

**CIHAN BANK FOR ISLAMIC
INVESTMENT AND FINANCE
P.S.C.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S
REPORT
AS OF 31 DECEMBER 2014**



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

INDEPENDENT AUDITOR'S REPORT

**Eren Bağımsız Denetim ve
Yeminli Mali Müşavirlik A.Ş.
Grant Thornton Erbil Branch**
Sapphire Business Complex No:2/3
Ainkawa Road, Bakhtiyari District
Erbil IRAQ

To the Shareholders and the Board of Directors of
Cihan Bank for Islamic Investment and Finance P.S.C.
Erbil, Iraq

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1. We have audited the accompanying financial statements of Cihan Bank for Islamic Investment and Finance P.S.C. ("the Company") which comprise the financial position as at 31.12.2014 and the statements of income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other notes to the financial statements.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of Cihan Bank for Islamic Investment and Finance P.S.C. as of 31.12.2014 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.
7. Since mid of June 2014, terrorist group named Islamic State in Iraq and Syria (ISIS) has caused an unrest in Iraq. This surprise attack has affected the business and the general life in Northern Iraq. It is not yet certain how circumstances will develop in the coming future.

Eren Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.
Member Firm of GRANT THORNTON International

Nazım Hikmet
Partner

Erbil, 09 July 2015

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
BALANCE SHEETS
AS OF 31 DECEMBER 2014 AND 2013

(All amounts in thousands Iraq Dinar ("IQD") unless indicated otherwise.)
 (Amounts are translated into of U.S. Dollars at the exchange rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.)

Assets	Note	31.12.2014		31.12.2013	
		USD (000)	IQD (000)	USD (000)	IQD (000)
Current assets					
Cash and cash equivalents	3	197,149	229,876,018	314,222	366,383,202
Investments		214	250,000	214	250,000
Murabaha and musharaka	4	275,176	320,855,596	262,871	306,507,047
Other receivables	5	17,472	20,372,735	11,800	13,759,144
Loans granted to related parties		2	1,750	678	790,658
Inventories	8	35,583	41,489,544	5,666	6,606,323
Other current assets		137	160,075	677	789,448
Total current assets		525,733	613,005,718	596,128	695,085,822
Non-current assets					
Property, plant and equipment, net	6	3,319	3,870,171	3,908	4,556,859
Construction in progress	7	12,924	15,068,958	10,377	12,099,801
Other non-current assets	9	1,130	1,317,432	1,393	1,623,974
Total non-current assets		17,373	20,256,561	15,678	18,280,634
Commitments and contingencies	15	292,178	340,679,907	382,841	446,392,889
Total assets		835,284	973,942,186	994,647	1,159,759,345

The accompanying notes are an integral part of these financial statements.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
BALANCE SHEETS
AS OF 31 DECEMBER 2014 AND 2013

(All amounts in thousands Iraq Dinare ("IQD")) unless indicated otherwise.)

(Amounts are translated into of U.S. Dollars at the exchange rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.)

Liabilities and equity	Note	31.12.2014		31.12.2013	
		USD (000)	IQD (000)	USD (000)	IQD (000)
Current liabilities					
Current accounts from customers	10	93,346	108,841,483	187,930	219,125,942
Islamic savings deposited by customers	11	86,173	100,477,211	76,150	88,791,405
Other payables	12	31,649	36,903,436	32,924	38,388,965
Trade payables	13	9,600	11,193,079	7,485	8,728,088
Provisions and allowances for reserves	14	27,502	32,066,825	27,834	32,454,103
Total current liabilities		248,270	289,482,034	332,323	387,488,503
Equity					
Share capital	16	218,696	255,000,000	218,696	255,000,000
General reserves		58,300	67,978,369	30,882	36,008,337
Net profit for the year		17,840	20,801,876	29,905	34,869,616
Total equity		294,836	343,780,245	279,483	325,877,953
Commitments and contingencies	15	292,178	340,679,907	382,841	446,392,889
Total liabilities and equity		835,284	973,942,186	994,647	1,159,759,345

The accompanying notes are an integral part of these financial statements.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(All amounts in thousands Iraq Dinar ("IQD") unless indicated otherwise.)

(Amounts are translated into of U.S. Dollars at the exchange rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.)

