

***BANK OF BAGHDAD
PRIVATE JOINT STOCK COMPANY
BAGHDAD - REPUBLIC OF IRAQ***

***AUDITOR'S REPORT
&
FINANCIAL STATEMENTS
DECEMBER 31ST 2014***



***ALI MOHAMMED HAMMOODY AL-TUHAFEY
PUBLIC ACCOUNTANT AND AUDITOR
BADIR SHANOON AJEEL & PARTNER
BAGHDAD - REPUBLIC OF IRAQ***



(Private Joint Stock Co.)
Baghdad – Iraq
Independent Auditor's Report
&
Financial Statements
December 31st 2014

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**To the shareholders
Bank of Baghdad (Private Joint Stock Company)
Baghdad - Republic of Iraq**

Auditor's Report

Report on financial statement

We have examined the balance sheet of Bank of Baghdad (Private Joint Stock Company) - Baghdad as of December 31st 2014, and the profit & Loss and appropriation account for the year then ended together with the annual report for the bank which was prepared in accordance with the prevailing requirements of the Banking Law No. (94) for the year 2004, and Companies' Act No. (21) for the year 1997 with its instructions which were issued accordingly.

Management responsibility for the financial statements

Management is responsible for the preparation and fair representation of these financial statements in accordance local accounting standards as well as the international standards in that respect. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable at the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We had conducted our audit in accordance with the local auditing standards as well as the international standards. Those standards requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of misstatement, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes the evaluating of the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion, as we enclose the following explanatory information:-

I - Bank's activities during the year

The bank had attained a profit during the year ended December 31st 2014 amounted to ID (M) 32,847, which was lower than the previous year by ID (M) 5,950.

II – Liquidity

Through out the year ended December 31st 2014 the Bank had achieved a lower level of liquidity than that of from previous year by ID Million 22289, as indicated in details at Statement (D) of the enclosed financial statements, for which we list below its summary:-

| | ID (M) |
|---------------------------------------------------|----------------|
| Profit for the year- as per Statement B -attached | 32,847 |
| Add: | |
| Cash flow from operating activities | 36,067 |
| Cash flow from investment activities | 58,074- |
| Cash flow from finance activities | 33,129- |
| | <u>22,289-</u> |

III - Provision for Decline of Portfolio Investments

In accordance with Iraq's Stock Exchange Bulletin as of the last session held during 2014, the market value of portfolio investment was more than the book value by ID Million 199, but despite that fact, management of the Bank had increased balance of the "provision for decline of portfolio investments" by ID Million 225 (an increase of 5.6%) thus making the balance as at balance sheet date ID Million 448.

IV - Provision for Doubtful Debts

The balance brought forward from previous year for the amount of ID Million 17,000 remained the same as of the balance sheet date, as in accordance with the consultative study in this respect which was based on the guidelines issued by Central Bank of Iraq in this respect, which in opinion of management that it is sufficient for that purpose.

V - Branches located in the heated and disturb provinces

Due to the deteriorated security situation at the provinces of Nineveh, Al Anbar, and Salah El Deen, a meeting which was held on December 22nd 2014 attended by Chairman of the Board, Managing Director, and a member of the Board) in which a resolution was taken for the creation of an " emergency reserve" for ID (M) 10,000 via withholding ID M (3,000) from the undistributed profits of 2013, in addition to ID M (7,000) to be withheld from current year's profit, in order to meet probable losses expected to be incurred due to the following:-

- 1 - Expected losses due to the deteriorating security situation in those provinces.
- 2 - During the current year Al Fallujah Branch had accepted cheques issued by The Agricultural bank- Al Fallujah Branch totaling to ID (M) 7,665, for which it had not been collected till the date of our report.

As to the other Branches located in those provinces, we would like to indicate the following:-

(a) - Al Rabi'e Branch at Nineveh Province continues to carry on its banking activities , but not under the control of the Main Branch, as well as it is beyond the control of the electronic banking system which is functioned by management of the Bank.

(b) - As far as the Branches in Tikrit, Ramadi and Fallujah, they are closed, and the electronic banking system is under control by management.

