



## Annual report, General Budget and Closing Balance

For the period (01/01/2019 to 31/12/2019)

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# Chairman of BOD Address



**(In the name of Allah, the most Merciful)**

**Chairman of BOD Address**

I am pleased, on my own behalf and on behalf of my colleagues- members of the Board of Directors, to welcome you all and thank you for accepting the invitation to attend the meeting of the General Assembly to discuss the annual report of the Al Arabiya Islamic Bank for the year ended on December 31, 2019. And I am pleased to present you with the bank's achievements during the year of 2019 and the bank's future plan.

Dear Shareholders,

Despite the relatively new establishment of the bank, the bank was able to enter the Iraqi banking market and practice its banking operations by attracting new customer deposits during the year 2019, with an increase of (45.1) Billion Iraqi Dinars to reach about (135.9) Billion Iraqi Dinars, an increase of 50% compared to the previous period. As for the granted funds to customers, the bank worked on two different approaches, The first was to reduce unsecured Islamic financing with solid guarantees in Mudaraba by about 38 billion dinars, in compliance with the instructions of the Central Bank of Iraq in this regard and to reduce the credit risk of the bank due to the fact that the financing is not guaranteed, and the second direction is to start diversifying financing by starting to gradually reduce the participation to show that in 2020 and focus on granting guaranteed short and medium-term financing in the form of Murabahah and other fixed-terms that generate periodic returns on the bank, in addition to that our bank has started practicing various banking services and products, including introducing the Central Bank's initiative for small and medium enterprise loans. Our bank's adoption of this approach by reducing the financing granted to customers in compliance with the instructions of the Central Bank has a negative impact on the bank's profits. Despite this, our bank has continued to make profits during the past two years 2018 and 2019, although profits were relatively modest, and we all hope by adopting these strategic plan by the Board of Directors for the coming years to achieve a good growth in the volume of business and outstanding profits equal to or better than the average Iraqi counterpart banks.

As for banking security, all financial indicators show the soundness and reliability of the bank's financial position, as it maintains strong liquidity and capital adequacy ratios.

In order to upgrade the various banking activities and to keep pace with the progress in the banking business, the Board of Directors approved a strategic plan for the coming years that focused mainly on providing various electronic banking services that cover the needs of customers and contribute to achieving the goals of financial inclusion, in addition to improving the internal control environment, activating the institutional governance procedures and developing the elements of human resources, developing electronic systems, and diversifying the combination of banking activities and revenues.

We would like to show our thanks and appreciation to all the bank's employees for the outstanding effort that they have made during the previous period, and we also like to show our thanks and appreciation to the Central Bank of Iraq, led by the Governor, as well as to representatives of the Central Bank, representatives of the company registration department and representatives of the Securities Commission for attending this meeting.

May God help us all to serve our country, and may God's peace, mercy and blessings be upon you.

Signed  
Chairman of Board of Directors  
Ahmed Abdelmajeed Jumaa

## Board of Directors Report

### About the bank's activities for the year ended on 31/12/2019

We present to you the comprehensive report of the Board of Directors on the bank's activities and business for the year ended on 31/12/2019, which was prepared in accordance with the provisions of Articles (117) and (134) of the Companies Law No. (21) for the year 1997, amended, and the Instructions of the Corporate Accounting System No. (1) For the year 1998.

#### First: An introductory profile about the bank:

- On 5/2/2005 the United Arab Company submitted to the Central Bank of Iraq an application to obtain a license to practice money transfer business and the practice license numbered 9/3/1072 dated 30/06/2005 was obtained from the General Directorate of Banking and Credit Control at the Central Bank of Iraq.
- On 05/01/2008, it was approved to convert the company from a limited company to a private joint stock company, and to increase its capital to (500,000,000) five hundred million dinars.
- On 22/04/2008, the necessary legal procedures were completed to increase the company's capital from five hundred million dinars to (5) billion dinars, according to the company registration department letter No. 30154 on 28/12/2009.
- And on 02/02/2012, the necessary legal procedures were completed to increase the company's capital from (5) billion dinars to (15) billion dinars, according to the company registration department book No. 2547 on 01/02/2012.
- On 09/09/2013 the necessary legal procedures were completed to increase the company's capital from (15) billion dinars to (45) billion dinars, according to the company registration department's book No. 22929 on 09/09/2013.
- At the end of the year of (2015) and for the purpose of converting the company into an Islamic bank, its capital was increased to (100) billion dinars, as the procedures were completed on 11/01/2016 according to the company registration department letter No. (605) Accordingly, the United Arab Company for Financial Transfer was transferred to the Arab Islamic Bank on 12/01/2016.
- The bank's capital increased to (250) billion dinars at the general assembly meeting held on 09/09/2016 by offering new shares worth (150) billion Iraqi dinars for subscription in accordance with the provisions of Article 56/ Fourth of the Companies Law and the necessary legal procedures have been completed by The Companies Registration dept. according to their letter numbered Q/H/2/23339 dated 7/12/2016.

## **Second: The bank's objectives**

The bank aims in general to:

1. Contributing to the economic development in building Iraq within the framework of the state's general policy by practicing comprehensive Islamic banking in all investment and financing fields to serve all economic sectors in a manner consistent with the provisions of the Islamic Banking Law and the instructions of the Central Bank of Iraq, as well as the applicable corporate law.
2. Providing the best banking services to its customers inside and outside Iraq.
3. Maximizing the return for the bank's shareholders.
4. Continuing to develop employees' skills and competencies.
5. Maintaining its leading position among Iraqi banks.

The bank will also continue its endeavor to attract savings and deposits and employ them in various investment fields, in addition to carrying out various other banking activities, including financing international trade through documentary credits, guarantees and foreign transfers.

## **Third: The General budget for the year (2019)**

### **1- Assets**

- The total assets within the budget (financial position) at the end of 2019 amounted to (386,619) million dinars compared to the year 2018, as the total assets amounted to (341,890) million dinars.

### **The following is the combination of asset items:**

#### **A- Liquid stocks**

The importance of cash liquidity in banks is not hidden, as it measures the bank's ability to meet its various obligations, including requests for cash withdrawal from customers' deposits at any time. Therefore, banks must always be ready to provide appropriate liquidity without negatively affecting their activities and objectives, and Perhaps the most important element of liquidity at any bank is the cash available in its vaults and with the Central Bank of Iraq and other banks. The cash balance at the end of 2019 reached about (274,970) million dinars, or 71% of the total assets, while the cash balance reached at the end of the year 2018 (192,132) million dinars, or 56% of the total assets.

## B - Islamic financing represented by Mudaraba and Musharaka.

The balance of the cash credit (in the Mudaraba and Islamic Musharaka of the bank) as on 31/12/2019 amounted to about (63,978) million dinars, or 16.5% of the total assets, and that the bank's management is heading towards further expansion of cash credit, and pledge and add new Islamic products.

## 2- Liabilities and Equity

- The total deposits of the bank's customers of all kinds amounted to (135,854) million dinars at the end of the year 2019 and they constitute 98.8% of the total liabilities amounting to (137,469) million dinars and 35% of the total liabilities and property rights, while it reached at the end of 2018 (90,750) million dinars, which constitutes 97.6% of the total liabilities amounting to 92,945 million dinars and 26.5% of the total liabilities and property rights. As for property rights, it amounted to about (249,150) million dinars, which constitutes 64.4% of the total Liabilities and equity

## Fourth: Bank Branches:

- During the years 2018 and 2019, the bank adopted a plan to expand in the next three years by opening new branches of the bank in some Iraqi governorates, as the branch was opened in Erbil in 2018 and Kirkuk in 2019, and other branches will be opened during this year and the coming years with the approval of the Central Bank of Iraq. Note that the current number of bank branches is (5) branches of which (3) are inside Baghdad and are (the Main branch, Rasheed branch, Karada branch) and two outside Baghdad (Kirkuk and Erbil).

## Fifth: The bank's financial position items as on 31/12/2019

No.	Assets	In Million of IQD	Relative importance
1	Cash and funds with the Central Bank of Iraq	232,249	60.1%
2	Cash with local and foreign banks	42,721	11 %
3	Investments	25,750	6.7%
4	Islamic financing	63,979	16.6%
5	Other assets	483	0.1%
6	Intangible assets	269	-
7	Fixed assets	12,653	3.3%
8	Projects under construction	8,515	2.2%
<b>Total</b>		<b>386,619</b>	<b>100%</b>



No.	Liabilities and Equities	In Million of IQD	Relative importance
1	Deposits	135,854	35.1%
2	Long term loans	825	0.3%
3	Cash insurances	288	0.1%
4	Other liabilities	108	-
5	Allocations	394	0.1%
6	Property rights	249,150	64.4%
<b>Total</b>		<b>386,619</b>	<b>100%</b>

**Sixth:** The names of the original and reserve members of the board of directors, the amount of their contribution as on 31/12/2019, and the names of the chairman and members of the Sharia Board

**A- Original Board Members:**

No.	Name	Position	Number of Shares
1	Ahmed Abdelmajeed Jumaa	Chairman of BOD	2000
2	Azhar Muayyad Ahmed	Vice Chairman of BOD	2000
3	Duraïd Yassin Hamdan	CEO	2000
4	Abdulmunem Mahdi Saleh	Member	24,750,000,000
5	Haider Akram Muhammad Ali	Member	2000

**B- Reserve Board Members:**

No.	Name	Position	Number of Shares
1	Huda Abdel Wahab Hassan	Member	2000
2	Jihad Muhammad Ali	Member	2000
3	Ban Darwish Ferrari	Member	2000

**C- Members of the Sharia Board:**

No.	Name	Position
1	Farouk Shaltag Mahdi	Chairman of Sharia Board
2	Abdul Qadir Mahdi Saleh	Member
3	Ahmed Saleh Hussein	Member
4	Ali Salem Salman	Member



### Seventh: Salaries and Wages

The balance of salaries, wages and bonuses paid to employees during the year 2019 amounted to about (1,293) million dinars, as a result of the expansion of the bank's staff, noting that the bank's management adopted a policy of continuously improving the standard of living for its employees, and the number of bank's employees at the end of the year became (75) Employees.

Below is a table with the names of five employees who received the highest salary during the year 2019.