		01.01.- 31.12.2014		01.01.- 31.12.2013	
	Note	USD (000)	IQD (000)	USD (000)	IQD (000)
Revenue of banking	17	43,803	51,074,636	55,942	65,228,936
Operating expenses	18	(22,574)	(26,320,875)	(18,649)	(21,744,240)
Financing income / (expenses), net	19	(2)	(2,162)	(1,710)	(1,994,267)
Profit before taxation		21,227	24,751,599	35,583	41,490,429
Corporation tax		(3,387)	(3,949,723)	(5,678)	(6,620,813)
Net profit for the year		17,840	20,801,876	29,905	34,869,616

The accompanying notes are an integral part of these financial statements.

Grant Thornton Turkey
Ernst & Young

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(All amounts in thousands Iraq Dinar ("IQD") unless indicated otherwise.)

(Amounts are translated into of U.S. Dollars at the exchange rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.)

	Share Capital		General Reserves		Net Profit for the Year		Total Equity	
	USD (000)	IQD (000)	USD (000)	IQD (000)	USD (000)	IQD (000)	USD (000)	IQD (000)
Balance, 31.12.2012	128,645	150,000,000	16,811	19,601,854	26,078	30,406,483	171,534	200,008,337
Capital increase								
- In cash	90,051	105,000,000	--	--	--	--	90,051	105,000,000
Dividend paid	--	--	(12,007)	(14,000,000)	--	--	(12,007)	(14,000,000)
Transfer to general reserves	--	--	26,078	30,406,483	(26,078)	(30,406,483)	--	--
Net profit for the year	--	--	--	--	29,905	34,869,616	29,905	34,869,616
Balance, 31.12.2013	218,696	255,000,000	30,882	36,008,337	29,905	34,869,616	279,483	325,877,953
Dividend paid	--	--	(2,487)	(2,899,584)	--	--	(2,487)	(2,899,584)
Transfer to general reserves	--	--	29,905	34,869,616	(29,905)	(34,869,616)	--	--
Net profit for the year	--	--	--	--	17,840	20,801,876	17,840	20,801,876
Balance, 31.12.2014	218,696	255,000,000	58,300	67,978,369	17,840	20,801,876	294,836	343,780,245

The accompanying notes are an integral part of these financial statements.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(All amounts in thousands Iraq Dinare ("IQD") unless indicated otherwise.)

(Amounts are translated into of U.S. Dollars at the exchange rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.)

	01.01.-31.12.2014		01.01.-31.12.2013	
	USD (000)	IQD (000)	USD (000)	IQD (000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax for the year	21,227	24,751,599	35,583	41,490,429
<u>Adjustment to reconcile net profit to net cash:</u>				
Depreciation and amortization	1,156	1,347,318	952	1,110,413
Corporation Tax	3,387	3,949,723	5,678	6,620,813
Variety of allowances	6,755	7,876,330	(2,795)	(3,258,907)
Allowance for distributing profit for saving accounts	(2,011)	(2,345,000)	1,880	2,191,610
Allowance for doubtful debts	5,360	6,250,296	(3,038)	(3,541,971)
Operating cash flows provided before changes in working capital	35,874	41,830,266	38,260	44,612,387
<u>Changes in operating assets and liabilities:</u>				
Murabaha and musharaka	(12,306)	(14,348,549)	(99,397)	(115,897,432)
Loans granted to related parties	677	788,908	(529)	(616,995)
Inventories	(29,917)	(34,883,221)	(5,666)	(6,606,323)
Other receivables	(5,672)	(6,613,591)	(5,801)	(6,763,506)
Other current assets	540	629,373	(430)	(501,213)
Other non-current assets	263	306,542	(325)	(379,050)
Current accounts from customers	(94,584)	(110,284,459)	90,000	104,940,429
Islamic savings deposited by customers	(13,944)	(16,258,875)	22,425	26,147,661
Trade payables	2,114	2,464,991	(3,986)	(4,647,672)
Other payables	5,482	6,390,802	(10,360)	(12,082,772)
Net Cash Flows Generated From / (Used in) Operating Activities	(111,473)	(129,977,813)	24,191	28,205,514
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital increase	--	--	90,051	105,000,000
Dividend paid	(2,487)	(2,899,584)	(12,007)	(14,000,000)
Net Cash Flows Generated From / (Used in) Financing Activities	(2,487)	(2,899,584)	78,044	91,000,000
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Acquisitions of tangible fixed assets	589	686,688	(3,238)	(3,775,070)
Projects under implementation	(3,702)	(4,316,475)	906	1,056,921
Net Cash Flows Used in Investment Activities	(3,113)	(3,629,787)	(2,332)	(2,718,149)
Net Increase in Cash and Cash Equivalents	(117,073)	(136,507,184)	99,903	116,487,365
Cash and Cash Equivalents at Beginning of Year	314,222	366,383,202	214,319	249,895,837
Cash and Cash Equivalents at the End of Year	197,149	229,876,018	314,222	366,383,202

The accompanying notes are an integral part of these financial statements.

