

BANKOF BAGHDAD (PRIVATE JOINT STOCKCO.) BAGHDAD-IRAQ

Independent Auditor's Report

Financial Statements

For the period

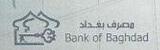
December 31 St 2011

F.H.Al-Salman & Co.

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20 30 Cooperating Firm of Pricewaterhouse Coopers Public Accountants & Auditor Baghdad - Iraq



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BANK OF BAGHDAD (Private Joint Stock Co.) Baghdad – Iraq

Independent Auditor's Report

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December 31 st 2011

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Auditor's Report

We have examined the balance sheet of The Bank of Baghdad (Private Joint Stock Co.) - Baghdad as of December 31st 2011 and the profit loss and appropriation accounts for the year then ended, as well as the Bank's Management Report which was prepared in accordance with the requirements of Banking Law No. (94) for 2004 and Iraqi Companies Law No. (21) for 1997 and its related instructions and guide lines.

We had obtained the information and explanations which in our opinion were necessary for accomplishing our assignment which was conducted in accordance with the prevailing legislation, and the generally accepted accounting standards which had included the necessary tests for the activities of the bank that falls within our domain, as we would like to indicate the following explanatory remarks:-

First - Share Capital

The share capital of the bank was increased by ID 12.9 Billion, thus becoming ID 112.9 Billion instead of ID 100 Billion, that is in accordance with the Registrar of Companies resolution dated April 6th27th 2011.

Second - The Bank's Operations

The surplus achieved as a result of the Bank's operation during the year under audit was ID(Million) 24,972 while the surplus attained during the previous year had amounted to ID(Million) 16,211 which was an increase of ID(Million) 8,761 thus representing a rate of growth of 54.5%, mainly due to the increase in revenues of current activities of the Bank by ID (Million)14,874 while the expenses of the current activities were increased ID(Million) 5,072, as indicated below:-

	ID Million
a – Increase in Revenues of Current Activities Increase in banking operations' revenues Decrease in investments' revenues Increase in services' activities	15,123 (263) 14
	14,874
b - Increase in Expenses of Current Activities	
Increase in banking operations expenses	2,132
Increase in depreciation and amortization	1,078
Increase in administrative expenses	1,862
	5,072



Current Assets	ID Million	0/
Cash		(422)
Investments	(114,435)	(133)
	55,926	65
Monetary Credit	(31,018)	(36)
Debtors and debit balances	(26)	- I
	(89,553)	
Non-Current Assets	3,758	4
	(85,795)	(100)
Short Term Sources of Finance		
Current Liabilities		
Clients Current and deposit accounts	(105,320)	(99)
Provisions	2,973	3
Creditors and credit balances	(4,280)	(4)
	(106,627)	(100)
Long Term Sources of Finance Shareholders' Equity	(100,027)	(100)
Share Capital - Paid up	12,900	62
Reserves	7,932	38
	The state of the s	0.01.00
	20,832	100
Total Sources of Finance	(85,795)	

c - Non-operational and Other Revenus and Expenses

The decrease in "Non-operational " and "Other" Revenues during the year had amounted to ID Million (953), while the increase in " Non-operational and "other" expenses had amounted to ID (Million) 88.

Subject to what had been stated above, the increase in the surplus of Bank's operation for ID (Million) 8,761 was attained due to the following:-

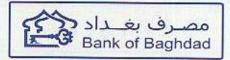
	ID Million
Increase in revenues of current activities	14,874
Increase in expenses of current activities	(5,072)
Net increase in revenues of current activities	9,802
Decrease in "Non-operational" and " Other" revenues	(953)
Increase in "Non-operational" and "Other" expenses	(88)
	8,761

Third 'Bank's Financial Position

The balance of assets as of December 31st 2011had decreased in comparison to what it was as of December 31st 2010 by ID (Million) 85,795, as indicated below:-

2 of 4





Fourth - Provision for Devaluation in Value of Financial Investments

In accordance with Iraq Stock of Exchange bulletin as of the last meeting held by The Exchange during the year 2011, the market value of the shares held within the portfolio of investments held by the Bank and recorded as "Financial Investments" was higher than the book value, so consequently during the said year no provision was taken to that effect.