No.	Name	Work Location	Position
1	Duraïd Yassin Hamdan	Head Office	CEO
2	Ali Hussein Jabr	Head Office	Vice CEO
3	Dashti Abdullah Muhammad	Head Office	IT and Communication Manager
4	Sabih Qasim Ahmed	Head Office	Secretary of the Board of Directors
5	Heba Reda Mahdi	Head Office	Compliance Monitor

### Eighth: Classifying employees

#### A- Classification of employees according to their job attainment as on 31/12/2019

No.	Job Description	Number of Employees
1	CEO	1
2	Vice CEO	1
3	Secretary of the Board of Directors	1
4	Dept. Manager / Compliance Monitor / Director of Money Laundering and Terrorist Financing Reporting Dept. / Main Branch Manger	10
5	Branch Manager	4
6	Asst. Department Manager / Head of the Bank's Safe	14
7	Asst. Accountant	2
8	Observer	3
9	Associate Observer / Treasurer	22
10	Cash counter / Information Officer / Service Officer / Generated Operator / Guard / Driver / Certified	17
<b>Total</b>		<b>75</b>

### B - Classification of workers according to educational attainment as on December 31, 2019

No.	Educational Attainment	Number of Employees
1	M.A.	2
2	BA	48
3	Diploma	7
4	Upper Secondary School	11
5	Lower Secondary School	1
6	Primary School	6
<b>Total</b>		<b>75</b>

### C- Administrative activity

Human resource development: The bank offered a series of training programs in various fields and disciplines related to banking in order to enhance the capabilities, skills and competence of its employees. Below is a summary of the number of participants in the courses during the year 2019:

### Classification of training courses according to the topic and where were they held during the year 2019

No.	Subject	Number of Courses	Inside Iraq	Outside Iraq	Number of Participants
1	Corporate Governance Handbook	1	1	-	2
2	A workshop on tax compliance law requirements	1	1	-	3
3	Certified specialist in Combating money laundering and terrorist financing (CAMS)	1	1	-	1
4	Analyze financial data	1	1	-	2
5	Compliance function course in anti-money laundering and regulatory requirements	1	1	-	1
6	Operational risk	1	1	-	1
7	Agents Registration	1	1	-	1
8	Financial and banking terms in English	1	1	-	2
9	Certified Sharia Auditor and Monitor CSAA	1	1	-	1
10	Financial budgeting skills analysis and financial auditing	1	1	-	1
11	Corporate governance	1	1	-	4
12	Islamic services standards workshop	1	1	-	1



13	Explain developments in the process of establishing Iraqi companies to guarantee deposits	1	1	-	2
14	A workshop with Swift Co.	1	-	1	1
15	Governance controls and institutional management of information technology in the banking sector	1	1	-	2
16	ACH Electronic Clearing-house System	1	1	-	1
17	Explanation of Islamic financial statements	1	1	-	3
18	Instructions for implementing the international accounting standard	1	1	-	1
19	Stress testing	1	1	-	1
20	The basics of Islamic banking	1	1	-	1
21	Guide to supervisory work / controls related to the licensing client	1	1	-	1
22	Highlights on Islamic banking	1	1	-	1
23	A practical view of digital transformation and its benefits	1	1	-	3
24	Certified Information Systems Auditor	1	1	-	1
25	Measurement and analysis of risks in Islamic banks	1	1	-	1
26	FATF Recommendations	1	1	-	1
27	Certified Islamic specialist in banking accounting	1	1	-	1
28	The basics of documentary credits and letters of guarantee	1	1	-	1
29	Financial inclusion	1	1	-	1
30	Digital transformation of the banking sector	1	1	-	1
31	Audit strategy in accordance with international standards	1	1	-	1
32	Certified Professional in Governance and Compliance	1	1	-	1
33	Sharia compliance Report	1	1	-	1
34	Basel decisions and risk management	1	1	-	1
35	Preparing inventory settlements and closing closings restrictions	1	1	-	1
36	Fighting financial crime	1	1	-	1
37	Complete the registration procedures in the IDES test window	1	1	-	2
38	The basics of bank credit	1	1	-	1



39	Application of risk management controls in Islamic banks	1	1	-	1
40	Monitoring Risk Indicators	1	1	-	3
41	CBS Credit information exchange system	1	1	-	2
42	Internal verification procedures for the official of the Money Laundering Reporting Unit in banks	1	1	-	1
43	Preparing financial statements, disclosure and periodic reports	1	1	-	1
44	Facilitating investment and business development for the private sector	1	1	-	1
45	Transfer of liquidity between banks	1	1	-	1
46	Certified specialist certificate in risk management	1	1	-	1
47	Modern methods of auditing, financial control and internal auditing	1	1	-	1
48	Information and Communication Technology Controls Handbook	1	1	-	1
49	A workshop on bank classification with Capital Company	1	1	-	4
50	Reading financial reports and Linking indicators	1	1	-	1
51	Cybersecurity	1	1	-	2
52	Swift letters of Credits, Guarantees and Bills of Collection	1	1	-	1
53	Network management using Windows Server 2016	1	1	-	1
54	Combating money laundering and terrorist financing	1	1	-	1
55	A workshop on automating the cash withdrawal mechanism	1	1	-	1
56	A workshop to explain the insurance mechanism	1	1	-	2
57	The integrated customer relationship management system	1	1	-	1
58	Best practices in documentary credits in accordance with the rules and conventions UCP600	1	1	-	1
59	Islamic precautionary and structural financial indicators	1	1	-	3



60	Planning the audit work	1	1	-	1
61	A workshop on risk management, compliance and auditing / concepts and interactions	1	1	-	6
62	ACH Clearing System	1	1	-	2
<b>Total</b>		<b>62</b>	<b>61</b>	<b>1</b>	<b>40</b>

**Ninth: Other matters:**

- **Capital adequacy**

The bank is committed to the instructions of the Central Bank regarding calculating the capital adequacy ratio, which reached (377%) as on 31/12/2019, noting that the minimum percentage according to the instructions of the Central Bank is 12%.

- **The lawsuits and cases brought**

There is one lawsuit filed by the bank against others with a value of (300,000) US dollars related to the theft of an amount of this amount and the judicial procedures are still in place, and the bank may hedge against it with adequate allocations, noting that there are no lawsuits filed against the bank until the end of 2019.

- **Reporting money laundering and terrorist financing Department:**

The Money Laundering and Terrorist Financing Reporting Department monitors the bank's activities in line with the laws and instructions issued by the Central Bank of Iraq to prevent money laundering operations from occurring in implementation of the Anti-Money Laundering and Terrorist Financing Law No. 39 of (2015) and the recommendations issued by the working group Financial (FATF), where the department submits monthly and quarterly reports on cash banking operations for amounts in excess of (10) thousand US dollars or its equivalent in Iraqi dinars, as well as foreign remittances issued and received of all kinds, in addition to the quarterly reports on the activities assigned to the department and Reporting suspected cases of money laundering operations to the competent authorities (Anti-Money Laundering and Terrorism Financing Office), and the administration has paid great attention to this topic and focused on the topic of employee training by participating in training courses and workshops to combat money laundering and terrorist financing inside Iraq and abroad, and the bank has also been equipped with the necessary electronic programs for this purpose.

- **Tax**

The bank is taxpayer with the General Tax Authority for its activities on an annual basis.

- **Sharia Compliance and Compliance Monitoring Department**

The compliance Monitoring is obliged to monitor the extent of the bank's compliance with the laws, instructions and regulations issued by the Central Bank of Iraq and the extent to which the policies and procedures approved by the Board of Directors are applied, and to review the policies and procedures of all departments to ensure their compliance with the relevant laws and instructions, thus the work of the compliance monitor covers all activities of the bank. And its operations, and to enhance the role of this section, as the compliance auditor enjoys independence, and the department has been linked directly to the board of directors. The highest standards of compliance in our bank.

- **Risk Management Department**

Development and support work continued by the bank's management to establish a strong infrastructure for risk management. The department in the bank was strengthened with staff and extensively trained to upgrade their professional level. The department manages all risks to which the bank is exposed, such as credit risks, market risks and operational risks.

Policies and procedures for the work of this section and the appropriate mechanisms have been developed to enable it to function, and its independence has been strengthened by the Board of Directors by linking it to the Risk Management Committee formed from members of the Board of Directors, and reports are submitted directly to this committee.

The Board, based on the committee's recommendation, approved the Acceptable Risks and Permissible Limits document after the department had prepared the approved risk matrix, which was presented to the Board of Directors.

And at the level of credit risk, the completion of credit files is followed up to ensure that they are documented and that the necessary studies are prepared on credit risks and the concentrations related to them. .

As for market risk, liquidity risk is analyzed and monitored, and gaps and risks resulting from foreign currencies are calculated.

As for operational risks, all the risks resulting from them are followed up. The departments and units in the bank have been circulated to inform the risk management department of the losses and operational risks of these departments and units. Key indicators and a matrix of risks to which the bank is exposed, including the

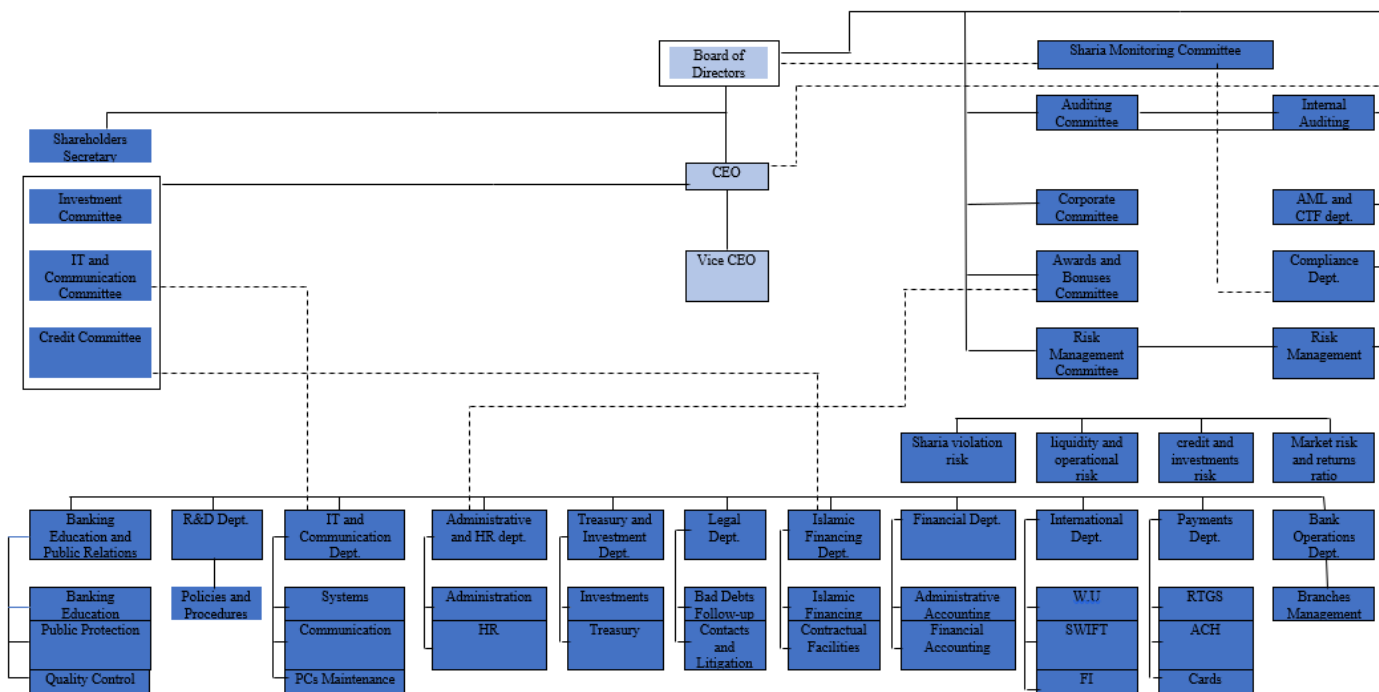
risks resulting from Internal control systems, electronic risks, legal risks and others. The department calculates stress tests, which are one of the requirements of the central bank, and the bank tends to contract to obtain an automatic program for classifying customer risks, as well as support programs for calculating all types of risks.

**- Significant changes and events subsequent to the date of the financial statements**

There are no material matters that have a negative impact on the functioning of the bank and its continuity during the fiscal year following the preparation of this report.

**Tenth: The organizational structure of the bank**

The bank has an organizational structure and a job description linked to it that defines the powers, responsibilities and departments, and amendments were made to it during the year 2019 in light of the requirements of the bank’s corporate governance, so that the modified organizational structure ensures clarification of the limits of powers and responsibilities for each department, as well as the separation of conflicting positions, taking into account the requirements of the Central Bank of Iraq, and the figure below shows the organizational structure of the bank.



