses

occurred during the period unless incurred by the customer as a result of his/her negligence in executing the terms of contract.

Salam financing assets are amounts provided by the Bank in advance against well described commodities received later. Salam receivable assets are measured at accrued amounts less the provision of doubtful debts, if any.

Finally, Financing Istisna assets are the amounts submitted by the Bank to build/ manufacture agreed upon things less any payments settled by the customers and less the provision of doubtful debts, if any.

- h. **Investment securities:** Investment securities comprise debt type instruments carried at amortized cost, equity type instruments carried at fair value through equity. All investment securities are initially recognized at fair value, being the value of considerations given including transaction costs directly attributable to the acquisition, except in the case of the investments carried at fair value through income statement, where transaction costs are expensed in the income statement.
- i. **Fair value measurement of financial instruments:** For investments traded in organized financial markets, Fair value is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows, the cash equivalent values are determined by the Bank at current profit rates for contracts with similar terms and risk characteristic. Investments classified at fair value through equity where there is no quoted prices or the Bank unable to determine a reliable measure of fair value on a continuing basis, such investments are stated at cost less impairment allowance.
- j. **Impairment of financial assets:** At each reporting date, the Bank assesses the financial assets, other than those classified at fair value through profit or loss, whether there is any reliable evidence that the financial instruments are impaired. Financial assets are impaired where there is reliable evidence that as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset. Impairment losses on assets carried at amortized cost as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts.



- k. **Property, plant and equipment:** Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. Depreciation is recognized by using straight line method in accordance with regulation prevailing in Iraq, over their estimated useful lives, as follows:

Class of assets	Useful life
Equipment	5 years
Vehicles & Automobiles	5 years
Furniture & office equipment	5 years
Tools	10 years

Gain or loss arising on the disposal of an asset is recognized in the profit or loss.

- l. **Impairment of tangible and intangible assets:** At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indicator that those assets have suffered an impairment loss. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.
- m. **Provisions:** Provision is recognized if, a result of a past event, has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
- n. **Current deposits:** The Bank do not pay any interests or profits to the holders of current deposits. At the date of transaction, the Bank measures the transactions at the cash value it expects to realize and receive. At the end of reporting period, those deposits are measured at their book value.
- o. **The rights of the holders of investment accounts:** The investment accounts comprise restricted and unrestricted investments received from customers in modes of Mudharaba or Wikala, including saving accounts. All those accounts are reported at cost plus accrued profit and related reserves. The reserves comprise the investment risk reserve and profit

smoothing reserve. The investment risk reserve is the amounts appropriated by the Bank out of the income of investment accounts holders, after allocating the Mudharib share in order to hedge against future expected losses. The profit smoothing (equalization) reserve is the amounts appropriated by the Bank out of the Mudharaba income before allocating the Mudharib share in order to maintain a certain level of return to investors.

p. **Revenue recognition:** The Bank adopts the following policies for revenue recognition:

- Income from Murabaha contracts is recognized on a time appropriated-basis over the period of the contract using the effective profit rate method. The income accrued on accounts delayed for 90 days or more is not recognized.
- Income from Mudharaba and Musharaka contracts is recognized in the profit or loss when the right established to receive payment or on distribution by Mudharib or partner. The income accrued on accounts delayed for 90 days or more is not recognized.
- Income from Ijarah Muntahia Biltamleek is recognized proportionately over the time of lease after deducting the depreciation expense.
- Income from Istisna and Salam contracts is recognized proportionately over the time of the contract when it is determinable.
- Income from commissions and fees is recognized when earned.
- Other comprehensive income is recognized when the right established to receive payment.

q. **Earnings prohibited by Sharia:** The Bank committed to avoid recognizing any income generated from non-compliant sources. Accordingly, all non-compliant income is credited to charity fund where the Bank use this fund for charity and social activities.

r. **Zakat:** Zakat is calculated on Zakat base of the Bank in accordance with FAS 9 issued by AAOIFI using the net investing fund method. Zakat is paid by the shareholders and the holders investment accounts themselves.

s. **Income tax:** Income tax expense represents the sum of tax currently payable. The Bank calculates the tax provision in accordance with Iraqi Income Tax law No. 113 of 1982 and its amendments, which determines the tax rate at 15% of the net taxable profit.

t. **Going concern assumption:** The Bank's management has assessed the Bank's ability to continue as a going concern and satisfied that the Bank has the sufficient resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material

uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

- u. **Cash and cash equivalents:** Cash and cash equivalents comprise balances with original maturity of a period of three months or less. They include cash in vaults of the Bank, cash and balances with central bank and balances with other banks and financial institutions after deducting deposits of other banks and financial institutions (with original maturity of 3 months or less) and restricted balances.

### 3. Critical Accounting Estimations:

In the application of the Bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and changes in the fair values during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates include:

- Provisions for impairment of credit facilities.
- Determination of fair values of financial instruments that are not quoted in active markets.
- Provision for income tax.
- The estimated useful lives of fixed assets.
- Impairment of assets.