Grant Thornton Turkey
Erbil Branch

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2014 AND 2013
(Currency – Thousands Iraqi Dinars IQD)

1. GENERAL INFORMATION

1.1 History of the Bank including its incorporation date, initial legal status and amendments to legal status:

Cihan Bank was established in June 2008 and started operating on 01.04.2009 in the general headquarters of its administration in Erbil. The Bank has a total of 11 branches in Erbil (2), Baghdad (2), Sulaymaniah, Zakho, Basra, Najaf, Duhok, Kerkuk and Mosul.

Cihan Bank being Islamic bank and all its transactions with its customers are committed to apply the terms of Islamic Law. Despite the short time of establishment, the Bank managed to preoccupy its place in the Iraqi Banking Market as it is clarified in the 2014 financial annual report by the large amount of the bank's deposits. Cihan Bank's administration and employees are committed to Shariah guidance that consist of a group of specialist who monitor and demonstrate the suitability of each transaction submitted with the requirements of Islamic Law.

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

1.2 Explanation on the chairman and members of board of directors, members of audit committee, general manager and assistant general managers, their areas of responsibility and their shares in the Bank, if any:

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

Name	Position
Mr. Azad Yahya Saeed	Chairman
Mrs. Suzan Shareef Mohammed	Vice Chairman
Mr. Muwafak Taher Alchalabi	General Manager and Board Member
Mrs. Nawal Jamal Abdullah	Board Member
Mrs. Nawroz Salah Saeed	Board Member
Mr. Asso Naser Alddin	Board Member
Mrs. Sazan Nyazi Shaker	Board Member

The Bank's shareholders are Yahya Saeed Bajger family (Note 16).

Grant Thornton Turkey
Erbil Branch

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2014 AND 2013
(Currency – Thousands Iraqi Dinars IQD)

1.3 Summary on the Bank's service activities and field of operations:

The Bank's main activities are in the field of Islamic Banking presented under the form of Murabaha (short term finance for production) and Musharaka (partnerships) that make a total of IQD 278,696,455 as of 31.12.2014 versus IQD 288,248,814 as of 31.12.2013 that makes a decrease of 3%.

In addition, the amount of receivable bonds reached IQD 42,159,141 as of 31.12.2014 and the amount of granted loans to related parties reached IQD 1,750. Additionally, the current accounts (funds) from depositors at the end of 2014 reached IQD 108,841,483 versus IQD 219,125,942 at the end of 2013 related to a decrease of 50%.

The Islamic saving accounts have seen a significant increase compared to the previous year, amounted to IQD 89,965,944 as of 31.12.2014 compared to IQD 82,115,228 at the end of 2013, which makes an increase of 10%. Accordingly, total amount of funds received from customers reached IQD 246,222,130 as of 31.12.2014 versus IQD 346,306,312 as of 31.12.2013 that made a decrease of 29%.

The below statistical chart shows the level of activity of the international division of the Bank. The international division activities involve foreign transactions as letter of credits, counter letters of guarantee and foreign remittances as follow:

Type of transaction	2014		2013	
	# of transaction	Amount (IQD'000)	# of transaction	Amount (IQD'000)
Letters of Credits	85	321,571,089	129	335,477,000
Letters of Guarantee	2,258	15,975,956,864	66	239,996,000
Foreign remittance transactions	2,222	407,987,024	2,960	1,151,551,000

No bank is able to expand its activities abroad unless the bank has an extensive network of correspondent banks. Cihan Bank has exerted its efforts in this direction for the purpose of expanding its foreign activities.