## Eleventh: The banking systems used:

### A - Main banking systems

No.	System Name	System Discription	Dept. Using the system
1	<b>BANKS</b>	The banking system	All departments and branches
2	<b>Online Banks</b>	Online banking system	All departments and branches
3	<b>SMS</b>	Short message service for the banking system	All departments and branches
4	<b>AML</b>	Anti-money laundering system	Report money laundering
5	<b>SWIFT</b>	External funds transfer platform	The International Dept. Swift Division
6	<b>WESTERN UNION</b>	Limited foreign funds transfer platform	Karrada Branch - Al Rasheed Branch - Erbil Branch
7	<b>RTGS</b>	Money transfer system between banks	Payments
8	<b>ACH</b>	System of transferring money between banks and reading checks	Main branch - Payments
9	<b>CBS</b>	Credit Information Exchange System	Credit Dept.
10	<b>Smart clear</b>	Linking payment systems to the banking system	Payments Dept.

### B - Secondary banking systems

No.	System Name	System Discription	Dept. Using the system
1	<b>Kaspersky S.C</b>	Staff computer protection and management system	IT
2	<b>Active Directory</b>	Staff computer management system	IT
3	<b>File Sharing</b>	Staff files storage and sharing system	IT
4	<b>Off time Finger Print</b>	The unified fingerprint system for employees	Administration and HR

## Twelvth: Corporate Governance from the Board of Directors Perspective

- Corporate governance aims to improve performance and thus maximize the value of the institution through the application of sound corporate governance principles. Therefore, governance focused on the role of the board and its committees in the control process and defined its duties and responsibilities, as well as the duties and responsibilities of its various committees, the conditions of suitability for its members, as well as the role of Executive management and suitability for its members, as it focused on the issue of separation between management and ownership, as well as defined the rights of each stakeholder and focused on integrity in dealing with them.



- The bank has developed a guide for institutional governance and has been approved by the board of directors, and this guide is consistent with the corporate governance guide for banks issued by the Central Bank of Iraq, as well as the charters of the various committees of the Board have been approved, and the policies and procedures necessary for the bank's work have been developed and approved by the Board. The Board also approved a strategy for the bank for the coming years and defined the general objectives of the bank and the special goals for each of the years that the bank had to achieve. The bank also strengthened the role and independence of supervisory departments such as the supervision and internal Sharia audit department, risk management, compliance and money laundering in order to create a strong infrastructure. Supervision in the bank. The bank has developed an appropriate organizational structure for the bank that defines lines of communication and authorities, and the bank always strives to strengthen institutional governance.

- The number of Board of Directors sessions reached (12) sessions during the period from 1/1/2019 to 31/12/2019, which included (23) decisions, most of which were related to preparing policies and procedures for the working mechanism of the departments and adopting a guide for institutional governance in addition to forming spin-off committees From the Board of Directors and another from the executive management in line with the directives of the Central Bank of Iraq and the Institutional Governance Guide and the organization of work charters and tasks for these committees after appointing their heads and members, and activating the work of these committees according to the minutes of the Board of Directors meeting held on 15/8/2017 at its session The fifth is as follows:

No.	Committee Name	Number of committee meeting minutes
1	Governance Committee	2
2	Nomination and Remuneration Committee	3
3	Risk Management Committee	4
4	Audit Committee	6
5	Information and Communication Technology Committee	5
6	Fiduciary Commission	20
7	Investment Committee	1

#### **Thirteenth: The methodologies used to attract deposits:**

Based on the supervisory role of the Central Bank of Iraq and according to its letter No. 9/3/80 on 20/2/2019, which included Islamic banks' endeavor to reach the rate of deposits standard, which should not be less than

30% of the total liabilities. So the bank's management sought to provide products And new banking services compliant with Islamic Sharia to support the process of financial inclusion and reach an advanced percentage of the time deposits standard as follows:

- 1- Contribution to the Central Bank of Iraq initiative (financing small and medium projects)
- 2- Murabaha sale of furniture purchase for government departments employees.
- 3- Investing the funds of investment accounts in short and medium-term development projects implemented by sober companies to ensure the achievement of high returns that encourage such accounts.
- 4- Expanding the process of issuing letters of guarantee by adopting time deposits as cash guarantees for those guarantees.
- 5- Providing banking facilities guaranteed by investment deposits and localised salaries.
- 6- Study the possibility of localizing consumer bills (electricity bills, for example) to achieve financial inclusion.

#### Fourteenth: Contracts concluded with others:

No.	Contract	Contract Value	Contract Details
1	Contract with (ICSFS)	500,000 USD	Specialized in preparing computer programs, supplying and maintaining integrated banking software systems
2	Contract with (KPMG)	55,000 USD	Offering advisory services and for financial position evaluation, anti-money laundering, compliance and risk management
3	Bio Tech Company AML money laundering system contract	45,000 USD	A system for monitoring daily movements and suspicious operations to combat money laundering operations
4	Dot.Jo company contract	20,000 USD	For the work of the bank's websites.
5	A contract to print the instruments	20,000 USD	Preparing check books for the bank
6	Earth Orbit company contract	19,000 USD	A machine for printing and providing checks
7	Falcon security contract	5,700 USD	Provides security services represented by fixed guards.
8	Kaspersky contract	3,160 USD	A contract for the supply, operation and application of anti-virus licenses
9	Arbil branch exchange contract	1,750 USD	A contract for the supply, operation and application of anti-virus licenses
10	Total lease contracts for the bank's branches	114 Mil IQD	Lease contracts
11	Accounts auditing contract	30 Mil IQD	The contract was signed with Khalil Ibrahim Al-Abdullah Company and Hashem Selim Company
12	Contract phone lines	350 Thousand IQD	Postpaid line / Zain company

### **Fifteenth: Financial Inclusion**

- The Central Bank of Iraq is the main supporter for implementing the principle of financial inclusion by setting up rules and legislation to facilitate procedures for banking transactions in all its forms and agreeing to provide simplified and different financial services to all groups of society, whether they are institutions or individuals to manage their money and savings in a safe and sound manner. Through legitimate channels (banks), at prices suitable for everyone, and easy to obtain, in a way that ensures that the majority does not resort to informal means that are not subject to any supervision and supervision. The Central Bank seeks to popularize the concept of financial inclusion across the banking sector by requesting banks to use modern electronic payment systems for the purpose of achieving the role of financial inclusion, economic growth, poverty reduction and achieving sustainable development goals for consumer protection, financing medium and small projects and providing financial products, and among the advantages Financial inclusion:
  - Create a database for each market.
  - Reduces the process of dealing with cash notes and creates a more safety.
  - Reduces corruption and bribery.
  - Introducing the informal market to the banking sector.
  - Localization of salaries. The bank seeks to gain the confidence of citizens, especially employees of state departments, and to localize their salaries in implementation of the instructions of the Central Bank, which provides the employee with many capabilities such as reducing time, effort and cost in various financial transactions and reducing dealing in cash and its risks.

### **Sixteenth: Accounting Policies**

The bank adopts the principle of entitlement in its accounting policy, whether by recording revenues and expenditures or in preparing final accounts. Our bank also applies the financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and the international financial reporting standards issued by the International Accounting Standards Board as a basis for classifying its accounts and organizing its records and in preparing Data and statements and their organization according to the provisions of the laws and instructions in force

In conclusion, the Board of Directors extends its deepest thanks and gratitude to the bank's shareholders and employees who have devoted themselves to the continuity of the work of this bank, and to the administration of the Central Bank of Iraq for its sponsorship of the banking family that contributed to the development of the banking sector.

**We wish everyone continuous success**

Signed  
Duraid Yassin Hamdan  
Managing Director

Signed  
Ahmed Abdelmajeed Jumaa  
Chairman of the BOD

# The annual report of the Sharia Supervisory Board



**(In the name of Allah, the most Merciful)**

**The annual report of the Sharia Supervisory Board**

**For the fiscal year ending on December 31, 2019**

Praise be to Allah, Lord of the Worlds, and prayers and peace be upon our prophet Muhammad, who was sent as a mercy to the worlds and upon his family and companions

May Peace, mercy and blessings of Allah be upon you,

In accordance with the decision of the General Consul of Al Arabiya Islamic Bank to appoint a Sharia supervisory board for the bank, and based on the bank's statute and the letter of assignment signed with us, the Sharia Supervisory Board submits to you its annual report for the financial period ending on December 31, 2019.

- The Committee has monitored the contracts related to the transactions and agreements concluded by the bank during the year 2019 and the principles used in its transactions in order to express an opinion on whether the bank is committed to the provisions and principles of Islamic law, as well as the fatwas and guidelines issued by the Commission.
- The committee carried out the necessary monitoring by examining the documentation and procedures followed by the bank on the basis of testing each type of operation carried out by the bank. The committee also obtained the information, data and explanations and viewed the letters and records that it requested and which it considered necessary to provide it with sufficient evidence to give reasonable assurance that the bank's transactions did not violate the rules and regulations of Sharia and the fatwas issued.
- The committee clarified a number of new banking issues and clarified the Sharia ruling therein. The committee answered all the relevant inquiries presented to it and issued the necessary fatwas.
- The committee monitored the bank's compliance with the provisions of Islamic Sharia, Islamic Banking Law No. (43) for the year 2015, and Sharia standards and accounting standards issued by the Accounting and Auditing Organization for Financial and Islamic Institutions.
- The committee reviewed the reports prepared by the Sharia Supervision and Audit Department on the activities and operations of the bank, as well as the notes and proposals presented by the departments and the measures taken by the executive management of the bank in their regard, and the bank's management submitted all required of it for the success of the work of the Sharia Board.
- The committee reviewed the bank's general budget as it is on December 31, 2019, the income statement for the period ending on December 31, 2019, and the clarifications on the financial statements as they

provide a comprehensive picture of the bank's work, and the committee did not show any Sharia violation as it looked at it.

- The responsibility of the Sharia Supervisory Board is to express an independent opinion and to state the Sharia ruling in accordance with the rules, provisions and principles of Islamic Sharia. The responsibility for implementation in accordance with the fatwas and provisions of Islamic Sharia rests with the bank's management.
- Accordingly, in our opinion: -
  - The contracts and transactions executed by the bank during the year 2019, which we reviewed, were executed in accordance with Sharia controls and provisions.
  - All revenues generated were from sources consistent with Sharia controls and provisions.
  - The responsibility for paying the Zakat rests on the shareholders, so we do not have any Sharia notes about it.