### 4. Cash and Balances with CBI:

This caption comprises the following:

	<b>As of Dec. 31,2017 IQD '000</b>	<b>As of Dec. 31,2016 IQD '000</b>
Cash in treasury (IQD)	77,677,987	100,837,989
Cash in treasury (Foreign Currencies)	49,530,548	13,637,818
Cash balance with CBI/ Baghdad	68,429,482	77,889,633
Cash balance with CBI/ Erbil	31,972,945	41,087,686
Cash balance with CBI/ Sulaimainia	18,843,923	18,205,041
Cash balance with CBI/ Basra	1,346,237	678,663
Cash balance with CBI/ Mosul	1	1
Legal deposit with CBI	1,906,902	7,548,170
<b>Total</b>	<b>249,708,025</b>	<b>259,885,001</b>

## 5. Balances with Banks:

This caption comprises the following:

	As of Dec. 31,2017 IQD '000	As of Dec. 31,2016 IQD '000
Cash with local banks	4,135,838	3,054,999
Cash with foreign banks	50,639,796	91,228,632
<b>Total</b>	<b>54,775,634</b>	<b>94,283,631</b>

## 6. Islamic Financing:

This caption comprises the following:

	As of Dec. 31,2017 IQD '000	As of Dec. 31,2016 IQD '000
<b>a. Financing Assets:</b>		
Short term Murabaha: Automobiles	12,772,260	15,584,516
Murabaha: DC	20,199,434	21,627,290
Credit facilities: companies	75,070,191	89,759,914
Credit Facilities: individuals	36,321,678	36,321,677
Musharaka (joint ventures)	585,551	161,614
Advances	3,270	309,467
<b>Sub-total</b>	<b>144,952,384</b>	<b>163,764,478</b>
Add: Accrued revenues	12,231,974	9,681,729
Minus: Revenues received in advance	(4,537,003)	(5,244,776)
Minus: Deposits recieved	(127,598)	(953,769)
<b>Total before impairment</b>	<b>152,519,757</b>	<b>167,247,662</b>
Net impairment of direct credit facilities (performing)	(3,164,000)	(3,968,499)
Net impairment of direct credit facilities (non-performing)	(6,423,886)	(8,322,135)
<b>Total of impairment</b>	<b>(9,587,886)</b>	<b>(12,290,634)</b>
<b>Net direct credit facilities</b>	<b>142,931,871</b>	<b>154,957,028</b>
<b>b. Statement of financial position</b>		
(1) Provision for impairment (performing credit facilities)		
Balance at the beginning of period	3,968,499	3,968,499
Additions/ deductions during the period	(804,499)	0
<b>Balance at the end of period</b>	<b>3,164,000</b>	<b>3,968,499</b>
(2) Provision for impairment (non-performing credit facilities)		
Balance at the beginning of period	8,322,135	8,322,135
Additions/ deductions during the period	(1,898,249)	0
<b>Balance at the end of period</b>	<b>6,423,886</b>	<b>8,322,135</b>
<b>Total</b>	<b>9,587,886</b>	<b>12,290,634</b>

## 7. Qardh Hasan (No interest loans):

This caption comprises the following:

	As of Dec. 31,2017 IQD '000	As of Dec. 31,2016 IQD '000
Qardh Hasan	28,425,937	29,298,889
<b>Total</b>	<b>28,425,937</b>	<b>29,298,889</b>

## 8. Investments:

This caption comprise the investment in Erbil Stock Exchange Market Company, as follows:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Investments held to maturity date	250,000	250,000
<b>Total</b>	<b>250,000</b>	<b>250,000</b>

## 9. Other Assets:

This caption comprise the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
LC deposits with foreign banks	2,271,465	1,744,032
Prepaid rents	1,131,466	981,621
Prepaid expenses	147,389	42,274
Cash discrepancies (evaluation of foreign currencies)	112,666,636	83,834,856
Imprest advances	1,237,234	1,192,595
Misc. receivables	18,085	17,701
Mutual debit accounts	1,397,976	0
<b>Total</b>	<b>118,870,251</b>	<b>87,813,079</b>

## 10. Intangible assets:

This caption comprise deferred revenue charges:

	<b>As of Dec. 31, 2017 IQD '000</b>	<b>Total As of Dec. 31, 2016 IQD '000</b>
Cost as at the beginning of the year	8,457,871	9,670,684
Additions during the year	524,045	936,678
Amortization for the year	(1,446,496)	(2,149,491)
<b>Balance as at the end of the year</b>	<b>7,535,420</b>	<b>8,457,871</b>

## 11. Property, Plant and Equipment:

The following table shows the breakdown of the tangible fixed assets and its depreciation:

**As at December 31, 2017**

	<b>Equipment IQD '000</b>	<b>Vehicles IQD '000</b>	<b>Tools IQD '000</b>	<b>Furniture &amp; Fixture IQD '000</b>	<b>Total IQD '000</b>
<b>Historical cost</b>					
<b>Balance at 1/1/2017</b>	728,994	247,992	1,126	6,409,000	<b>7,387,112</b>
<b>Additions</b>	252,745	20,266	1	386,072	<b>659,084</b>
<b>Disposals</b>				(5,179)	<b>(5,179)</b>
<b>Balance at 31/12/2017</b>	<b>981,739</b>	<b>268,258</b>	<b>1,127</b>	<b>6,789,893</b>	<b>8,041,017</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1/1/2017</b>	318,672	172,439	474	4,813,937	<b>5,305,522</b>
<b>Depreciation for the year</b>	169,977	78,979	201	799,114	<b>1,048,271</b>
<b>- Depreciation of disposed assets</b>				(5,179)	<b>(5,179)</b>
<b>- Balance at 31/12/2017</b>	<b>488,649</b>	<b>251,418</b>	<b>675</b>	<b>5,607,872</b>	<b>6,348,614</b>
<b>Book value at 31/12/2017</b>	<b>493,090</b>	<b>16,840</b>	<b>452</b>	<b>1,182,021</b>	<b>1,692,403</b>