Grant Thornton Turkey
Erbil Branch

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2014 AND 2013
(Currency – Thousands Iraqi Dinars IQD)

As a result, as of 31.12.2014, the number of the correspondent banks has come to a total of 33 banks as the names shown below:

Correspondent Banks:

1	International Bank of Lebanon IBL	18	Al Baraka Turk Bank (Turkey)
2	Aktif Bank (Turkey)	19	BBAC
3	Abu Dhabi-Islamic Bank	20	Ubaf Bank
4	First National Bank FNB	21	Byblos Bank
5	Al-Baraka Islamic Bank	22	Housing Bank
6	Ithmaar Bank	23	İş Bank (Turkey)
7	Bank of Beirut	24	Fransa Libanais Bank
8	T.C. Ziraat Bank (Turkey)	25	Kuveyt Türk (Turkey)
9	Deniz Bank (Turkey)	26	Alternatif Bank (Turkey)
10	Fransa Bank	27	British Arab Commercial Bank
11	Ubae Bank	28	Kuveyt Türk-Dubai
12	Credit Libanais	29	Jordan Ahli Bank
13	Commerz Bank	30	Arab Bank
14	Asya Bank (Turkey)	31	Mashreq Bank
15	Byblos Bank Europe	32	Halk Bank (Turkey)
16	Vakıf Bank (Turkey)	33	Türkiye Finans (Turkey)
17	Yapı Kredi Bank (Turkey)		

During 2014 and 2013, about 160 employees worked in Cihan Bank. Most of the employees have a Bachelor or Institute degree.

1.4 Differences between the communiqué on preparation of consolidated financial statements of banks and International Financial Reporting Standards with respect to consolidation and short explanation about the institutions subject to full or proportional consolidation and institutions which are deducted from equity or not included in these three methods:

The accompanying financial statements are the financial statements of Cihan Bank. There is no need for consolidation or equity accounting, since the Bank does not have any subsidiaries.

1.5 The existing or potential, actual or legal obstacles on immediate transfer of equity or reimbursement of liabilities between the bank and the third parties:

There is no existing or potential, actual or legal obstacle to the reimbursement of the Bank liabilities.

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CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2014 AND 2013
(Currency – Thousands Iraqi Dinars IQD)

2. ACCOUNTING POLICIES

2.1 Explanations on basis of presentation:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Basis of measurement

The financial statements have been prepared on the historical cost basis with adjustments and reclassifications in order to comply with IFRS.

c) Functional and presentation currency

Items included in the accompanying financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The functional currency of the Company is IQD. Accordingly, the financial statements are presented in IQD has been rounded to the nearest thousands. The IQD financial statements are converted to USD at a fixed rate of IQD 1,166 = USD 1 (31.12.2013: IQD 1,166 = USD 1) for convenience purposes.

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements.

2.2 Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
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(Currency – Thousands Iraqi Dinars IQD)

b) Financial assets and liabilities

Recognition

The Bank initially recognizes loans, deposits and debt securities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset, and the sum of (1) the consideration received (including any new asset obtained less any new liability assumed) and (2) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activities.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
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Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using arm's length transactions between knowledgeable, willing parties (if reference), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates related to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instruments at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instruments is initially measured at the transition price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A Financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

CIHAN BANK FOR ISLAMIC INVESTMENT AND FINANCE P.S.C.
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Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

c) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

d) Loans and due from customers

Loans and due from customers are financial assets with fixed or determinable payments that are not quoted in an active market or classified as financial assets held for sale or for trading or financial assets designated at fair value through profit or loss. After initial measurement, loans and amounts due from customers are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement as credit loss expenses.

e) Profit rates

Profit income and expense are recognized from Shariah compliance investment activities. The customer portion of profit shares are distributed among customers based on the weighted average balance in each customer's account by the end of each financial year. When calculating the effective profit rate (interest rate), the Bank estimates future cash flows considering all contractual terms of the financial instrument.

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f) Fees and commissions

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and other finance fees on loans are recognized as the related services are performed. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

g) Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

h) Other banks reserves and deposits

All other banks reserves and deposits are carried at cost less amounts repaid.

i) Due to foreign banks

All due to foreign banks balances are carried at cost less amounts repaid.

j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

k) Property, plant and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

- Machinery and equipment 10 years
- Furniture and fixtures 5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

m) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by using management best estimates to the risk specific to the liability.

n) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

o) Taxes and allowances for reserves

According to Article 44 of the Central Bank Law of 2004, the Company is subject to corporation taxes at 15%. Additionally the Bank is required to set allowances for Expansion Reserves (at 7%), Legal Reserves (at 5%) and Capital Reserves (at 5%).