**This report was issued on 1441 AH corresponding to the year 2020**

**We ask Allah Almighty to bring us righteousness and guidance**

**May Peace, mercy and blessings of Allah be upon you,**

**Signed**

**Asst. Eng. Farouk Shaltag Mahdi**

**Head of the Fatwa and Sharia Supervisory Board**

**Signed**

**Ahmed Saleh Hussein**

**Member of Sharia Supervision Board**

**Signed**

**Abdul Qadir Mahdi Saleh**

**Member of Sharia Supervisory Board**

# Annual Report of the Audit Committee



**Gentlemen, respected members of the General Authority of the Al-Arabiya Islamic Bank**

**Sub. / Annual Report of the Audit Committee as on 31/12/2019**

Greetings,

In accordance with the provisions of Article (24) of the Banking Law No. (94) of 2004 and the Islamic Banking Law No. (43) of 2015 and the instructions issued pursuant to it, we present below the annual report of the Audit Committee for the year 2019, which included this report and in a summary of the results the committee's work in the field of its review of the comprehensive auditing of financial operations for the aforementioned period, as follows:

- 1- It was confirmed that the financial statements of Al Arabiya Islamic Bank for the year 2019 were prepared in accordance with the provisions of the Companies Law No. 21 of 1997, amended, and the bank complied with the legislation, regulations, and instructions of the Central Bank related to this regard, and we obtained assurances that the financial statements and explanations reflect the real financial position of the bank, as has been done. Ensure that the financial statements for the year 2019 included all the information and explanations that, in our opinion, were necessary to protect shareholders, depositors and other stakeholders, and were prepared in accordance with relevant legislation, regulations and instructions in force and in accordance with the financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and the International Financial Reporting Standards issued by The International Accounting Standards Board. Our bank has taken several measures to acquire a specialized electronic system in order to implement the International Standard No. (9) during the year 2019 and the quantitative effect was sent according to the instructions to the Central Bank according to the bank's letter No. M/3/559 on the date of 27/07/2020.
- 2- The financial indicators of the bank were reviewed and found that they reflect the soundness and durability of the financial situation, as the liquidity ratio reached 128% while the minimum standard ratio was 30% and the capital adequacy ratio reached 377% while the minimum standard ratio was 12%. The liquidity LCR reached 384%, and the net stable financing NSFR reached 128%, while the minimum standard ratio was 100%.
- 3- It was ensured that the accounting system used, information systems, the book group and the records used are in conformity with the requirements of bookkeeping, as it included, at our discretion, the recording of assets, liabilities, uses and all resources, and that it enables the bank to prepare sound financial data and that the reports extracted are accurate, reliable and clear and in accordance with the provisions of Islamic Sharia and regulations. And the instructions issued by the regulatory authorities.



- 4- It was ascertained that the Internal Sharia Supervision and Audit Department, along with the account auditors, carried out the inventory of fixed, cash and inventory assets, and that it was carried out properly and the results of the inventory were identical to the auxiliary records and that the evaluation process was carried out in accordance with the principles, principles and approved accounting principles.
- 5- The bank's internal audit plan for the year 2019 was reviewed, and it was found that it is sufficient and comprehensive. The results of the audit of the Internal Sharia Supervision and Audit Department during the year 2019 were reviewed on the bank's departments, banking activities, and its various units and branches. The audit demonstrated the soundness of banking operations and that they were in accordance with the policies and procedures approved by the Board of Directors and that they did not expose the bank to high risks.
- 6- The committee also reviewed the internal control and control systems in the bank and made sure of their adequacy and safety.
- 7- The scope, results and adequacy of the bank's external audit was also reviewed, and the committee ensured that it was comprehensive and covered all activities and risks to which the bank was exposed. The quarterly reports of the financial position sent to the Central Bank were also reviewed.

**In conclusion, we extend our thanks to all of those present**

**And we present you with the highest respect and appreciation**

**Signed**  
**Chairman of the Audit Committee**  
**Huda Abdulwahab Hassan**

# Independent auditor's report



Hashim Salim Mutammara  
Chartered Accountant and Auditor  
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07703281753-07507497014

No. 1281

Date: 05\08\2020

### Dear shareholders of Al Arabiya Islamic Bank

#### Sub. / The independent auditor's report for the financial statements of Al Arabiya Islamic Bank

#### Our opinion:

We have audited the financial statements of Al Arabiya Islamic Bank, which include: -

The financial position statement as of December 31, 2019, the profit and loss statement and other comprehensive income, the change in equity statement, the cash flow statement for the period ending on the same date, and the clarifications on the financial statements, including the summary of important accounting policies.

**In our opinion**, and taking into account the results of the audit shown later in this report, **the financial statements of the bank present fairly in all material respects the financial position of the bank as on 31/12/2019**, its financial performance, and its cash flows for the period ending on the same date in accordance with the financial accounting standards issued by the Authority Accounting and auditing for Islamic financial institutions, and the International Financial Reporting Standards issued by the International Accounting Standards Board.

#### Basis of opinion:

The audit work has been carried out based on the auditing standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the international auditing standards issued by the International Federation of Accountants, and our responsibility under these standards was explained later in the Auditor's responsibilities for auditing the financial statements in this report.

We are independent of the bank in accordance with the ethical requirements related to auditing the financial statements contained in the Code of Professional Conduct. We have performed our responsibilities under those requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Important audit findings:**

The results of our audit revealed the following notes and comments:

### **1 - International standards: -**

- A. The organization of the general budget and final accounts was prepared from 2016 to 2019 in accordance with International Financial Reporting Standards (IFRS), as it was organized in accordance with the Islamic Financial Accounting Standards (AAOIFI).
- B. As for the Islamic financing instruments, the controls for this were evaluated, guided by the accounting and auditing standards for Islamic institutions contained in the Central Bank of Iraq letter No. 9/3/289 On 01/08/2018.
- C. The bank has taken several measures to implement International Standard No. (9) in the acquisition of an electronic system, and the letter No. M / 3/559 was sent on 27/07/2020 to the Central Bank about the quantitative effect. We have verified the authenticity of the application.

### **2 - Cash: -**

- A. The cash balance reached (274) billion dinars as on 31/12/2019, which is 43% higher than the previous year's balance, due to the increase in current accounts payable and the decrease in Islamic financing.
- B. The increase in cash above was concentrated in the amount of (15) billion dinars in the bank's treasury and (64) billion dinars in cash with the central bank and the legal reserve.
- C. The cash liquidity ratio reached 201% (the ratio of cash to deposits and current accounts credit), which is an excellent ratio, on the one hand, and on the other hand, indicating a lack of optimal investment of the available resources.
- D. The balance of cash with foreign banks reached nearly (43) billion as on 31/12/2019, and it constitutes 17% of the bank's capital, noting that the percentage permitted by the central bank is 20%.

### **3- Investments: -**

- A. The investment balance amounted to 25,750 billion dinars as on 31/12/2019, which is more than the balance of the previous year by 750 million dinars. The increase in investment in the shares of the Iraqi company to guarantee deposits.
- B. The investment assets above represent the establishment of three companies with the shares of the Iraqi company, which are modern companies. We noticed that they did not practice investment activity, and this is an indication that the invested capital is frozen and not operating during the current year, and the administration has indicated that they are newly formed companies.
- C. Note that the Arabian Peninsula Company has bought a property for commercial purposes and is in the process of renting it to others in order to achieve a return to it, and this is a good indicator as the administration has shown us that the real estate bond is still under construction.

- D. The budget and closing accounts were organized and prepared and approved for investment companies by the Profession Council. General Administration Building.

#### **4 - Islamic Financing: -**

- A. Islamic financing amounted to 65 billion dinars as on 31/12/2019 before deducting the financing risk provision, which is 37% less than the balance of the previous year.
- B. Most of the Islamic financing is Mudaraba and Musharakah financing, and they account for 65% of participation and 35% of Mudarabah and Murabahah. We also did not notice the existence of field visits to the site of the participations' works to verify the existence of completion rates.
- C. Solid guarantees accounted for 65% of the total balances as on 31/12/2019, we recommend the necessity of adherence to the instructions to facilitate the implementation of Banking Law No. 4 of 2010, and we also recommend taking solid guarantees (Real Estate) when granting financing in the future in order to preserve the bank's funds.
- D. The revenues achieved from Mudaraba and Murabaha reached (1,566) billion dinars, which constitute 7% of Mudaraba and Murabaha stocks, and the returns of the participants did not appear for this year because they are long-term and we recommend the necessity of monitoring the participations and submitting periodic reports on the completion rates.
- E. The ratio of Islamic financing to deposits reached 48%, noting that the permissible percentage, according to the instructions of the Central Bank, should not exceed 70%.
- F. (14) Mudaraba contracts were liquidated in 2019, and (25) Murabaha were granted in 2019.
- G. We recommend the necessity to expand the credit base to avoid the risks of concentration and diversification in credit terms.
- H. We recommend the necessity of diversifying Islamic financing according to AAOIFI standards, such as parallel Salam, Leasing, Istisna', parallel Istisna, and issuing Islamic certificates of deposit (ICD) to be an effective Islamic instrument and a financing and investment tool according to the initiative of the Central Bank of Iraq.
- I. We also recommend not to engage in granting long-term financing in order to maintain annual cash returns, especially since the bank is still in the early years of its activity, given that long-term financing has reached (65%) of the total financing.

#### **5- Credit underwriting: -**

This important banking activity is still below the required level, as we noticed a decline in the granting of letters of guarantee, and the balance of this activity reached approximately (702) million dinars as on 31/12/2019, which requires activating this important activity in order to increase the financial resources of the bank.

#### **6- fixed and intangible assets: -**

- A. Fixed assets, intangible assets and projects under implementation amounted to (21,437) billion dinars as of 31/12/2019, which constitutes 9% of the bank's capital.
- B. The additions to fixed assets amounted to (77) million dinars during the year 2019, and additions to intangible assets amounted to (75) million dinars, and most of the additions are to enhance the assets of the new branch of the bank in Kirkuk.

#### **7- Projects under implementation: -**

- A. The balance of the account for projects under implementation amounted to (8,518) billion dinars. Most of this balance represents an advance payment for the construction of a building for the general administration and the main branch in Al-Jadriya area. We have seen the real estate document.
- B. We have reviewed the latest letter issued by the Implementing Contracting Company indicating that the completion rate has reached 60%. However, we have not seen a plan or contract indicating the date of completion of the project and the delivery of the building for use.

#### **8- Customers' Deposits: -**

- A. The balance of clients' deposits amounted to (135) billion dinars as on 31/12/2019, which is 50% more than the previous year's balance. This is a good sign, which requires improving the services provided to customers to attract more deposits.
- B. We noted the bank's dependence on non-core deposits, which requires setting up plans to attract citizens' deposits, in implementation of the Central Bank's instructions issued under the book number P/30/90 on 20/2/2019.

#### **9- Credits: -**

The balance of credit loans reached (825) million as on 31/12/2019, which are loans financed by the Central Bank and within the initiative of the Central Bank to finance small and medium projects.

#### **10- Profit and Loss Account: -**

- A. The result of the activity (profits) before tax is a profit of 383 million dinars, which is 50% less than the profits of the previous year.
- B. The bank has complied with the instructions of the Central Bank of Iraq, which required correcting the position of the funds that do not have solid guarantees. A large part of these funds were paid in speculation and thus the funds decreased by 37% from the previous year, which affected the size of the bank's profits, noting that the bank's management will All measures are taken to achieve the strategic plan during the next fiscal year 2020.

- C. We recommend that the accumulated surplus of (1,387) million dinars should not be distributed until all accumulated losses are extinguished in order to preserve the nominal value of the capital.
- D. The percentage of basic revenues reached 78% of total revenues, which is higher than the previous year, reaching 23%, and this is an indicator of improvement. This requires entering into various operational activities with an annual return and avoiding entering into the operational activity with long-term returns.

### **11- Capital adequacy: -**

The capital adequacy ratio reached 377%, which is higher than the standard rate contained in the Banking Law 94 of 2004, amounting to 12%.

### **12- US Dollars Auction window: -**

- A. The purchases of foreign currency from the currency auction window at the Central Bank of Iraq amounted to (2,352) billion US dollars as shown in the table below. And the bank followed presenting the final beneficiary report approach in adherence with the Central Bank of Iraq instructions with their letter no. 6/200 on 15/01/2017.