### As at December 31,2016

	Equipment IQD '000	Vehicles IQD '000	Tools IQD '000	Furniture & Fixture IQD '000	Total IQD '000
<b>Historical cost</b>					
<b>Balance at 1/1/2016</b>	534,868	247,992	1,126	6,305,107	<b>7,089,093</b>
<b>Additions</b>	194,126	0	0	841,984	<b>1,036,110</b>
<b>Disposals</b>	0	0	0	(738,091)	<b>(738,091)</b>
<b>Balance at 31/12/2016</b>	<b>728,994</b>	<b>247,992</b>	<b>1,126</b>	<b>6,409,000</b>	<b>7,387,112</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1/1/2016</b>	202,206	126,368	156	3,577,364	<b>3,906,094</b>
<b>Depreciation for the year</b>	116,466	46,071	318	1,974,664	<b>2,137,519</b>
<b>- Depreciation of disposed assets</b>	0	0	0	(738,091)	<b>(738,091)</b>
<b>- Balance at 31/12/2016</b>	<b>318,672</b>	<b>172,439</b>	<b>474</b>	<b>4,813,937</b>	<b>5,305,522</b>
<b>Book value at 31/12/2016</b>	<b>410,322</b>	<b>75,553</b>	<b>652</b>	<b>1,595,063</b>	<b>2,081,590</b>

### 12. Projects in Progress:

This caption comprises the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Balance at the beginning of the year	6,047,587	6,436,537
Additions		0
Less: transfers to fixed assets	(338,916)	(388,950)
<b>Balance at the end of the year</b>	<b>5,708,671</b>	<b>6,047,587</b>

### 13. Customers' Deposits:

The following table shows the breakdown of the customer's deposits:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Current accounts/ companies	64,890,498	103,247,659
Current accounts/ individuals	29,201,036	11,569,815
Dormant Accounts	237,647	0
Saving Accounts	162,189,265	145,719,097
<b>Total</b>	<b>256,518,446</b>	<b>260,536,571</b>

#### 14. Deposits on Banking Operations:

This caption comprises the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Deposits against documentary credits	2,820,036	34,668,568
Deposits against letter of guarantees	11,370,228	13,980,695
Deposits on companies applications	1,604,000	40,794
Cheques drawn on the Bank	6,712	9,354
Drafts drawn on the Bank	124,840	1,212,398
Certified cheques	84,607	487,047
Deposits on currency auction	243,658	4,656,016
Drafts in process	2,000	0
<b>Total</b>	<b>16,256,081</b>	<b>55,054,872</b>

#### 15. Other liabilities:

This caption comprises the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Closed accounts	109,788	84,070
Accounts payable	276,838	156,366
Accrued expenses	334,539	156,112
Retentions for others	524,061	125,417
Misc. liabilities	57,586	70,114
<b>Total</b>	<b>1,302,812</b>	<b>592,079</b>

#### 16. Funds received from CBI:

This caption comprises the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Finance received from CBI/ SME initiative	1,500,000	1,850,000
<b>Balance as at Dec. 31, 2016</b>	<b>1,500,000</b>	<b>1,850,000</b>



### 17. Provisions:

This caption comprises the following:

	As of Dec. 31, 2017 IQD '000	As of Dec. 31, 2016 IQD '000
Income tax allowance	6,732,652	3,840,512
Foreign exchange fluctuation allowance	5,769,812	14,996,254
Allowance for deposits profits	4,328,732	5,103,507
<b>Total</b>	<b>16,831,196</b>	<b>23,940,273</b>

### 18. Islamic Financing Income:

This caption comprises the following:

	For the year ended Dec. 31,2017 IQD '000	For the year ended Dec. 31,2016 IQD '000
Income on Islamic facilities	17,514,967	15,214,972
<b>Total</b>	<b>17,514,967</b>	<b>15,214,972</b>

### 19. Investment Income:

This caption comprises the following:

	For the year ended Dec. 31,2017 IQD '000	For the year ended Dec. 31,2016 IQD '000
Saving profits from other banks	112,581	9,822
<b>Total</b>	<b>112,581</b>	<b>9,822</b>

### 20. Fees and Commissions Income:

This caption comprises the following:

	For the year ended Dec. 31,2017 IQD '000	For the year ended Dec. 31,2016 IQD '000
Commissions on Remittances	1,678,886	1,530,391
Commissions on documentary credit	772,814	1,391,675
Commissions on letter of guaranties	1,537,823	1,516,713
Other banking commissions	756,154	1,234,985
<b>Total</b>	<b>4,745,677</b>	<b>5,673,764</b>
Minus: banking commissions paid	(579,713)	(515,423)
<b>Net</b>	<b>4,165,964</b>	<b>5,158,341</b>