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New and amended standards and interpretations

The accounting policies applied in the preparation of the consolidated financial statements as of 1 January- 31 December 2014 are consistent with those applied in the preparation of the financial statements as of 31 December 2013, except for the new standards and International Financial Reporting Interpretations Committee's ("IFRIC") interpretations summarized below.

Standards, amendments and interpretations effective as of 1 January 2014:

- IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amended)
- IFRS Interpretation 21 Levies
- IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendment)
- IFRS 10 Consolidated Financial Statements (Amendment)

These amendments did not have any impact on the financial position or performance of the Company.

Standards, amendments and improvements issued but not yet effective and not early adopted:

- IFRS 9 Financial Instruments - Classification and Measurement
- IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)
- IFRS 11 - Acquisition of an Interest in a Joint Operation (Amendment)
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- IAS 16 - Property, Plant and Equipment and IAS 41 Agriculture (Amendment) - Bearer Plants
- Improvements to IFRSs - 2010 - 2012 Cycle
- Improvements to IFRSs - 2011 - 2013 Cycle

The impacts of the new standards, amendments and improvements on the financial position and performance of the Company is being assessed.

New standards, amendments and interpretations that are issued by the International Accounting Standard Boards (IASB) but not issued by POA:

- Improvements to IFRSs - 2010 - 2012 Cycle
- Improvements to IFRSs - 2012 - 2014 Cycle
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 9 - Financial Instruments - Final standard (2014)
- IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27
- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)
- IAS 1: Disclosure Initiative (Amendments to IAS 1)

The impacts of the new standards, amendments and improvements on the financial position and performance of the Company is being assessed.

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2.3 Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

a) Credit risk

Credit risk is the risk that the Bank will incur a loss because any of the Bank's counterparties fail to discharge their contractual obligations.

In order to hedge the risk of defaulting on payment, the Bank imposes the following conditions to reduce the likelihood of this type of risk:

- Submitting real estate or securities as collateral
- The maximum loan period is 3 years

Concentration arises when a number of counterparties which are engaged in similar business activities, or activities in the same geographic region, or when they have similar economic features and for which have an impact on their ability to meet contractual obligations in case they are faced by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Bank's performance towards the developments affecting a particular industry or geographic location.

Impaired loans and advances

Impaired loans are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. Interest on the impaired loans is suspended and a provision for impairment loss is recognized in the income statement according to management best estimates taking into consideration collaterals if any.

Write-off policy

The Bank writes off a loan or an investment in a debt security balance and any related allowances for impairment losses, when the Bank determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its liabilities when they fall due. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

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c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. In order to avoid this risk, the Company depends on diversifying its foreign currency reserves according to best international practices and standards in this field that define the limits and parameters for each currency reserve and the weight of each major currency in the global economy.

Profit rate risk

The main objective behind managing profit rate risk is limiting the potential adverse effects on net profit revenue, future cash flows, and fair values of financial instruments resulting from fluctuations in market profit rates. The principal risk to which non-trading portfolios are exposed to is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk is managed by the risk management department principally through monitoring profit rate gaps and by having preapproved limits for repricing bands.

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3. CASH AND CASH EQUIVALENTS

	31.12.2014	31.12.2013
Cash	66,204,937	54,316,594
Balances with local banks	123,196,759	253,768,273
Balances with foreign banks	40,474,322	58,298,335
Total	229,876,018	366,383,202

The Bank is required to keep disponibility reserves as follows:

For IQD Deposits:

15% (10% in the Bank's account in the Central Bank of Iraq, 5% must remain in the vault)

For USD Deposits

20% (15% in the Bank's account in the Central Bank of Iraq, 5% must remain in the vault)

4. MURABAHA AND MUSHARAKA

Short-term loans (Murabaha)	334,060	635,200
Long-term loans	34,980,000	34,980,000
Corporate Murabaha	243,382,395	252,633,614
Receivable bonds	42,159,141	18,258,233
Total	320,855,596	306,507,047

5. OTHER RECEIVABLES

Bank deposits at correspondent banks	18,235,458	9,043,640
Accrued revenues	838,915	651,065
Prepaid expenses	1,278,366	770,282
Legal expenses	19,737	15,025
Current activity debtor	259	3,913
Other debit accounts	--	3,275,219
Total	20,372,735	13,759,144