According to the instructions of the Central Bank / Financial Operations and Debt Management Department:

- B. The bank's management has shown us that supply and demand in the market and the operations of attracting customers led to a decrease in revenues, sale and purchase of currency in relation to what is required by the instructions.

Auction	Verified amounts in dollars	Revenue in dinars
External transfers	2,332,025,000	2,016,733,000
Cash auction for citizens	6,950,000	13,900,000
Cash auction for exchange companies	13,930,000	13,930,000
<b>Total</b>	<b>2,352,905,000</b>	<b>2,044,563,000</b>

- C. We recommend the necessity to include a profit discussion paragraph, including profits from the sale and purchase of currency, during the discussion of the budget and final accounts by the General Authority, based on the instructions of the Central Bank / Banking Products Development Division number 9/I/23466 on 10/10/2019.

### **13- Lawsuits: -**

The legal department in the bank supported us that there were no legal claims by third parties against the bank, and that there was one lawsuit filed by the bank against others regarding the theft of an amount of (300) thousand US dollars and the case is still under follow-up and it was hedged with adequate allocations.

### **14- Anti-money laundering: -**

The bank has taken adequate measures to combat money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Law No. (39) of 2015, and a company (Biotech) was contracted to set up an (AML) system during the year 2017 and it was effectively applied, and upon examining the quarterly reports, we noted The presence of one suspected case.

### **15- Risk Management: -**

We have noted through the quarterly reports of risk management the following: -

- A. The stress tests were performed in accordance with the instructions of the Central Bank and mentioned in their book No. 9/6/330 on 12/09/2018.
- B. The absence of an effective automatic system for classifying customer risks related to money laundering operations.

### **16- Reports of the Compliance Monitor: -**

The reports of the compliance auditor for the year subject to the audit were examined and reviewed, and it became clear to us that their organization was in accordance with the instructions of the Central Bank of Iraq.

### **17- Internal Control: -**

Upon examining the internal control system, it became clear to us the necessity of having audit programs based on the risk assessment process, and we also recommend the necessity of updating the policies and procedures for organizing the work of the internal audit activity, and the participation of the employees of the internal control department in specialized courses according to the department's policies and procedures for internal Sharia audit and the Charter of Control and Auditing.

### **18- Internal report: -**

An internal report was issued by us (management letter) No. 28 on 11/01/2019, and the comments received were discussed with the bank's management.



### **19- Disclosure of professional wages: -**

Professional wages for account auditors amounted to (30) million dinars, as shown by the operating expenses statement for the year 2019.

### **20- Subsequent events: -**

The presence of the new Corona virus (COVID-19) was confirmed in early 2020 and spread worldwide, including the Republic of Iraq - causing the disruption of many companies and economic activities. The administration considers that in this outbreak an event that is not subject to adjustment in the budget. Given that the situation is changing and rapidly evolving, the administration does not consider it possible to quantify the possible impact of this outbreak on the bank's future financial statements at this stage.

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

The management is responsible for preparing the financial statements in accordance with legal requirements, Islamic financial accounting standards and international financial reporting standards, and for internal control that management deems necessary to enable the preparation of the financial statements so that they are free from important distortions, whether they occur due to manipulation and fraud or because of errors.

In preparing the financial statements, management is responsible for evaluating the bank's ability to continue as a going concern and disclosing when necessary about issues related to continuity and using the continuity basis in accounting unless the management moves towards liquidating the bank or ending its operations, or when there is no other realistic alternative to doing so.

Also, those responsible for governance are responsible for overseeing and monitoring the financial reporting processes.

### **Auditor's responsibility for the audit of the financial statements:**

Our objectives are to obtain reasonable certainty about whether the financial statements generally are free from material misstatement, whether due to fraud, fraud or error, and to issue an audit report that includes our opinion.

Reasonable certainty is a high level of certainty, but it does not guarantee that the audit carried out by us in accordance with Islamic auditing standards and international auditing standards will always lead to the detection of significant misstatements when they exist.

Misstatement may arise from manipulation, fraud or error and is deemed significant if it is reasonably expected, individually or collectively, to influence the economic decisions of the beneficiaries made on the basis of those financial statements.

### Other information:

Management is responsible for the other information contained in its annual report and to ensure that there are no material errors or inconsistencies in the information.

### Other requirements:

In addition to the above, we include below the following notes to fulfill the legal requirements adopted in Iraq:

1. An electronic accounting program (BANKS) has been approved, and it has included, in our opinion, the recording of all assets, liabilities, expenditures and revenues of the bank, and the internal control system has included the necessary procedures to ensure the accuracy of this data.  
The book keeping used by the bank and the manual records are in accordance with the requirements of the bookkeeping system and have included the assets, requirements, the bank's resources and the uses of these resources.
2. The inventory of fixed and monetary assets was carried out properly by the bank's management and under our supervision, and that the results of this inventory were identical to the records. These assets were evaluated according to the approved accounting principles and principles.
3. The annual management report and the financial and accounting information it contained reflects the viewpoint of the bank's management.
4. The financial statements have been organized in accordance with the Islamic Financial Accounting Standards, International Financial Reporting Standards, and applicable laws and legislations, and they are completely consistent with what the records show.

### Baghdad - Iraq

Signed  
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Signed  
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07703281753-07507497014

# Financial Statements

For the period 01/01/2019 to 31/12/2019



**Al Arabiya Islamic Bank (LLC)**  
**Disclosure of financial position as at 31/12/2019**

Discription	Explanation	2019 (In thousands of IQD)	2018 (In thousands of IQD)
<b>Assets</b>			
Cash and balances with the Central Bank of Iraq	4	232,249,335	152,831,803
Balances with other banks	5	42,720,548	39,300,009
Investments	6	25,750,000	25,000,000
Net Islamic Financing	7	63,978,555	101,332,497
Other Assets	8	483,460	397,108
Intangible Assets	9	268,899	912,888
Net Fixed Assets	10	12,653,435	13,601,501
Undergoing Projects	11	8,515,000	8,515,000
<b>Total Assets</b>		<b>386,619,232</b>	<b>341,890,806</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Customer current deposits	21	135,854,172	90,750,404
Long term loans	13	825,000	450,000
Cash Insurance	14	287,651	1,125,000
Other liabilities	15	<b>108,270</b>	34,434
Provisions	16	394,065	678,387
<b>Total liabilities</b>		<b>137,469,158</b>	<b>93,038,225</b>
<b>Property rights</b>			
Paid Capital		250,000,000	250,000,000
Mandatory Reserves		88,617	80,461
Retained Profit / Loss		(938,543)	(1,227,880)
Total equity		<b>249,150,047</b>	<b>248,852,581</b>
<b>Total liabilities and equity</b>		<b>386,619,232</b>	<b>341,890,806</b>

Signed  
**Rana Abdulkareem Faraj**  
Accountant

Signed  
**Duraid Yassin Hamdan**  
CEO

Signed  
**Ahmed Abdelmajeed Jumaa**  
Chairman of the BOD

In adherence to our report numbered 1281 dated 05\08\2020

Signed  
**Khalil Ibrahim Al-Abd Allah and Partners co.**  
For Accounts monitoring and Auditing

Signed  
**Hashim Salim Mutammara**  
Chartered Accountant and Auditor



Al Arabiya Islamic Bank (LLC)

Unified Financial Position Statement as on 31/12/2019

Description	2019 (in thousand IQD)
<b>Assets</b>	
Cash and balances with the Central Bank of Iraq	254,711,398
Balances with other banks	42,720,548
Investments	750,000
Net Islamic Financing	63,978,555
Other Assets	483,460
Intangible Assets	356,771
Net Fixed Assets	15,056,796
Undergoing Projects	8,515,000
<b>Total Assets</b>	<b>386,572,528</b>
<b>Liabilities and Equity</b>	
<b>Liabilities</b>	
customer current deposits	135,854,172
Long term loans	825,000
Cash Insurance	287,651
Other liabilities	<b>115,415</b>
Provisions	394,065
<b>Total liabilities</b>	<b>137,476,303</b>
<b>Property rights</b>	
Paid capital	250,000,000
Mandatory Reserves	88,617
Retained Profit / Loss	(992,392)
<b>Total equity</b>	<b>249,096,225</b>
<b>Total liabilities and equity</b>	<b>386,572,528</b>

Signed  
Duraïd Yassin Hamdan  
CEO

Signed  
Ahmed Abdelmajeed Jumaa  
Chairman of the BOD

Clarification\ it was shown only for 2019 because the amounts preparation for financial position was made for the first time.

Signed  
Khalil Ibrahim Al-Abd Allah and Partners co.  
For Accounts monitoring and Auditing

Signed  
Hashim Salim Mutammara  
Chartered Accountant and Auditor

## Al Arabiya Islamic Bank

### Profit\ loss and other comprehensive income statement for the year ended at 31/12/2019

Discription	Explanation	2019 (In thousands of IQD)	2018 (In thousands of IQD)
<b>Operations revenue</b>			
Revenue from Islamic financing	17	1,566,947	1,029,742
Commissions payables	18-A	159,124	244,878
Deducting: Debtor Commissions	18-B	90,623	59,804
<b>Net</b>		68,500	185,074
Profit of selling and purchasing foreign currencies	19	2,007,827	4,520,509
Miscellaneous bank income	20	998,372	31,494
<b>Total operation revenue</b>		<b>4,641,646</b>	<b>5,766,819</b>
<b>Operations expenses</b>			
Employees' salaries and wages	21	1,293,398	1,046,186
Operating expenses	22	803,334	1,506,127
Depreciations	23	1,745,307	1,414,329
Taxes and fees	24	105,271	75,899
Risks of cash commitments	25	8,279	241,170
Exchange rate risk	26	-----	100,000
Other expenses	27	302,226	615,745
<b>Total expenses</b>		<b>4,257,815</b>	<b>4,999,456</b>
<b>Profit (loss) before tax</b>		<b>383,831</b>	<b>767,363</b>
<b>Minus: 20% of the losses of previous years in accordance with Article 11 of the Tax Code 113 of 1983 as amended</b>		<b>191,915</b>	<b>383,682</b>
<b>Net profit (loss) before tax</b>		<b>191,915</b>	<b>383,682</b>
<b>Deducting 15% tax</b>		<b>28,787</b>	<b>57,552</b>
<b>Net profit (loss) after tax</b>		<b>163,128</b>	<b>326,130</b>
<b>Deducting 5% mandatory reserve</b>		<b>8,156</b>	<b>16,306</b>
<b>Other comprehensive income</b>		<b>----</b>	<b>----</b>
<b>Cumulative surplus</b>		<b>154,972</b>	<b>309,824</b>
<b>comprehensive income for the year</b>		<b>154,972</b>	<b>309,824</b>