## 21. Income on foreign exchange trading:

This caption comprise the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Income on foreign exchange trading	14,105,644	22,706,669
Minus: allowance for FE changes	(218,571)	(2,048,273)
<b>Net</b>	<b>13,887,073</b>	<b>20,658,396</b>

## 22. Miscellaneous Banking Revenues:

This caption comprise the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Reimbursement of charges	98,859	75,576
Accidental revenues	249	5,981
Misc. revenues	625,066	3,984
Previous year revenues	12,811	0
<b>Total</b>	<b>736,985</b>	<b>85,541</b>

## 23. Salaries and Related Charges:

This caption comprises the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Salaries	689,431	729,414
Social allowances	223,474	224,187
Over time wages	18,371	25,176
Professional allowances	165,389	165,541
Risk allowances	216,448	165,541
Other allowances	1,887,176	1,818,378
Bonuses	558,321	684,073
Social security contributions	129,657	133,130
<b>Sub total</b>	<b>3,888,267</b>	<b>3,945,440</b>
<b>Add: other employees' charges</b>		
Transportation costs	401,779	
<b>Total</b>	<b>4,290,046</b>	<b>3,945,440</b>

#### 24. Administrative & General Expenses:

This caption comprise the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Oil & lubricants	99,001	66,216
Office Supplies & stationary	173,977	143,142
Water & electricity	55,298	57,357
Maintenance	509,448	314,280
Rent of buildings	652,191	421,627
Advertisement & printing	126,904	179,947
Hospitality	55,008	
Money transportation	698,170	
Transportation, travel & communication	393,177	1,590,483
Subscriptions & conferences	824,607	541,794
Remuneration for non-employees	42,432	107,469
Legal fees	31,123	
Banking services	16,068	
Audit fees	132,620	98,560
Other service expenses	587,352	734,378
<b>Total</b>	<b>4,397,376</b>	<b>4,255,253</b>

#### 25. Taxes and Duties:

This caption comprises the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Taxes and duties	7,964	40,068
<b>Total</b>	<b>7,964</b>	<b>40,068</b>

## 26. Other Expenses:

This caption comprises the following:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Donations	103,419	
Penalties & compensations	285,900	476,777
Previous year expenses	1,398,552	293,576
Accidental expenses	1,610	72,098
<b>Total</b>	<b>1,789,481</b>	<b>842,451</b>

## 27. Related Parties Transactions:

There is no transaction occurred with other related parties during the period.

## 28. Off- Balance Sheet Operations:

The following table contains the off- balance sheet obligation for the Bank:

	<b>For the year ended Dec. 31,2017 IQD '000</b>	<b>For the year ended Dec. 31,2016 IQD '000</b>
Obligation on letter of guaranties	103,338,387	129,446,885
Less: retentions	(11,370,228)	(13,980,695)
Net	91,968,159	115,466,190
Obligation on documentary credits	51,253,912	59,393,264
Less: retentions	(2,820,036)	(34,668,568)
Net	48,433,876	24,724,696
<b>Net obligations</b>	<b>140,402,035</b>	<b>140,190,886</b>

## 29. The Fair Value of Financial Assets & Liabilities:

- a. There are no indicators of impairment of assets and liabilities less than their book values, except of credit facilities, which the Bank formed the allowance for their impairment see the paragraph 6 above). Thus, the book values correspond with fair values.
- b. Assumptions used in evaluation of fair values: The fair values of the financial assets and liabilities are determined using the following evaluation levels:  
Level one: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level two: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level three: assets that are not based on market data.

- c. Financial instruments whose fair value approximates its book value: These are monetary financial assets and liabilities or those with maturity less than a year.
- d. Financial instruments with fixed interest rate: The fair value of the financial assets and liabilities measured at amortized cost is determined using a comparison between the discounted cash flows using market interest rate comparing to real market prices for comparable instruments.

### 30. Risk Management:

- a. **Exposures to credit risk after impairment provision and before guaranties and other risk mitigation factors:**

	As at dec.31, 2017 IQD '000	As at dec.31, 2016 IQD '000
<b>Financial position items:</b>		
Balances with CBI	122,499,490	145,409,194
Balances with banks	54,775,634	94,283,631
Credit facilities	152,519,757	167,247,662
Investments	250,000	250,000
Other assets	118,870,251	87,813,079
<b>Sub total</b>	<b>448,915,132</b>	<b>495,003,566</b>
<b>Off- balance sheet items</b>		
Letter of guaranties	103,338,387	129,446,885
Documentary credits	51,253,912	59,393,264
<b>Sub total</b>	<b>154,592,299</b>	<b>188,840,149</b>
<b>Total</b>	<b>603,507,431</b>	<b>683,843,715</b>

**b. Exposure to credit risk according to risk degrees:**

	<b>As at dec.31, 2017 IQD ‘000</b>	<b>As at dec.31, 2016 IQD ‘000</b>
<b>Performing debts:</b>		
Good credit	46,514,008	70,590,804
Standardized credit	65,880,100	29,757,793
<b>Non-performing debts:</b>		
Semi standardized credit	28,313,900	25,811,328
Bad credit	6,424,519	13,667,222
Loss credit	5,387,230	27,420,515
<b>Total</b>	<b>152,519,757</b>	<b>167,247,662</b>
<b>Less:</b>		
Suspended profits		<b>0</b>
Provision for impairment	<b>9,587,886</b>	<b>12,290,634</b>
<b>Net</b>	<b>142,931,871</b>	<b>154,957,028</b>