Fifth - Provision for Bad Debts

The balance of "Provision for Bad Debts" as of December 31st 2011 was increased by ID (Million) 1,844 during the year, in order to become ID (Million) 17,000.

Sixth - Currency Exchange Rate

All transactions during the year related to foreign currencies which involves assets, liabilities, expenses, and revenues during the year ended December 31st 2011 had applied the official rate of exchange during the said year, which was ID 1,170 to the United States Dollar.

Seventh - Money Laundering and Financing of Terrorism

Through out our examination of the books and records of the Bank and the nature of the banking operations which were conducted during the year under audit, there were no indications that there were banking operations related to "money laundering" or to "finance terrorist activities".

Eight - Capital Adequacy

Through out our inspection of the books of accounts and the records of the Bank it appears that the percentage of "Capital adequacy" had amounted during the year under audit had amounted to 37% as in accordance with Article 16 of the Banking Law No. 94 for the year 2004.



Subject to our opinion and to the results of our examination to what has been included in the financial records of the Bank and in accordance to the information and explanations given to us:-

- (1) The accounting books and records used by the Bank were in conformity with the requirements of the book-keeping regulations which had included, in our opinion, the recording of all assets, liabilities, revenues and expenses of the bank. Also the internal control system which was adopted during the year under audit, had included the necessary procedures which would guarantee the accuracy of the financial statements, as those procedures were appropriate with the volume of the Bank's operations.
- (2) The physical inventory count for both "fixed assets" and " cash in hand" were carried out by the Bank, and under our supervision, as the results of such count were in agreement with the concerned subsidiary ledgers, yet those assets were valued in accordance with the generally accepted standards, which were applied in previous years.
- (3) The annual Management Report does reveal in a comprehensive manner the activities of Bank during the year under audit, as it does not contain any violations to current laws and legislation.
- (4) The financial statements had been prepared in accordance with the requirements of prevailing legislation and generally accepted accounting standards, and it is in agreement results shown in the books of accounts, as it was prepared within the requirements of the Iraqi Companies Law and its related instructions, as well as the requirements of the Banking Law No. 94 for 2004.

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Subject to what had been indicated above, the attached balance sheet does reflect the financial position of the Bank as of December 31st 2011, and the accounts for its operational results does reveals the profit of its operations during then ended.

Farquad Al-Salman, B.Sc, FCCA
F.H.Al-Salman Co.
Cooperating Firm of PricewaterhouseCoopers
Public Accountants Auditors
Baghdad - Iraq

Baghdad - February 23rd 2012



Balance Sheet As Of December 31st 2011

STATEMENT (A)

Account	count Decer		nber 31st	
Code No		2011	2010	
14 11 11 1		ID (000)	ID (000)	
	ASSETS			
	Current Assets			
18	Cash	457,387,463	571,822,356	
15	Investments	185,465,080	129,539,147	
14	Monetary Credits			
	Discounted commercial instruments	4,124,042	18,275	
	Credits and advances	145,657,941	180,781,791	
		149,781,983	180,800,066	
16	Debtors and debit balances			
	Contra debit balances		4,097,713	
	Debit balances	48,619,765	44,548,468	
		48,619,765	48,646,181	
		841,254,291	930,807,750	
	Non-Current Assets			
11& 12	Existing - at book value			
	(after deduction of depreciation)	34,013,045	30,254,860	
		875,267,336	961,062,610	
	Off-Balance Sheet Items			
19	Client's obligations toward banking			
	operations (after deductions of deposits)	629,135,774	705,649,971	



Balance Sheet
As Of December 31st 2011

STATEMENT (A)