**Al Arabiya Islamic Bank (LLC)**

**Profit\ loss and other comprehensive income statement for the year ended at 31/12/2019**

<b>Discription</b>	<b>2019 (In thousands of IQD)</b>
<b>Operations revenue</b>	
Revenue from Islamic financing	1,566,947
Commissions payables	159,124
Deducting: Debtor Commissions	90,623
<b>Net</b>	<b>68,500</b>
Profit of selling and purchasing foreign currencies	2,007,827
Miscellaneous bank income	998,372
<b>Total operation revenue</b>	<b>4,641,646</b>
<b>Operations expenses</b>	
Employees' salaries and wages	1,293,398
Operating expenses	803,334
Depreciations	1,745,307
Taxes and fees	105,271
Risks of cash commitments	8,279
Exchange rate risk	-----
Other expenses	302,226
<b>Total expenses</b>	<b>4,257,815</b>
<b>Profit (loss) before tax</b>	<b>383,831</b>
<b>Minus: 20% of the losses of previous years in accordance with Article 11 of the Tax Code 113 of 1983 as amended</b>	<b>191,915</b>
<b>Net profit (loss) before tax</b>	<b>191,915</b>
<b>Deducting 15% tax</b>	<b>28,787</b>
<b>Net profit (loss) after tax</b>	<b>163,128</b>
<b>Deducting 5% mandatory reserve</b>	<b>8,156</b>
<b>Other comprehensive income</b>	<b>----</b>
<b>Cumulative surplus</b>	<b>154,972</b>
<b>Comprehensive income for the year</b>	<b>154,972</b>

**Al Arabiya Islamic Bank (LLC)**  
**Statement of change in equity for the year ended at 31/12/2019**

In Thousands of IQD

Discription	Capital	Mandatory reserves	Cumulative surplus	Losses	Total
Opening balance at the beginning of the period	250,000,000	80,461	1,290,442	(2,518,322)	248,852,581
Additions deducting losses	----	-----	-----	191,915	191,915
Payment of an additional tax allocations calculated for 2018	----	----	(57,550)	----	(57,550)
Net profit for the current year	-----	8,156	154,972	-----	163,128
Balance at 31/12/2019	250,000,000	88,617	1,387,864	(2,326,407)	249,150,074

**Statement of change in equity for the fiscal year ended at 31/12/2018**

In Thousands of IQD

Discription	Capital	Capital reserves	Cumulative surplus	Losses	Total
Opening balance at the beginning of the period	250,000,000	64,155	980,618	(2,902,003)	248,142,770
Additions deducting losses	-----	----	-----	383,681	383,681
Net profit for the current year	-----	16,306	309,824	-----	326,130
Balance at 31/12/2018	250,000,000	80,461	1,290,442	(2,518,322)	248,852,581





**Al Arabiya Islamic Bank (LLC)**  
**Statement of change in equity for the year ended at 31/12/2019**

In Thousands of IQD

Discription	Capital	Mandatory reserves	Cumulative surplus	Losses	Total
Opening balance at the beginning of the period	250,000,000	80,461	1,290,442	(2,518,322)	248,852,581
Additions deducting losses	----	-----	-----	191,915	191,915
Payment of an additional tax allocations calculated for 2018	----	----	(57,550)	----	(57,550)
Net profit for the current year	-----	8,156	101,124	-----	109,280
Balance at 31/12/2019	250,000,000	88,617	1,334,016	(2,326,407)	249,096,226

Explanation\ Statement of change in equity for was prepared for the first time.



**Al Arabiya Islamic Bank (LLC)**  
**Statement of cash flows for the year ended on 31/12/2019**

In thousands of IQD

Discription	2019	2018
Comprehensive income for the year / after tax	163,128	326,130
<b>Modification of non-cash items</b>		
<b>Deducting losses</b>	<b>191,915</b>	383,682
Depreciation for the current year	1,208,364	1,414,329
<b>Income after adjustments (I)</b>	<b>1,563,407</b>	<b>2,124,141</b>
<b>Changes in operating assets and liabilities</b>		
Decrease/ increase in Islamic financing	37,353,942	(7,213,580)
Decrease / increase in other assets	(86,352)	(25,093)
Decrease / increase in customer deposits	45,103,768	75,903,951
Decrease / increase in cash deposits	(837,349)	112,500
Decrease/ Increase in other liabilities	73,836	(4,910,506)
Decrease in provision	(284,322)	500,436
<b>Net cash flows in operating activities (II)</b>	<b>81,323,523</b>	<b>64,367,708</b>
<b>Investment activities</b>		
Increase in tangible and intangible assets	-----	119,141
Increase in investments	(750,000)	(25,000,000)
Increase in fixed assets	317,985	(3,400,467)
Increase in undergoing projects	-----	1,555,013
<b>Net cash flows from investing activities (III)</b>	<b>(432,015)</b>	<b>(26,726,313)</b>
<b>Financing activities</b>		
Loans / Credit	375,000	450,000
Reserves	8,156	16,306
<b>Net cash flows from financing activities (IV)</b>	<b>383,156</b>	<b>466,306</b>
<b>Net cash flows (I+II+III+IV)</b>	<b>82,838,071</b>	<b>40,231,842</b>
<b>Cash at the beginning of the year</b>	<b>192,131,812</b>	<b>151,899,970</b>
<b>Cash at the end of the year</b>	<b>274,969,883</b>	<b>192,131,812</b>

## Al Arabiya Islamic Bank (LLC)

### Statement of explanations related to the financial statements for the year ended at 31/12/2019

#### **1. General Information:**

The Board of Directors of the United Arab Money Transfer (Private Joint Venture Company), on 22/10/2015, decided to change the company to an Islamic bank, and increase its capital to 250 billion Iraqi Dinars for the purpose of practicing banking and financial activities, in accordance with the regulations and provisions of the Islamic Sharia and Islamic Banking Law No. (43) for the year 2015. The approval of the Central Bank of Iraq was obtained by their letter No. 9847 on 20/6/2016. Moreover, the approval of Registrar of companies, a department of the Ministry of Trade, was obtained in their letter No. 605 on 11/01/2016, and the bank began its banking activities on 02/10/2016.

#### **2. Application of new and revised IFRS standards**

##### **2.1 New and revised IFRS standards have been applied without having a material impact on the consolidated financial statements**

The revised IFRS standards have been applied in these consolidated financial statements. The adoption of the revised IFRS does not have any material effect on the amounts reported for the current period or prior periods but may affect the calculation of future transactions or arrangements.

- Amendments to IAS 12 "Income Tax" relating to the recognition of deferred tax assets against unrealized losses.
- Amendments to IAS 7 "Statement of Cash Flows" to provide disclosures that enable the user of the financial statements to assess changes and liabilities arising from financing activities.
- Amendments to IFRS 12 on the requirements for disclosure of shares in other entities.

##### **2.2 The new and amended standards issued have not yet been applied:**

The Bank has not applied, prior to their implementation, the following new and amended standards:

##### **New and revised IFRS standards that are applicable on annual basis for periods beginning on or after 1<sup>st</sup> January 2018:**

Standard No. 16 of International Financial Reporting Standards "Tenancy contracts": Standard No. 9 of IFRS specify how the reporting entity prepare, in accordance with IFRS standards, its reports, presentations and disclosure of tenancy contracts. This accounting standard provide an accounting model for tenant requires of

the contracting parties the recognition of assets and liabilities for all tenancy contracts unless otherwise tenancy contracts specify the lease contract is for 12 months or less, or the relevant assets are of low value. Lenders continue to classify leases as finance or operating lease contracts, with no significant change in the accounting model for the lessor in accordance with Standard No. 16 of the IFRS standards for the preparation of financial reporting compared to IFRS standards No.17.

### **IFRS standards No. 40 "Investment Property": January 1, 2018**

The IASB amended the requirements in IFRS No. (40) "Investment Property" about the timing at which a company must convert one Real estate to or from investment property. The conversion happens only when there is a real change in use - that is, the original meets or no longer meets the definition of investment property and there is evidence of Change in use. The administration's intention only to change does not support the conversion process.

### **2.3 New, Revised and Exported Standards Not Yet in force (continued)**

IAS no. (28) "Investment in associates and coalitions companies " the investor in a non-investing company may prefer to maintain a fair accounting value recognized by an associate of an investment company or a joint venture with an investment company on its subsidiaries. This choice can be made in a separate way for each associate or joint investment group. Interpretation no. 22 issued by the International Financial Reporting Interpretations Committee (IFRIC) "Transactions In foreign currency and the corresponding advance payment ". When the price is paid or received in advance in foreign currency an item may be the item's principal, expenses or income criterion. IAS 21 "Effects of Changes in Foreign Exchange Rates" It is not clear on how to determine the date of the transaction to convert the relevant item. Which led to a variety of practices regarding the exchange rate used to convert the related item. Hence, Interpretation no. 22 of the International Standards Interpretations Committee defined the financial statements date of the transaction as the date recognized by the company in prepayment or future revenue resulting from the prepaid price for transactions involving multiple payments and revenues, each amount paid or received has a separate transaction date.

### **IFRS no. 9 for preparing financial statements "Financial Instruments"**

In July 2014, the IASB issued the final version of IFRS no. 9, for the preparation of financial statements "Financial Instruments" which supersedes IAS no. (39) "Financial Instruments": The Recognition and Measurement and all previous issuances of IFRS no. 9 for the preparation of financial statements. The revised

standard includes three international reporting features for annual statements beginning on or after 1 January 2018, early application is permitted.

### **Hedge accounting:**

IFRS no. (9) introduces new rules for hedge accounting aimed at aligning hedge accounting with risk management practices.

IFRS no. (9) includes an accounting policy option to defer the application of IFRS (9) "Hedge accounting" and to continue to apply IAS 39 "Hedge Accounting". The Bank has decided to exercise the option of accounting policy but the bank will apply the revised disclosures in the hedge accounting required under amendments to IFRS (9) for preparation of financial statements instead of IFRS no. (7) Financial Instruments: Disclosures in the following financial statements:

### **Impairment:**

The final version of IFRS 9 introduces a new individual model for measuring impairment losses for all financial assets including loans and debt securities measured at amortized cost or at fair value through other comprehensive income. IFRS 9 replaces the current model, "losses incurred" IAS 39, by the "expected credit losses" model to be applied in the future.

In accordance with IFRS 9, expected credit losses are calculated by multiplying the probability of default, estimating losses by default and estimating exposures at default. The Bank has developed methodologies and models that take into consideration the relative size and complexity of investment portfolios.

The expected credit loss model includes a three-stage approach based on the change in the credit quality of financial assets since initial recognition. The expected credit losses reflect the present value of the deficit in cash relating to defaults either; (1) over the next 12-month period. Or; (2) The expected life of a financial instrument based on credit changes from inception.

- Under Stage 1, if there is no substantial increase in credit risk since the initial recognition, an amount equal to the expected credit loss will be recorded for 12 months.
- Under Stage 2, If there is a significant increase in credit risk since initial recognition but financial instruments are not considered to have been impaired in terms of credit, an amount equivalent to expected credit losses will be recorded based on the probable duration of the default.
- Under Phase 3, if there is objective evidence of impairment at the reporting date, these financial instruments will be classified as impaired and an amount equivalent to the expected credit loss will be recognized for the useful life of the financial asset.

The expected credit loss model represents a forward-looking view that requires reasonable and probable expectations of future economic conditions when determining significant increases in credit risk and measuring expected credit losses.

**Assessment of the significant increase in credit risk:**

An assessment of the significant increase in credit risk is made on a pro rata basis. To assess whether the credit risk of a financial asset has increased substantially since the inception of the financial asset, the Bank compares the risk of default over the life of the financial asset at the reporting date with similar default risk at the inception of the financial asset using the main risk indicators used in the risk management processes used At the Bank, the change in credit risk at each reporting date will be assessed individually and at the sector level for individual exposures.

**General economic factors, forward-looking information and multiple scenarios:**

IFRS 9 requires a fair and weighted estimate of credit losses by assessing the scope of potential results that include forecasts of future economic conditions.