**c. Geographic concentration:**

The table below shows the geographic concentration of credit risks:

**As of Dec. 31, 2017:**

	<b>Baghdad IQD ‘000</b>	<b>Erbil IQD ‘000</b>	<b>Sulaimania IQD ‘000</b>	<b>Basra IQD ‘000</b>	<b>Mosul IQD ‘000</b>	<b>Outside Iraq IQD ‘000</b>	<b>Total IQD ‘000</b>
<b>Balances with CBI</b>	70,336,384	31,972,945	18,843,923	1,346,237	1		<b>122,499,490</b>
<b>Balances with banks</b>		4,135,838				50,639,796	<b>54,775,634</b>
<b>Direct credit facilities</b>	368,695	136,350,54	13,709,854	1,136,046	954,617		<b>152,519,757</b>
<b>Investments</b>		250,000					<b>250,000</b>
<b>Other assets</b>		118,870,25					<b>118,870,251</b>
<b>Total</b>	<b>70,705,079</b>	<b>291,579,57</b>	<b>32,553,777</b>	<b>2,482,283</b>	<b>954,618</b>	<b>50,639,796</b>	<b>448,915,132</b>

**As of Dec. 31, 2016:**

	<b>Baghdad IQD '000</b>	<b>Erbil IQD '000</b>	<b>Sulaimania IQD '000</b>	<b>Basra IQD '000</b>	<b>Mosul IQD '000</b>	<b>Outside Iraq IQD '000</b>	<b>Total IQD '000</b>
<b>Balances with CBI</b>	85,437,803	41,087,686	18,205,041	678,663	1		<b>145,409,194</b>
<b>Balances with banks</b>		3,054,999				91,228,631	<b>94,283,630</b>
<b>Direct credit facilities</b>	439,475	149,427,678	14,847,147	1,600,562	932,800		<b>167,247,662</b>
<b>Investments</b>		250,000					<b>250,000</b>
<b>Other assets</b>		87,813,079					<b>87,813,079</b>
<b>Total</b>	<b>85,877,278</b>	<b>281,633,442</b>	<b>33,052,188</b>	<b>2,279,225</b>	<b>932,801</b>	<b>91,228,631</b>	<b>495,003,565</b>

**d. Concentration by the economic sector:**

**As of Dec. 21, 2017:**

	<b>Financial IQD '000</b>	<b>industrial IQD '000</b>	<b>commercial IQD '000</b>	<b>Service IQD '000</b>	<b>Total IQD '000</b>
Balance with CBI	122,499,490				<b>122,499,490</b>
Balances with banks	54,775,634				<b>54,775,634</b>
Direct credit facilities				152,519,757	<b>152,519,757</b>
Investments	250,000				<b>250,000</b>
Other assets	118,870,251				<b>118,870,251</b>
<b>Total</b>	<b>296,395,375</b>			<b>152,519,757</b>	<b>448,915,132</b>

**As of Dec. 31, 2016:**

	<b>Financial IQD '000</b>	<b>industrial IQD '000</b>	<b>commercial IQD '000</b>	<b>Service IQD '000</b>	<b>Total IQD 1000</b>
Balance with CBI	145,409,194				<b>145,409,194</b>
Balances with banks	94,283,630				<b>94,283,630</b>
Direct credit facilities				167,247,662	<b>167,247,662</b>
Investments	250,000				<b>250,000</b>
Other assets	87,813,079				<b>87,813,079</b>
<b>Total</b>	<b>327,755,903</b>			<b>167,247,662</b>	<b>495,003,565</b>

**e. Currency risks:**

The currency risks represent the changes in financial instrument values caused by the change in the foreign currencies exchange rates. The Bank prepares the sensitivity analysis to monitor the currency risks:

**Scenario one: Increase in exchange rate of 2%:**

Currency	As at Dec. 31, 2017		As at Dec. 31, 2016	
	Foreign Exchange position	Impact on P&L	Foreign Exchange position	Impact on P&L
USD	49,530,484	900,610	13,730,121	274,602
EUR	64	1	18,304	366
<b>Total</b>	<b>49,530,548</b>	<b>900,611</b>	<b>13,748,425</b>	<b>274,968</b>

**Scenario two: Decrease in exchange rate of 2%:**

Currency	As at Dec. 31, 2017		As at Dec. 31, 2016	
	Foreign Exchange position	Impact on P&L	Foreign Exchange position	Impact on P&L
USD	49,530,484	(900,610)	13,730,121	(274,602)
EUR	64	(1)	18,304	(366)
<b>Total</b>	<b>49,530,548</b>	<b>(900,611)</b>	<b>13,748,425</b>	<b>(274,968)</b>

**f. Equity price risk:**

Equity risk is the result of changes in the prices of shares of the investee companies, which may cause losses to the Bank. The Bank performs sensitivity analysis to monitor the impact of changes in profit or loss. Details of the sensitivity analysis as of 31/12/2017 and 31/12/2016 are as follows:



**Scenario one: Increase in prices of 2%:**

Investee	As at Dec. 31, 2017		As at Dec. 31, 2016	
	Cut-off position	Impact on P&L	Cut-off position	Impact on P&L
Erbil Stock Exchange Market	250,000	17,500	250,000	17,500
<b>Total</b>	<b>250,000</b>	<b>17,500</b>	<b>250,000</b>	<b>17,500</b>