VI - Bank's fixed assets

All fixed acquired by the bank, does have statutory evidence as to its ownership by the Bank, and registered as such at the official concerned authorities.

VII - Fixed assets acquired as a result of debts settlements

This account, had included the cost of property number (324/1474) consisting of a building at " Bataween" District for a cost of ID (M) 961, and due to the instability and uncertainty of the properties' market in Iraq, the Bank was not able to take a major action regarding this property for the last two years. This property is rented for an annual rent of ID (M) 23.

IX - Money Laundering and Financing of Terrorism

Through out our examination of the accounting records and review to the nature of the banking operations which were carried out by the Bank Through out the year under audit, there were no indications as the Bank was involved in money laundering transactions, or operations relating to the finance of terrorism.

X - Capital Adequacy

Through out our examination to the accounting records and the schedules relating to the calculation of "Capital adequacy", it appeared that the percentage for "capital adequacy" had amounted to 589% in accordance to article 16 of the Banking Law No. 94 for the year 2004.

XI - Accounting policies

(a) - All revenues and expenses incurred during the year had been treated within the basis of the accrual concept in that respect.

(b) - The statutory requirements of the "Unified Accounting System" had been observed Through out the process of making the annual accounts.

(c) - In calculating the rates of depreciation for fixed assets during the year under audit, the "straight line method" had been adopted.

(d) -Transactions in foreign currencies relating to assets, liabilities, expenses and revenues Through out the year ended December 31st 2014 had been converted at the rate of one US\$ = 1,190 Iraqi Dinars

Subject to our opinion, and through out our examination of what has been recorded in the books of accounts of the Bank, and subject to the information and explanations given to us:-

- 1 - The accounting books and records used by the Bank were in agreement with the requirements of the prevailing book-keeping regulations, as it had included, subject to our assessment, the recording of all assets, liabilities, expenses and revenues of the Bank. As well as the internal control system had consisted of the necessary tests which grants the accuracy and preciseness of those statements in a manner which is proportionate to the activities of the Bank.
- 2 - The stock taking operation relating to fixed assets and cash balances by the bank was carried out in an appropriate manner and under our supervision. The results were in agreement with the book balances in that respect, as the valuation of those assets has been carried in accordance with the relevant principles, which had been adopted in previous years.
- 3 - Contents of the annual report do reveal comprehensively the walk of Bank through out the year under audit, and did not contain any violations or irregularities to prevailing legislation.
- 4 - The financial statements had been prepared in accordance to prevailing legislation and accounting standards, and it is in agreement with what has been included in the books and records, as it was prepared in accordance to the requirements of Companies' Act and its related instructions which had been issued accordingly, and the Law of Central Bank of Iraq.

OPINION

In accordance to the information and explanation which were available to us, the financial statements of the Bank together with the enclosed annual report are in agreement with the accounting records and had fulfilled the related legal requirements, and subject to what had been included concerning performance indicators , it does reflect in a clear and fair manner the financial position of the Bank as of December 31st 2014, and the results of its operations and its cash flow for the year then ended.

Ali Mohammed Hammoody Al Tuhaffey
Public Accountant and Auditor
Badir Shanoon Ajeel & Partner
License No. 277

Baghdad - March 5th 2015

Bank of Baghdad (Private Joint Stock Company)
Baghdad - Republic of Iraq
Balance Sheet
As Of December 31st 2014

Statement (A)
1 of 2
December 31st

| <u>Accounts Code Number</u> | | <u>2014 ID (000)</u> | <u>2013 ID (000)</u> |
|-------------------------------------|--------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1 | <u>ASSETS</u> | | |
| | <u>Current Assets</u> | | |
| 18 | Cash and cash equivalence | 992,408,943 | 1,014,698,200 |
| 15 | Investments | 455,021,749 | 410,177,510 |
| 14 | <u>Monetary Credit</u> | | |
| 144 | Discounted commercial instruments | 2,204,299 | 10,985,656 |
| 14 less 144 | Loans and advances | 226,699,673 | 208,184,136 |
| | | 228,903,972 | 219,169,792 |
| 16 | Debtors and debit balances | 93,753,044 | 64,048,223 |
| | | 1,770,087,708 | 1,708,093,725 |
| | <u>Fixed Assets</u> | | |
| 11 & 12 | Existing at book value (after deduction of depreciation and amortization) | 57,417,617 | 56,810,833 |
| | | 1,827,505,325 | 1,764,904,558 |
| | <u>Contra Accounts</u> | | |
| 19 | Clients' commitments toward banking operation (after deduction of deposits) | 775,226,912 | 671,705,089 |