The measurement of expected credit losses should include general economic factors and forward-looking information as well as determining whether there has been a significant increase in credit risk from the outset.

The measurement of expected credit losses at each reporting date should reflect reasonable and supported information about past events, current circumstances and expected forecasts of future economic conditions.

**Expert-based credit evaluation:**

The Bank's methodology with respect to the composition of the expected credit loss provision requires the Bank to use its expert judgment to include the estimated impact of factors not included in the expected credit loss model results in all reporting periods.

When measuring expected credit losses, the Bank considers the maximum contractual period after which the Bank is exposed to credit losses.

All contractual terms should be considered in determining life expectancy, including prepayment options and extension and renewal options.

The definition of default by the Bank to assess impairment losses is in line with the guidance of IFRS 9, with no reference to assumptions and consistent with regulatory requirements. The policy of canceling financing transactions remained unchanged.

### **3. Accounting Policies**

• The financial statements of the Bank have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board in matters not covered by the Islamic Financial Accounting Standards and in accordance with applicable local laws and instructions issued by the Central Bank. In this regard, compliance with the criteria in IFRS 1, in particular:

- All assets and liabilities to be recognized under IFRS are recognized.
- Non-recognition of items as assets or liabilities if IFRS does not allow such recognition.
- The reclassification of certain items for the purposes of presentation of the financial position was different from that in the consolidated accounting system as follows:
  - The calculation of the cash account is divided into two sub-accounts: cash and balances with the Central Bank and balances with local and foreign banks
  - Islamic financing account shown in net (after provision for impairment)
  - Separation of banking transactions from customer deposits.
- IFRS has been applied in the measurement of all recognized assets and liabilities and has not shown any differences from what have been previously applied.
- The application has included all IFRSs effective standards on 1 January 2017.
- The shift to international standards did not affect the financial position of the bank, due to the lack of differences in the measurement and simplicity of operations conducted by the bank. Consequently, there have been no increases or decreases in the outstanding equity balances from the previous period.

• **Basis of preparation:** The Bank adopts the historical cost convention in the preparation of its financial statements, except for investments in real estate and equity instruments carried at fair value through equity or through income items that are measured at fair value.

• **Currency of the report:** The financial statements are presented in Iraqi Dinars and all values are rounded to the nearest thousand Iraqi Dinars, unless otherwise stated.

• **Foreign currencies:** Transactions denominated in foreign currencies other than the currency of the financial statements are recorded on the basis of the exchange rates prevailing at the dates of the transactions. At the end of each financial period, monetary items denominated in foreign currencies are exchanged at the rates prevailing on the date of the statement of financial position. Non-monetary items denominated in foreign currencies at fair value are re-exchanged at the rates prevailing on the date that the fair value was determined. Whereas non-monetary items that have been assessed on a historical cost basis in a foreign currency are not re-exchanged. Exchange differences are recognized in profit or loss in the period in which they arise. The Bank has adopted the following exchange rates:

	31\12\2018	31\12\2017
The Iraqi dinar exchange rate against the USD	1190	1190

• **Islamic financing assets:** Islamic financing assets are those assets and liabilities arising from fixed or determinable Islamic financing contracts with fixed or determinable payments. These include financing through forms such as Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a and Salam. Finance assets are accounted for as of the date they arise and are stated at amortized cost less any provision for impairment, if any, and after deferred payment.

Murabaha includes mainly forward sale transactions where the bank buys a commodity (representing the murabaha shop) and then resells it to the profit after calculating a profit margin on the cost. The sale price is paid by the buyer in installments during the agreed period.

Musharaka is a form of capital partnership and is carried at the fair value of the consideration given after any impairment in value, if any. Participation in the capital provided by the Bank is measured in kind (if not cash) at the fair value of the assets provided. If an asset valuation results in any difference between the fair value and the carrying amount, the difference is recognized as profit or loss to the Bank.

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value in accordance with the lease terms. The ownership of these assets shall be transferred to the lessee at the end of the term of the lease provided that all the rent installments are paid. Depreciation is calculated on a straight-line basis at rates that reduce the cost of the assets systematically leased over the lease term.

In the case of speculation, the assets of the financing are the amounts provided by the bank to speculators (speculative money) less any losses realized during the period unless the speculator bears them as a result of negligence and negligence in implementing the terms of the Mudaraba contract.

The assets of Salam Finance are the amounts provided by the Bank in advance for goods received later described in the balance sheet. Receivables are amounts due at the end of the year after any provision for impairment has been made.

Finally, Istisna'a's financing assets consist of amounts provided by the Bank for the manufacture of the agreed upon items after the payment of the payments received from the manufacturer and after a provision for impairment.

• **Investments in securities:** Investments in securities comprise debt instruments carried at amortized cost and equity instruments are stated at fair value through equity. All investments are initially recognized at fair value, which is the amount of consideration paid including direct purchase costs, except for investments carried at fair value through income statement, where acquisition costs are charged to the statement of income.

• **Fair value measurement of financial instruments:** The fair value of investments traded in regulated financial markets is measured by reference to quoted market bid prices at the close of business on the statement



of financial position date. For investments that do not have quoted market prices, fair estimates of fair value are determined by reference to the present market value of a similar instrument or the estimated future cash flows. The equivalent cash value of the Bank is determined by the current profit rates of similar contracts in the terms and risk characteristics. Investments classified at fair value through equity The Bank is unable to determine its fair value on an ongoing basis such as investments that do not have an underlying market or other appropriate methods of obtaining fair value that are stated at cost less provision for impairment.

• **Impairment or impairment of financial assets:** At each statement of financial position date, financial assets other than those at fair value through profit or loss are assessed for impairment. Impairment of financial assets is when there is significant evidence that one or more events have occurred after the initial recognition of the asset and that the estimated future cash flows of the investments have been affected. Impairment of assets carried at amortized cost is measured as the difference between the asset's carrying amount and its estimated recoverable amount.

• **Fixed tangible assets:** tangible fixed assets are stated on the historical cost basis after the amortization of the accumulated losses and a loss of impairment or impairment of value, if any. Depreciation is calculated using the straight-line method in the light of the applicable instructions in Iraq and based on the estimated useful lives of the assets concerned, as follows:

Assets Category	Estimated duration
Estates	not subject to depreciation
Buildings	50 years
Machinery and equipment	5 years
Transporting and vehicles	5 years
Furniture and office appliances	5 years

Gains or losses arising on the disposal of any fixed assets are recognized in profit or loss.

• **Impairment or depreciation 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 indication that the asset has suffered a loss or impairment in value. Estimate the recoverable amount of the asset to determine the extent of the impairment loss. Recoverable value is the higher of fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the inherent risks of an asset for which the estimated future cash flows have not been adjusted.

• **Provisions:** Provisions are recognized as a result of an earlier event that establishes a reasonable legal or constructive obligation on the Bank and that it is probable that an inflow of economic benefits will be required to settle such obligations.

• **Current Accounts of Customer:** The Bank does not pay any profits on current accounts to customers. Transactions are measured at the monetary value expected to be achieved and received by the Bank at the date of the transaction. These are measured at their carrying amount at the end of the accounting period.

• **Investment account holders' rights:** Investment accounts include restricted and unrestricted investments received on a Mudaraba or Wakala basis, including savings accounts and term deposits. All investment account holders' rights are carried at cost, plus accrued profit and related reserves. Reserves consist of investment risk reserve and profit equalization reserve. The investment risk reserve represents the amounts that have been allocated from the investment account holders' equity after allocating the Mudaraba share to cover future expected losses. The profit equalization reserve is an amount allocated from Mudaraba income before the Mudaraba share is allocated for the purpose of maintaining a certain level of return on investment.

• **Revenue recognition:** The Bank follows the following policies regarding revenue recognition:

- Profit from Murabaha sales is recognized when the income is determinable in the contract and can be calculated at the inception of the transaction. Income is recognized with the time proportion of the transaction. When the income from the contract is undefined or undisclosed, it is not validated unless it has already been verified or verified. The receivable income for accounts in arrears is not included in 90 days or more in the income statement.
- Mudaraba and Musharaka income is recognized when the right to receive payment or distribution is established by the speculator or partner. The receivable income for accounts in arrears is also not included in 90 days or more in the income statement.
- Income is recognized in the Ijarah Muntahia Bittamleek contracts after deducting the amortization on a time basis.
- Income from Salam and Istisna'a contracts is recognized on a time proportion basis when it is determinable and known at the commencement of the transaction.
- Fees income is recognized when earned.
- Other income from investments is recognized when the right to receive payments is established.

• **Income in violation of Islamic Sharia:** The bank does not collect revenues from sources contrary to Islamic Sharia in a special account allocated for charitable purposes.

• **Zakat (charity):** Zakat is calculated in accordance with the Financial Accounting Standard No. 9 issued by the Accounting and Auditing Organization for Islamic Financial Institutions using the net investment method. Zakat is paid by shareholders and investment account holders themselves.

• **Income Tax:** The Bank calculates income tax in accordance with the provisions of the Income Tax Law No. 113 of 1982, as amended, which set the tax rate at 15% of net profit taxable.

• **Going concern:** The management of the Bank has made an assessment of the Bank's ability to continue and is satisfied that it has sufficient resources to continue its business in the foreseeable future and is not aware of any matters that may cause significant doubts about the Bank's ability to continue its activity.

• **Cash and cash equivalents:** Cash and cash equivalents maturing within a period of three months or less, including: cash in bank safes, balances with the Central Bank, balances with banks and banking institutions, and deposits of banks and banking institutions that mature during the said period and restricted balances.

### **3. Significant accounting estimates:**

In applying the Bank's accounting policies, management should make judgments and assumptions about the book value of assets and liabilities that are not readily disclosed from other sources. These estimates and assumptions are based on past experience and other relevant factors. Actual results are likely to differ from estimates. The Bank reviews its estimates and assumptions on an ongoing basis. Limitations resulting from the adjustment of accounting estimates are made in the financial year in which the adjustment occurs, if the adjustment affects only that year, the year of adjustment and subsequent years if the adjustment affects the current year and subsequent years. Important assessments include:

- Provision for impairment losses on financing provided.
- Determining the fair values of financial assets that do not have a market price.
- Income tax provision.
- Estimated operational lives of fixed assets.
- Impairment of tangible and intangible assets.