**Scenario two: Decrease in prices of 2%:**

Investee	As at Dec. 31, 2017		As at Dec. 31, 2016	
	Cut-off position	Impact on P&L	Cut-off position	Impact on P&L
Erbil Stock Exchange Market	250,000	(17,500)	250,000	(17,500)
<b>Total</b>	<b>250,000</b>	<b>(17,500)</b>	<b>250,000</b>	<b>(17,500)</b>

**g. Capital adequacy**

	As at Dec. 31, 2017 IQD '000	As at Dec. 31, 2016 IQD '000
<b>Basic capital items:</b>		
Paid-in capital	255,000,000	255,000,000
Reserves	34,599,173	30,501,974
Retained earnings	27,653,647	15,362,050
<b>Supporting capital:</b>		
provisions	26,655,939	36,467,764
<b>Total</b>		<b>337,331,788</b>
<b>Less:</b>		
Net intangible assets	(7,535,420)	(8,547,871)
<b>Net</b>	<b>343,908,759</b>	<b>328,783,917</b>
<b>Assets risk weighted</b>	255,538,463	216,255,238
<b>Off-balance sheet accounts risk weighted</b>	55,670,855	62,678,034
<b>Total</b>	<b>311,209,318</b>	<b>278,933,272</b>
<b>Capital adequacy ratio</b>	<b>%110,51</b>	<b>%117.87</b>

#### h. Assets & liabilities maturity analysis:

The following table shows the analysis of assets and liabilities according to the expected period for recovery or settlement:

**As at Dec. 31, 2017:**

	<b>Up to one year IQD'000</b>	<b>More than one year IQD'000</b>	<b>Total IQD'000</b>
<b>Assets:</b>			
Cash and balances with CBI	249,708,025		<b>249,708,025</b>
Balances with other banks	54,775,634		<b>54,775,634</b>
Direct credit facilities	61,007,903	91,511,854	<b>152,519,757</b>
Qardh Hasan	9,380,560	19,045,377	<b>28,425,937</b>
Investments		250,000	<b>250,000</b>
Fixed assets		1,692,403	<b>1,692,403</b>
Other assets	118,870,251		<b>118,870,251</b>
Project in progress		5,708,671	<b>5,708,671</b>
<b>Total assets</b>	<b>493,742,373</b>	<b>118,208,305</b>	<b>611,950,678</b>
<b>Liabilities:</b>			
Customers' deposits	256,518,446		<b>256,518,446</b>
Banking operations deposits	16,256,081		<b>16,256,081</b>
Fund from CBI	500,000	1,000,000	<b>1,500,000</b>
Other liabilities	1,302,812		<b>1,302,812</b>
Provisions	26,655,939		<b>26,655,939</b>
<b>Total liabilities</b>	<b>301,233,278</b>	<b>1,000,000</b>	<b>302,233,278</b>
<b>Net</b>	<b>192,509,095</b>	<b>117,208,305</b>	<b>309,717,400</b>

**As at Dec. 31, 2016:**

	<b>Up to one year</b>	<b>More than one year</b>	<b>Total</b>
<b>Assets:</b>			
Cash and balances with CBI	145,409,194		<b>145,409,194</b>
Balances with other banks	94,283,631		<b>94,283,631</b>
Direct credit facilities	66,899,065	100,348,597	<b>167,247,662</b>
Qardh Hasan	9,668,633	19,630,256	<b>29,298,889</b>
Investments		250,000	<b>250,000</b>
Fixed assets		2,081,590	<b>2,081,590</b>
Other assets	87,813,079		<b>87,813,079</b>
Project in progress	6,047,587		<b>6,047,587</b>
<b>Total assets</b>	<b>410,121,189</b>	<b>122,310,443</b>	<b>532,431,632</b>
<b>Liabilities:</b>			
Customers' deposits	260,536,571		<b>260,536,571</b>
Banking operations deposits	55,054,872		<b>55,054,872</b>

Fund from CBI	850,000	1,000,000	<b>1,850,000</b>
Other liabilities	592,079		<b>592,079</b>
Provisions	36,467,764		<b>36,467,764</b>
<b>Total liabilities</b>	<b>(353,501,286)</b>	<b>(1,000,000)</b>	<b>(354,501,286)</b>
<b>Net</b>	<b>56,619,903</b>	<b>121,310,443</b>	<b>177,930,346</b>

**i. Operational Risks:**

The Bank uses the basic indicator method to measure the capital required to cover the operational risks, in a ratio of 15% of the average profits for three years ago, as shown below:

	<b>IQD '000</b>
Profit for 2015	24,330,066
Profit for 2016	19,714,632
Profit for 2017	16,388,796
<b>Total for three years</b>	<b>60,433,494</b>
<b>Average for three years</b>	<b>20,144,498</b>
<b>Capital required to cover OR</b>	<b>3,021,675</b>

To mitigate the operational risks, the Bank adopts many measures, among of them:

- Selecting and recruiting competent, skillful and integrated personnel.
- Backing up the financial and non-financial data.
- Setting the policies and procedures and securing their implementation.
- External and internal auditing of the financial statements.
- Auditing compliance to secure compliance with regulatory requirements and CBI instructions.
- Setting and implementing rigid procedures for anti-money laundering and combating terrorism.
- Applying risk management procedures and securing the commitment with capital adequacy ratio.
- Securing procedures for safety and fire extinguishment.
- Continuous monitoring and performance appraisal.
- Determining authorities and responsibilities.
- Managing business continuity.
- Adopting the system of succession of functions.
- Continuous learning and training.
- Adopting effective documentation procedures.
- Securing the sufficient protection of the Bank's buildings and assets.
- Insuring the Bank's assets and employees.