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6. PROPERTY, PLANT AND EQUIPMENT, NET

	Machinery and Equipment	Transport and Transmission Means	Tools and Molds	Furniture and Office Equipment	Total
Cost as on 01.01.2014	371,781	92,942	1,127	5,465,199	5,931,049
New purchased item	209,204	89,511	36,494	325,421	660,630
Less	--	--	--	(60,664)	(60,664)
Total Cost as on 31.12.2014	580,985	182,453	37,621	5,729,956	6,531,015
Depreciation 01.01.2014	(89,906)	(37,326)	(746)	(1,246,212)	(1,374,190)
Depreciation for the year	(128,303)	(39,444)	(2,164)	(1,177,407)	(1,347,318)
Less	--	--	--	60,664	60,664
Total Depreciation	(218,209)	(76,770)	(2,910)	(2,362,955)	(2,660,844)
Book value as on 31.12.2014	362,776	105,683	34,711	3,367,001	3,870,171

	Machinery and Equipment	Transport and Transmission Means	Tools and Molds	Furniture and Office Equipment	Total
Cost as on 01.01.2013	227,691	47,095	1,127	1,001,564	1,277,477
New purchased item	144,090	45,847	--	(*) 4,695,446	4,885,383
Total Cost as on 31.12.2013	371,781	92,942	1,127	5,697,010	6,162,860
Depreciation 01.01.2013	(59,568)	(18,738)	(521)	(416,761)	(495,588)
Depreciation for the year	(30,338)	(18,588)	(225)	(1,061,262)	(1,110,413)
Total Depreciation	(89,906)	(37,326)	(746)	(1,478,023)	(1,606,001)
Book value as on 31.12.2013	281,875	55,616	381	4,218,987	4,556,859

(*) Additions in furniture and office equipments during 2013, are mainly related to the new headquarter of the Bank (note 7).

7. CONSTRUCTION IN PROGRESS

As of 30.04.2015, Cihan Bank has moved its headquarter to a new location in Erbil. The Bank's headquarter is located in Erbil Gulan Street which is the most popular place in Erbil. This region is expected to be the financial district of Erbil in the near future.

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8. INVENTORIES

	31.12.2014	31.12.2013
Goods in transit (mainly relating to vehicles which will be used for Murabaha transactions)	41,489,544	6,606,323
Total	41,489,544	6,606,323

9. OTHER NON-CURRENT ASSETS

Establishment expenses	1,623,975	1,244,924
Additions	84,184	748,509
Depreciation building freehold	(390,727)	(369,459)
Total	1,317,432	1,623,974

10. CURRENT ACCOUNTS FROM CUSTOMERS

Private sector companies	73,423,722	178,951,375
Private sector individual	35,417,761	40,145,417
Reserved amounts		29,150
Total	108,841,483	219,125,942

11. ISLAMIC SAVINGS DEPOSITED BY CUSTOMERS

Saving accounts	89,965,944	82,115,228
Deposit on accounts	1,391	12,177
Fixed deposits	10,509,876	6,664,000
Total	100,477,211	88,791,405

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12. OTHER PAYABLES

	31.12.2014	31.12.2013
Letters of credit	36,508,857	31,146,588
Withdrawal bank accounts at correspondent banks	104,722	950
Certified checks payable	289,857	3,161,752
Safatig checks	--	4,068,015
Internal remittances (Interbranch)	--	11,660
Total	36,903,436	38,388,965

13. TRADE PAYABLES

Depositors non-current activity	741,435	300,877
Guarantee booking commissions	10,839	14,109
Various creditors	10,417,276	8,405,952
Deductions for the expense of others	23,445	6,799
Other payable accounts	84	351
Total	11,193,079	8,728,088

14. PROVISIONS AND ALLOWANCES FOR RESERVES

Corporation taxes	18,076,350	9,317,750
Variety of allowances	2,780,709	6,039,616
Allowance for distributing profit for saving accounts	5,155,000	7,500,000
Allowance for doubtful debts	6,054,766	9,596,737
Total	32,066,825	32,454,103

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15. COMMITMENTS AND CONTINGENCIES

	31.12.2014	31.12.2013
Direct Letters of Guaranty Obligations	242,661,751	308,020,056
Deposits	(12,852,444)	(13,530,085)
Total (*)	229,809,307	294,489,971
Confirmed Letters of Credit Obligations	134,527,013	169,519,421
Deposits	(23,656,413)	(17,616,503)
Total (**)	110,870,600	151,902,918
LC Remittances	--	--
Grand Total	340,679,907	446,392,889

(*) The total balance of letters of guaranty obligations after deposit of insurance executed by the Bank during the year 2014 amounted to IQD 229,809,307 versus IQD 294,489,971 which makes a rate decrease down to 22% from the previous year.