**4. CASH AND BALANCES WITH THE CBI:** The details of this item are as follows:

In thousand IQD

Account name	31\12\2019	31\12\2018
Gold Coins	-----	1,050
Cash in safes/ IQD	30,017,613	13,592,394
Cash in safes / Foreign Currencies	3,570,868	5,608,618
Cash with the Central Bank of Iraq	187,761,862	126,390,499
Legal deposits with the Central Bank	10,898,992	7,239,242
<b>Total</b>	<b>232,249,335</b>	<b>152,831,803</b>

**5. Cash with other banks:** This item consists of the following:

In thousand IQD

Account name	2019/12/31	2018/12/31
Cash with local banks	-----	22,367
Cash with foreign banks	42,720,548	39,277,642
<b>Total</b>	<b>42,720,548</b>	<b>39,300,009</b>

**6. Investments:** This item consists of the following:

In thousand IQD

Account name	2019/12/31	2018/12/31
Long-term investments (Companies - Private sector)	25,000,000	25,000,000
Long-term investments (Public and Private sector)	750,000	-----
<b>Total</b>	<b>25,750,000</b>	<b>25,000,000</b>

## 7. Islamic financing:

Details of this item are as follows:

In thousand IQD

Details	2019/12/31	2018/12/31
<b>A) Awarded financing</b>		
Musharakah financing / individuals	42,395,000	42,395,000
Mudaraba financing / individuals	-----	37,747,351
Mudaraba financing / companies	22,340,000	23,339,360
Murabaha financing / individuals	549,239	
<b>Total</b>	<b>65,284,239</b>	<b>103,481,711</b>
<u>Deducting:</u>		
Provision for Musharakah/ Mudaraba financing	1,294,700	2,149,214
Provision for sell/ Murabaha financing	10,984	-----
<b>Net direct credit facilities</b>	<b>63,978,555</b>	<b>101,332,497</b>
<b>B - Statement of financial position</b>		
Provision for credit impairment (productive debt)		
(1) Musharakah/ Mudaraba financing		
Opening Balance	2,149,214	1,920,794
Additions during the year *	114,750	248,420
Retrieved during the year	969,264	20,000
<b>Closing balance</b>	<b>1,294,700</b>	<b>2,149,214</b>
(2) Murabaha financing		
Opening Balance	-----	-----
Additions during the year *	10,984	-----
Retrieved during the year	-----	-----
<b>Closing balance</b>	<b>10,984</b>	-----

**8. Other assets:** This item consists of the following:

In thousand IQD

Account name	2019/12/31	2018/12/31
Insurance with Other	530	350
Affiliates advances	109,360	28,193
Non-current activity receivables	357,000	357,000
Prepaid expenses	16,570	11,565
<b>Total</b>	<b>483,460</b>	<b>397,108</b>

**9. Intangible assets:** This item consists of the following:

In thousand IQD

Account name	2019/1/1	Additions	Impairment for the current year	2019/12/31
Establishment expenses	504,088	569,798	1,073,886	-----
Banking systems and software	408,800	42,890	182,791	<b>268,899</b>
<b>Total</b>	<b>912,888</b>	<b>612,688</b>	<b>1,256,677</b>	<b>268,899</b>

**10. Fixed assets:** The following table details the tangible fixed assets and their impairment:

In thousand IQD

Details	Lands Thousand IQD	Machinery and equipment	Means of transport	Furniture and fixtures	Decorations, fixtures and dividers	Improvements Buildings / leased	Total
Balance as on 1/1/2019	10,000,000	111,927	155,071	833,326	----	3,790,983	14,891,307
Settlements entries						(725,902)	(725,902)
Additions during the year	----	43,614	---	33,893	-----	-----	77,507
Balance as at 31/12/2019	10,000,000	155,541	155,071	867,219	----	3,065,081	14,242,912
Cumulative impairment	-----	19,769	31,014	151,941	8,678	801,326	1,012,728
Adding current year's impairment	----	-----	----	----	----	88,118	88,118
Settlement	-----	30,642	31,014	169,263	-----	257,712	488,631
Provision balance 31/12/2019	----	67,669	77,036	385,735	-----	1,059,037	1,589,477
Book Value 31/12/2019	10,000,000	87,872	78,035	481,484	-----	2,006,044	12,653,435
Book value 31/12/2018	10,000,000	74,900	109,049	616,853	-----	2,800,699	13,601,501

**11. Undergoing projects:** This item consists of the following:

In thousand IQD

Account name	2019/12/31	2018/12/31
Projects Under Construction / Buildings and Facilities	8,515,000	8,515,000
<b>Total</b>	<b>8,515,000</b>	<b>8,515,000</b>



**12. Customers' current deposits:** The following table details the customers' deposit accounts:

In thousand IQD

Account name	2019/12/31	2018/12/31
Current accounts payable - Private sector / companies	114,732,849	67,746,756
Current Accounts Payable - Private Sector / Individuals	1,024,573	22,735,318
Savings Accounts	64,950	207,905
Checks in order of	16,800	38,425
Amount received for registration of companies	10,015,000	22,000
Deposits for undertaking companies' shares	10,000,000	-----
<b>Total sum</b>	<b>135,854,172</b>	<b>90,750,404</b>

**13. Borrowing:**

In thousand IQD

Account name	2019/12/31	2018/12/31
Long term loans (SMEs)	825,000	450,000
<b>Total</b>	<b>825,000</b>	<b>450,000</b>

**14. Cash Insurance:**

In thousand IQD

Account name	2019/12/31	2018/12/31
Letter of guarantee insurance	287,651	1,125,000
<b>Total</b>	<b>287,651</b>	<b>1,125,000</b>

**15. Other liabilities:** The following are details of other liabilities:

In thousand IQD

Account name	2019/12/31	2018/12/31
Other liabilities	75,878	4,434
Due expenditures	32,392	30,000
<b>Total</b>	<b>108,270</b>	<b>34,434</b>



## 16. Provisions:

In thousand IQD

Account name	2019/12/31	2018/12/31
Provision for exchange rate fluctuations	-----	36,3351
Provision for liability risk	8,278	127,500
Allocations of cash differences	357,000	357,000
Provision for tax	28,787	57,552
<b>Total</b>	<b>394,065</b>	<b>678,387</b>

## 17. Income from Islamic financing:

In thousand IQD

Account name	31/12/2019	31/12/2018
Murabaha Income - Individuals	36,647	-----
Mudaraba Income - individuals	605,160	757,742
Mudaraba Income - Companies	925,140	272,000
<b>Total</b>	<b>1,566,947</b>	<b>1,029,742</b>

18. **Income from bank fees and charges:** A. The following table details the income from charges and bank fees payable:

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/2018
Local transfer commissions	367	-----
Foreign transfer commissions	620	44,699
Westin Union Money Transfer Commission	19,634	5,193
Fees for internal letters of guarantee	11,078	168,721
Commission stamps sale	----	811
Other bank commissions	64,878	7,098
Various bank commissions	61,978	17,079
Commission of the issuance of cheque books	569	-----
Commission of the issuance of checks in order of	-----	1,277
<b>Total</b>	<b>159,124</b>	<b>244,878</b>

**B – Deducting Bank charges (payable):**

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/ 2018
Local banks\ banking commissions	89,647	54,014
Bank commissions / foreign banks	976	3,650
Expenses paid by investment accounts / savings	-----	2,140
<b>Total</b>	<b>90,623</b>	<b>59,804</b>

<b>Net income from fees and bank charges</b>	<b>68,500</b>	<b>185,074</b>
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**19. Profits of buying and selling foreign currencies:** The following is a table details the items in question:

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/ 2018
Revenue from sale and purchase of foreign currencies	2,007,827	4,520,509
Foreign exchange assessment income	-----	-----
<b>Total</b>	<b>2,007,827</b>	<b>4,520,509</b>

**20. Miscellaneous bank income:** The following is a table details the item in question:

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/2018
Miscellaneous services and SWIFT	32,563	18,902
Sales and publications	4,888	3,889
Debts allocations (Bad debts)	958,280	-----
Other income	2,641	8,703
<b>Total</b>	<b>998,372</b>	<b>31,494</b>

**21. Employees' salaries and the like:** The following is a detailed table of the employees' salaries, wages and the like:

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/2018
Wages	333,124	321,042
Professional and technical provision	140,967	163,087
Family provision	93,978	108,725
Compensatory provision	234,946	271,811
Overtime fees	1,140	780
Rewards	104,975	43,877
Contribution to social security	39,930	38,496
Direct deductions/ employees	292,006	-----
<b>Total wages of employees in the bank</b>	<b>1,241,066</b>	<b>947,818</b>
<b>Add other staff costs:</b>		
Transfer of employees	5,204	12,037
Transport for training	21,329	40,345
Subsidies for associates	4,700	-----
Equipment for associates	1,200	-----
Training	19,899	45,986
<b>Total</b>	<b>1,293,398</b>	<b>1,046,186</b>

**22. Operational expenses:** The following is an analytical table of administrative and general expenses:

In thousand IQD

Account name	For year ended at 31/12/2019	For year ended at 31/12/2018
Fuel and oil	15,115	18,184
Supplies & Equipment	32,510	35,112
Stationery	5,931	10,109
Employees equipment	----	9,429
Water and electricity	32,241	24,757
Maintenance of buildings and facilities	3,674	3,860

Maintenance of machinery and equipment	4,827	2,532
Maintenance of vehicles	3,691	2,198
Maintenance of furniture and office equipment	670	7,016
Maintenance of software and systems	64,435	-----
Maintenance of tools and templates	1,012	-----
Services and Consulting	42,543	246,953
Advertising	8,711	9,393
Publishing and printing	9,631	11,275
Hospitality	14,023	14,468
Celebrations	6,385	-----
Rewards for non - workers	14,005	4,712
Conferences and seminars	-----	23,866
Communications	83,148	115,905
Goods transportations	1,491	1,446
Rental of buildings and facilities	114,869	528,623
Subscriptions	167,091	175,759
Legal services	56,972	49,704
Banking services	9,004	45,396
Auditing fees	3,400	-----
Other auditing fees	3,000	-----
Auditing company fees	30,000	31,000
Affiliate subsidies	-----	2,845
Other expenditure	2,825	-----
Other service expenses	72,100	131,585
<b>Total</b>	<b>803,334</b>	<b>1,506,127</b>

### 23 - Depreciation and impairments:

Account name	In thousand IQD	
	For year ended at 31/12/2019	For year ended at 31/12/2018
Impairment of machinery and equipment	30,642	19,769
Impairment of Vehicles	31,014	31,014
Impairment of Furniture and office appliances	169,262	151,941
Impairment of decorations, fixtures and cutters	-----	8,678
Impairment of Buildings improvements / leased	257,712	801,326
Impairment of intangible assets	1,256,677	401,601
<b>Total</b>	<b>1,745,307</b>	<b>1,414,329</b>

### 24. Taxes and fees: This item consists of the following:

Account name	In thousand IQD	
	For year ended at 31/12/2019	For year ended at 31/12/2018
Taxes and fees	105,271	75,899
<b>Total</b>	<b>105,271</b>	<b>75,899</b>

### 25. Risk of Commitments/ Cash Equivalents:

Account name	In thousand IQD	
	For year ended at 31/12/2019	For year ended at 31/12/2018
Risk of liabilities Commitments/ Cash Equivalents	8,279	241,170
<b>Total</b>	<b>8,279</b>	<b>241,170</b>

### 26. Risks of exchange rate fluctuations:

Account name	In thousand IQD	
	For year ended at 31/12/2019	For year ended at 31/12/2018
Risks of exchange rate fluctuations	-----	100,000
<b>Total</b>	<b>-----</b>	<b>100,000</b>



**27. Other expenditures:** This item consists of the following:

Account name	In thousand IQD	
	For year ended at 31/12/2019	For year ended at 31/12/2018
Expenses of previous years	28,130	-----
Donations	1000	-----
Provision for cash differences	-----	357,000
Compensation and fines	175,992	168,878
Special service expenses	97,104	89,867
<b>Total</b>	<b>302,226</b>	<b>615,745</b>

**28. Off-budget operations (commitments and possible liabilities):** The following table details the bank's commitments on off-budget operations:

Statement	In thousand IQD	
	For year ended at 31/12/2019	For year ended at31/12/ 2018
Local Letters of guarantee	701,591	7,500,000
<b>Total</b>	<b>701,591</b>	<b>7,500,000</b>
Deducting: Insurance	287,651	1,125,000
<b>Net Liabilities</b>	<b>413,940</b>	<b>6,375,000</b>