# **CIHAN Bank for Islamic Investment and Finance**

## **BOD Report for the financial year ended December 31, 2017**

### **1. Introduction:**

CIHAN Bank for Islamic Investment and Finance was incorporated in 2008 and commenced its activities on April 1, 2008 throughout its main branch in Erbil, Iraq. After that, the Bank expanded its branches network in several governorates in Kurdistan Region and Iraq as a whole. The Bank networks involves branches in Erbil- Bajger, Sulaimania, Zakho, Duhok, Mosul, Kirkuk, Najaf, Basra, Soran, Kalar and two branches in Baghdad. The bank plans to open new branches in Babylon, Karbala, Amara and Ramadi.

Cihan Bank has taken the Islamic Sharia as a title and approach in providing its banking services to its public. Therefore, the Bank mixed between the economic and financial activities and the Islamic principles. The Bank perform its operations under the supervision of Sharia Advisory Board composed of Sharia scholars and specialists in economics, banking and law. Therefore, the Bank could attract wide range of customer's public, that is enables the Bank to achieve more and more success. The best evidence on this fact is the volume of deposits appeared in its balance sheet for the current and preceding years. Therefore, it is not strange for the Bank to be ranked third in accordance with CAMELS standards within Iraqi private banks because of evaluation conducted by CBI. This encourage the Bank to spend further efforts and to provide expertise to achieve more success to be pioneer in line with Arab and international banks, Islamic and traditional. It is worth noting that the Bank has collected the golden medal from the Coronation Academy for excellence and quality in providing Islamic banking services in 2013.

### **2. The capital of the Bank:**

The Bank started its business with the capital of IQD 25 Billion and then raised many times to IQD 50 Billion and to IQD 150 Billion in the year 2012. In 2013, the capital became IQD 255 Billion. The capital increasing was in line with CBI instruction No. 13582 on 30/10/2013.

### **3. BOD Composition:**

The Bank has an elected board of directors. The board is responsible for directing and monitoring the bank performance and setting the strategies and polices of the bank in accordance with related laws: Banking Law, Companies Law, CBI Law, Islamic Banking Law and so on. The composition of BOD was as follows:

- Azad Y. S. Bajger                      Chairman
- Suzan Sharif Muhammad              Member
- Ahmed Abdulkhaliq Ismail              Member – CEO

- Newal Jamal Abdullah	Member
- Newroz S. Saeed	Member
- Aso N.D. Muhammad	Member
- Sazan N. Shaker	Member
- Nawzad Y. S. Bajger	Spare Member
- Shermin M. Abdalnabi	Spare Member
- Meriwan T. Ahmad	Spare Member
- Khalid Wali Saleh	Spare Member
- Ali H. Abdulwahab	Spare Member
- Emad A. Abdullah	Spare Member

The following is a list of the numbers of shares held by BOD members:

- Azad Y. S. Bajger	24,996,000,000
- Suzan Sharif Muhammad	17,268,000,000
- Ahmed Abdulkhaliq Ismail	2,000,000
- Newal Jamal Abdullah	14,094,500,000
- Newroz S. Saeed	22,884,500,000
- Aso N.D. Muhammad	30,000,000
- Sazan N. Shaker	25,000,000

#### **4. Bank plans:**

- Providing local and international banking services , developing the marketing of the services to customers , dealing with them easily and simplifying the transactions provided to them, which is reflected on the satisfaction of customers and encourage them to deal with the bank.
- Expanding the network of the local branches to cover more governorates to satisfy the demand of the public.
- Establishing an international relations network throughout correspondent banks around the world.
- Attract and develop the competent human resources with focus on brilliant young resources to involve them in banking operations after honing their talents.
- Optimizing the use of banking resources considering the risk management standards to achieve the balancing between deposits and owners' equity and credit facilities provided.
- Considering the provisions of Anti-Money Laundering Law in all aspects of banking operations.
- The use of modern technology and developed banking systems, especially RTGS and ACH systems in addition to e banking.

## 5. E Banking:

The management of the Bank has taken care to use all modern methods, systems and techniques in banking operations, which reflects on the accuracy of work and the speed of completion. The Bank put in use iMAL system as a core banking system, started to use IBAN, SMS service and e banking. the Bank still working to upgrade its techniques in this context.

## 6. International banking transactions:

As shown by statistics, the volume of transactions with correspondents increased in 2017 despite the recession, contraction and events that the world has experienced.