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Bank of Baghdad (Private Joint Stock Company)
Baghdad - Republic of Iraq
Balance Sheet
As Of December 31st 2013

Statement (A)
2 of 2
December 31st

| Accounts Code Number | | 2014 ID (000) | 2013 ID (000) |
|----------------------------|---------------------------------------------------------------------------|-----------------------------|-----------------------------|
| | <u>Sources of Finance</u> | | |
| | <u>Long Term Sources</u> | | |
| 25 | Clients' current and deposit accounts | 1,491,599,288 | 1,393,584,250 |
| 23 | Provisions | 23,654,296 | 25,093,375 |
| 26 | Creditors and credit balances | 19,832,543 | 54,964,519 |
| | | 1,535,086,127 | 1,473,642,144 |
| | <u>Short Term Sources</u> | | |
| 21 | Share Capital- fully paid | 250,000,000 | 250,000,000 |
| 22 | Reserves | 42,419,198 | 41,262,414 |
| | Shareholders equity | 292,419,198 | 291,262,414 |
| | | <u>1,827,505,325</u> | <u>1,764,904,558</u> |
| | <u>Contra Accounts</u> | | |
| 29 | Bank's commitments toward banking operation (after deduction of deposits) | <u>775,226,912</u> | <u>671,705,089</u> |

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

Accounts Manager
Nadia Ismaiel Ibrahim

Managing Director
Mohamad Ali Jabbir

Chairman of The Board
Issam Ismaiel Sharrief

Ali Mohammed Hammoody Al Tuhafeey
Public Accountant and Auditor
Badir Shanoon Ajeel & Partner
License No. 277

Subject to my report of even date
Baghdad - March 5th 2015

Bank of Baghdad - (Private Joint Stock Company)
Baghdad - Republic of Iraq
Profit & Loss Account
For The Year Ended December 31st 2014

Statement (B)

Year Ended December 31st

| Accounts Code Number | | <u>Year Ended December 31st</u> | |
|-------------------------------------|--------------------------------------------------|----------------------------------------|--------------------------|
| | | 2014 ID (000) | 2013 ID (000) |
| | <u>Revenues of Current Activities</u> | | |
| 43 | Revenues of services Activities | 779,065 | 402,412 |
| 44 | Revenues of banking operations | 57,058,370 | 58,187,523 |
| 46 | Revenues from investments | 18,208,929 | 25,930,121 |
| | | 76,046,364 | 84,520,056 |
| | <u>Expenses of Current Activities</u> | | |
| 34 | Expenses of banking operations | 12,176,150- | 13,053,587- |
| 37 | Depreciation and amortization | 2,888,918- | 3,280,144- |
| 31-33 | Administrative expenses | 24,940,647- | 22,124,432- |
| | | 40,005,715- | 38,458,163- |
| | Profit of Current Operations | 36,040,649 | 46,061,893 |
| 49 | Add : Other income | 218,780 | 737,466 |
| | <u>Non-operational and Other Expenses</u> | | |
| 38 | Non operational expenses | 1,346,812- | 4,370,208- |
| 39 | Other expenses | 2,065,617- | 3,632,080- |
| | | 3,412,429- | 8,002,288- |
| | Profit available for distribution | 32,847,000 | 38,797,071 |
| | <u>To Be Distributed - as follows</u> | | |
| | Provision for taxation | 5,066,342 | 6,730,391 |
| | Reserve for emergencies | 7,000,000 | — |
| | Statutory capital reserve | 1,039,033 | 1,603,334 |
| | Retained earnings -undistributed profits | 19,741,625 | 30,463,346 |
| | | 32,847,000 | 38,797,071 |

Bank of Baghdad - (Private Joint Stock Company)