Dece		Decembe	nber 31st	
Account		2011	2010	
Code No.		ID (000)	ID (000)	
	SOURCES OF FINANCE	See State of		
	Short Terms Sources	699,368,971	804,688,378	
25	Clients' current and deposit accounts	21,523,368	18,551,012	
22	Provisions	14,755,157	19,035,305	
26	Creditors and credit balances	735,647,496	842,274,695	
	Long Terms Sources		100 000 000	
	Share Capital -Paid up	112,900,000	100,000,000	
	Reserves	26,719,840	18,787,915	
	Shareholders' Equity	139,619,840	118,787,915	
	Shareholdera Equity	875,267,336	961,062,610	
	Off Balance Sheet Items			
	Bank's obligations towards the banking operations (after deducting deposits)	629,135,774	705,649,971	

For Bank of Baghdad (A Private Joint Stock Company) - Baghdad - Iraq

Accounts Manager Ali Muhsin Al-Assady Managing Director Adnan Kanaan Chalabi Chairman of The Board Issam Ismail Shiereef

Subject To My Report of Even Date

Farquad Al-Salman, B.Sc, FCCA
F.H.Al-Salman & Co.
Cooperating Firm of PricewaterhouseCoopers
Public Accountants & Auditors
Baghdad - Iraq

Baghdad - February 23rd 2012



Profit and Loss & Appropriation Account FOR THE YEAR ENDED DECEMBER 31st 2011

STATEMENT(B)

Year Ended Decen		ecember 31st	
	count	2011	2010
Co	de No.	ID (000)	ID (000)
	Revenues from current operations		
43	Revenues from services activities	92,504	28,202
44	Revenues from operational activities	48,229,699	33,106,853
46	Revenues from investments	7,190,058	7,453,701
	Deduct : Expenses of current operations	55,512,261	40,638,756
34	Banking operations' expenses	8,535,391	6,403,479
37	Depreciation and amortization	2,822,612	1,744,818
1-3	3 Administrative expenses	16,335,421	14,473,475
		27,693,424	22,621,772
	Profit from current operations	27,818,837	18,016,984
	Add: Non-operational and Other Income Non-Operational income Other income	10,378 105,555	1,068,434
	Guildi Modific	115,933	1,068,434
	Less: Non-operational and Other Expenses	110,500	1,000,434
38 39	Non-Operational expenses Other expenses	2,663,726 298,779	1,133,915 1,740,294
		2,962,505	2,874,209
	Pre-Tax Profit For The Year	24,972,265	16,211,209
	To Be Distributed As Follows:		
	Provision for " Corporation Tax " Statutory Capital Reserve Retained Earnings	4,014,145 1,047,906 19,910,214	
		24,972,265	



CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31st 2011

STATEMENT(C)

	Year Ended December 31st	
	2011 ID (000)	2010 ID (000)
Profit as per attached Statement (B) - Cash Flow from Operational Activities	24,972,265	16,211,209
Depreciation and amortization	2,822,612	1,744,818
Decrease in Debtors and debit balances	26,416	18,651,511
Increase in Clients' current saving accounts	105,319,407-	143,069,851
Increase in Creditors and credit balances	4,280,148-	5,660,351
Net Cash Flow From Operatinal Activities	106,750,527-	169,126,531
	81,778,262-	185,337,740
Cash Flow from Investment Activities		
(Increase) / Decrease in Investment	55,925,933-	33,659,222
Decrease /(Increase) in Monetary Credit	31,018,083	101,295,206-
Net increase in Non-Current Assets	5,677,497-	18,217,073-
(Increase) / Decrease in Projects under Construction	903,300-	725,956
Net Cash Flow From Investment Activities	31,488,647-	85,127,101-
Cash Flow from Non-Operational Activities		
Increase in Paid Up Share Caiptal	12,900,000	15,000,000
Net Decrease in Reserves	13,026,195-	19,051,077-
Net Increase in Provisions	1,500,000	793,660
Settlement of Corporation Tax	2,541,789-	2,815,497-
Net Cash Flow From Non-Operational Activities	1,167,984-	6,072,914-
Net Cash Flow	114,434,893-	94,137,725
Add: balance of cash at beginning of the year	571,822,356	477,684,631
Cash balance as of year end	457,387,463	571,822,356