The following are some of these statistics:

- a. Documentary credits: the Bank opened 92 LC as shown below:

Currency	LC No.	Amount
USD	88	USD 178,235,267
EUR	3	EUR 2,610,780
YEN	1	YEN 613,935,068

- b. Foreign outward transfers: The number of these transfers was 1097 classified by currency as below:

Currency	Amount
USD	705,044,617
EUR	14,478,385
AED	2,550,178
GBP	1,380,802
YEN	13,990,984

- c. Foreign inward transfers: The number of these transfers was 7218 classified by currency as below:

Currency	Amount
USD	179,620,339
EUR	4,070,781
AED	0
GBP	1,615
YEN	406,156

- d. Foreign letter of guarantees: The Bank has 28 active letter of guarantees by IQD 64,000,410,380.200.

## 7. Compliance:

The bank complies with all related laws and resolutions, including: Banking Law, Islamic Banking Law, Companies Law and instructions issued by CBI.

## 8. International banking relations:

CIHAN Bank has an expanded network of correspondents around the world as listed below:

No.	Name of the bank	Country
1	Fransabank S.A.L	Lebanon
2	First National Bank	Lebanon
3	Bank of Beirut	Lebanon
4	Credit Lebanais S.A.L	Lebanon
5	Byblos Bank S.A.L	Lebanon
6	IBL Bank S.A.L	Lebanon
7	BBAC S.A.L	Lebanon
8	Banque Libano Francaise	Lebanon
9	Kuveyt Turk Participation Bank	Turkey
10	Turkey IS Bankasi	Turkey
11	Turkey Halk Bankasi	Turkey
12	Turkey Vakiflar Bankasi	Turkey
13	Al Baraka Turk Participation Bank	Turkey
14	Aktif Yatirim Bankasi	Turkey
15	Yapi Ve Kredi Bankasi	Turkey
16	T.C. Ziraat Bankasi A.S	Turkey
17	Ziraat Katilim Bankasi A.S	Turkey
18	AK Bank	Turkey
19	UBAF	France
20	Abu Dhabi Islamic Bank	UAE
21	Al Baraka Islamic Bank	Bahrain
22	Fransabank	France
23	Housing Bank for Trade & Finance	Jordan
24	Bank Al Etihad	Jordan
25	Byblos Bank – Europe	Brussels

As well as, the Bank is in process to make relations with other banks, as below:

No.	Name of the bank	Country
1	Sharjah Islamic Bank	United Arab Emirates
2	Banque Misr	United Arab Emirates
3	Commercial Bank of Ceylon	Sri Lanka
4	Nurol Bank	Turkey

## 9. Human resources:

Considering the importance of human resources in performing the banking operations, the Bank acts to attract the competent individuals. The following table shows the distribution of human resources according to their qualification:

Qualification	Number
Chartered Accountant	4
Master	5
Bachelor	101
Diploma	41
Secondary school and less	127
Total	278

As shown, the percentage of bachelor degree holders is about 36%. The holders of secondary school degree and less form 45%, all of them are entitled to service jobs.

- The bank held a training program on the (International standards on banking) in cooperation with Ernst & Young.
- Below is a list of official of the Bank took the highest salaries during the year:
  1. Ahmad Abdulkhaliq Ismael
  2. Ahmad Khalaf Shehab
  3. Saadi Farman Noori
  4. Naz Nawzad Yahya
  5. Khilood M. Abed Ali
  6. Fadhil Kareem Kadil
  7. Shams M. Abdulkadhim
  8. Saya Omar Haji

## 10. Accounting policies:

The Bank adopted IFRS in preparing and presenting its financial statements in addition to resolutions and instruction issued by CBI. The Bank internally use the following polices:

- Accrual basis in recording the revenues and expenditures.
- Accounting for depreciation by using straight-line method.
- Adopting the foreign exchange rate declared by CBI.
- Charging the return on investment deposits on the profit and losses for the year.




Finally, we express our thanks and appreciation to all of shareholders for taking a part in this meeting and for seeing our efforts in discharging our responsibilities to raise the reputation of the Bank and expanding its services to customers despite the economic conditions. The Bank will continue to develop its performance to achieve the development and welfare for all citizens.

Success comes from God.

With our best regards.

  
**Ahmad Abdulkhaliq Ismael**  
**CEO**

  
**Azad Y.S. Bajger**  
**Chairman**

## **Audit Committee Report**

The Audit Committee of Cihan Bank for Islamic Investment and Finance has carried out its duties during 2017. In particular, the Committee has compiled the following tasks:

1. Looking at interim financial statements prepared by the Bank and make observations thereon to the Board of Directors.
2. Reviewing the annual financial statements and reports and the report of the external auditor thereon and submitting the recommendations to the board of directors and then the general assembly of the Bank for approval.
3. Follow up the activity of the internal audit in the Bank, the work of the external auditor, and provide facilities to enhance their performance.
4. Follow up the performance of the Bank in all aspects to overcome the obstacles facing the Bank.
5. Follow up the inspection reports of the Central Bank of Iraq and submit recommendations to the Board of Directors to take the necessary corrective action.
6. Follow-up the reports of the compliance officer at the Bank to ensure full compliance with all laws and regulations and instructions of the Central Bank of Iraq.
7. Follow-up risk management reports to ensure a sound and risk-free environment.
8. Follow up AML / CFT reports to ensure full compliance with due diligence and suspicious transaction reporting procedures.
9. Ensuring that the Bank complies with the International Financial Reporting Standards and Financial Accounting Standards for Islamic Financial Institutions and the transition from the uniform accounting system.

Chairman of the Audit Committee