Baghdad - Republic of Iraq

STATEMENT OF CHANGES IN EQUITY
For The Year Ended December 31st 2014

STATEMENT (C)

| Type of Equity attribution Accounting Code Number | Share Capital | Statutory Capital Reserve | Reserve for Beirut's Branch Capital | Reserve for Emergencies | Reserve for Fixed Assets Replacement | Retained Earnings | TOTAL |
|------------------------------------------------------|---------------------|---------------------------------|----------------------------------------------|-------------------------------|--------------------------------------------|----------------------|---------------------|
| | (K) Iraqi Dinars | (K) Iraqi Dinars | (K) Iraqi Dinars | (K) Iraqi Dinars | (K) Iraqi Dinars | (K) Iraqi Dinars | (K) Iraqi Dinars |
| Movement During the Year | | | | | | | |
| Opening balance | 250,000,000 | 9,361,031 | 4,462 | — | 58,441 | 31,809,620 | 291,233,554 |
| Additions during the year | — | — | 66,151 | — | — | 20,990 | 87,141 |
| Dividends relating to 2014 | — | — | — | — | — | 27,500,000- | 27,500,000- |
| Transfers to "Reserve for Emergencies" | — | — | — | 3,000,000 | — | 3,000,000- | — |
| Current year's profit | — | 1,039,033 | — | 7,000,000 | — | 19,741,625 | 27,780,658 |
| Balance-December 31 2014 | 250,000,000 | 10,400,064 | 70,613 | 10,000,000 | 58,441 | 21,072,235 | 291,601,353 |
| Baghdad for Exchange Ltd. | | | | | | | |
| Balance-December 31 2014 | — | 7,870 | — | — | — | 20,990 | 28,860 |
| Transfers to Bank of Baghdad | — | — | — | — | — | 20,990- | 20,990- |
| Current year's profit | — | 40,499 | — | — | — | 769,476 | 809,975 |
| Balance-December 31 2014 | — | 48,369 | — | — | — | 769,476 | 817,845 |
| Consolidated balances as of | | | | | | | |
| December 31st 2014 | 250,000,000 | 10,448,433 | 70,613 | 10,000,000 | 58,441 | 21,841,711 | 292,419,198 |

Bank of Baghdad - (Private Joint Stock Company)
Baghdad - Republic of Iraq
Cash Flow Statement
For The Year Ended December 31st 2014

Statement (D)

| | <u>Year Ended December 31st</u> | |
|----------------------------------------------------|----------------------------------------|-----------------------------|
| | <u>2014</u> | <u>2013</u> |
| | <u>ID (000)</u> | <u>ID (000)</u> |
| Profit - as per attached Statement (B)- | 32,847,000 | 38,797,071 |
| <u>Cash Flow from Operating Activities</u> | | |
| Depreciation and amortization | 2,888,918 | 3,280,144 |
| Debtors and debit balances | 29,704,821- | 5,561,371- |
| Clients' current and deposit accounts | 98,015,038 | 346,865,241 |
| Creditors and credit balances | 35,131,976- | 30,328,740 |
| <i>Net cash from operating activities</i> | 36,067,159 | 374,912,754 |
| <u>Cash Flow from Investment Activities</u> | | |
| Investments | 44,844,239- | 171,049,462- |
| Monetary credit | 9,734,180- | 71,768,754- |
| Fixed assets | 1,381,114- | 12,414,782- |
| Projects in progress | 2,114,588- | 4,429,046- |
| <i>Net cash used in investing activities</i> | 58,074,121- | 259,662,044- |
| <u>Cash Flow from Financing Activities</u> | | |
| Share capital | — | 75,000,000 |
| Reserves | 26,623,874- | 23,057,114- |
| Provisions | 224,970 | 853,761 |
| Settlement of "Corporation Tax" | 6,730,391- | 4,538,125- |
| <i>Net cash from financing activities</i> | 33,129,295- | 48,258,522 |
| Net increase in cash flow | 22,289,257- | 202,306,303 |
| Cash balance at beginning of year | 1,014,698,200 | 812,391,897 |
| Cash balance at end of the year | <u>992,408,943</u> | <u>1,014,698,200</u> |