(**) The vouchered total letters of credit implemented by the Bank during the year 2014 amounted to IQD 134,527,013 compared to IQD 169,519,421 and through these numbers, obvious decrease in the volume of letters of credit executed by the percentage decrease down to 21% from the previous year.

16. SHARE CAPITAL

Name	31.12.2014		31.12.2013	
	Share	Rate (%)	Share	Rate (%)
Azad Yahya Saeed	24,990,000	9.80	24,990,000	9.80
Nawzad Yahya Saeed	24,990,000	9.80	24,990,000	9.80
Talat Yahya Saeed	24,990,000	9.80	24,990,000	9.80
Sabah Yahya Saeed	24,990,000	9.80	24,990,000	9.80
Suzan Shareef Mohammed	17,263,500	6.77	17,263,500	6.77
Nawal Jamal Abdullah	14,101,500	5.53	14,101,500	5.53
Sharemin Mousa Abdulnabi	16,320,000	6.40	16,320,000	6.40
Nawroz Salah Saeed	22,873,500	8.97	22,873,500	8.97
Mustafa Talat Yahya	13,387,500	5.25	13,387,500	5.25
Other shareholders each owning less than 5%	71,094,000	27.88	71,094,000	27.88
Total	255,000,000	100.00	255,000,000	100.00

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17. REVENUE OF BANKING

	31.12.2014	31.12.2013
Income from foreign exchange transactions (*)	18,502,237	26,453,654
Income from Islamic financing investments	14,577,783	16,543,766
Remittance commission	1,134,094	426,192
Trade finance fees-Letter of credit	2,857,923	377,039
Trade finance fees-Letter of guarantees	3,709,496	1,563,864
Fees and commission income	2,973,691	901,243
Recovered expenditure	151,689	425,342
Income from investments (Murabaha and Musharaka)	7,163,232	18,364,034
Other revenues	3,653	173,412
Duty and penalty	838	390
Total	51,074,636	65,228,936

(*) Cihan Bank buys and sells foreign currency from various sources including Central Bank of Iraq at favorable rates. As a result of these transactions, the Bank realizes foreign exchange gains.

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18. OPERATING EXPENSES

	31.12.2014	31.12.2013
Allowance for doubtful debts	8,820,810	3,070,726
Allowance for distributing profits for saving accounts	5,155,000	3,570,913
Provision for variety of allowances	1,579,889	2,648,325
Miscellaneous banking commissions paid	1,120,194	--
Other customs	1,639,109	1,250,433
Bonuses	342,978	2,294,154
Salaries	752,599	1,127,655
Rent of buildings and facilities	655,754	651,047
Transfer and dispatches	378,287	541,764
Other service expenses	511,628	806,715
Staff transfer	644,953	471,382
Services rendered	53,779	571,140
Incidental expenses	349,802	373,273
Contributions and affiliations	244,335	193,450
Depreciation and amortization	1,347,318	1,110,413
Family wages	234,876	497,654
Compensatory wages	176,459	192,110
Banking services	502,886	265,639
Overtime wages	136,895	469,866
Public telecommunications	181,000	128,477
Technical and professional wages	170,925	165,120
Stationery	78,859	89,050
Maintenance services	171,266	98,843
Advertising and media	61,990	116,228
Audit fees	53,150	54,500
Fuel and oils	59,294	44,419
Social security	86,487	71,325
Hospitality	137,459	63,638
Duties	--	9,481
Water and electricity fees	21,125	42,243
Charity donations	50,109	133,933
Supplies and equipment	49,480	40,633
Legal services	33,024	35,756
Compensation and penalties	24,264	24,454
Publishing and printing	--	40,622
Other	494,892	478,859
Total	26,320,875	21,744,240

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19. FINANCING INCOME / (EXPENSES), NET

	31.12.2014	31.12.2013
Expenses of differences on foreign exchange revaluation	2,162	1,994,267
Total	2,162	1,994,267

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