

NORTH BANK
(PRIVET JOINT – STOCK COMPANY)
BAGHDAD – IRAQ

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INDEPENDENT AUDITOR'S REPORT

To The Shareholders
North Bank
(Private Joint-Stock Company)
Baghdad - Iraq

Report on the Financial Statements

We have audited the accompanying financial statements of North Bank (Private Joint Stock Company) - Baghdad which comprise of the balance sheet as of December 31st 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of 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 the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 misstatements, 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.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of North Bank (Private Joint-Stock Co.) - Baghdad as of December 31st 2008, and its financial performance together with its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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

Baghdad – March 6th 2009

NORTH BANK
(Joint Stock Private Co.) - Baghdad

Income Statement

	<u>Note</u>	<u>Year Ended December 31st</u>	
		<u>2008</u>	<u>2007</u>
Interest and similar income	5	16,883,108	20,674,831
Interest expense and similar charges	5	(9,947,442)	(2,973,454)
Net interest income		<u>6,935,666</u>	<u>17,701,377</u>
Fee and commission income	6	7,227,623	5,889,769
Fee and commission expense	6	(585,596)	(2,532,934)
Net fee and commission income		<u>1,371,627</u>	<u>3,356,835</u>
Dividend income	7	7,762	Nil
Net trading income	8	16,336,013	6,717,512
Administrative expenses	9	(4,976,039)	(4,559,398)
Other operational expenses	10	(2,474,605)	(4,998,979)
Operating profit before tax		<u>17,200,424</u>	<u>18,217,347</u>
Corporation tax		(2,830,016)	(3,415,436)
Profit for the year		<u>14,370,408</u>	<u>14,801,911</u>

**Earnings per share for profit attributable
to equity holders during the year**
(expressed in Iraqi Dinar per share)

0.144 0.148

The notes on pages 8 to 38 are an integral part of these financial statements

NORTH BANK
(Joint Stock Private Co.) - Baghdad

Balance Sheet

	<u>Note</u>	<u>At December 31st</u>	
		<u>2008</u>	<u>2007</u>
ASSETS			
Cash and balances with banks	13	237,181,245	169,465,531
Discounted bills of exchange	14	7,293,329	774,735
Loans and advances to customers	15	55,754,046	82,411,240
Investment securities	16	1,446,822	1,013,663
Receivables	17	35,981,268	38,275,684
Property, plant, and equipments (Net)	18	1,416,477	1,274,482
Projects under construction	19	5,511,263	4,308,298
Other assets	20	2,146,881	3,110,954
		<u>346,731,331</u>	<u>300,634,587</u>
Liabilities			
Deposits from other banks	21	1,984,479	2,043,638
Amounts due to customers	22	217,047,856	133,885,586
Other deposits	23	4,283,693	1,849,171
Trading liabilities	24	221,884	34,310
Payables	25	1,980,695	3,076,589
Other liabilities	26	498,025	39,470,980
Provisions	27	63,800	67,945
Current tax liabilities	28	2,830,016	3,415,436
		<u>228,910,448</u>	<u>183,843,655</u>
Equity			
Share capital	29	100,000,000	100,000,000
Retained earnings	30	9,119,790	13,195,697
Other reserves	30	8,701,093	3,595,235
		<u>117,820,883</u>	<u>116,790,932</u>
Total equity and liabilities		<u>346,731,331</u>	<u>300,634,587</u>

The notes on pages 8 to 38 are an integral part of these financial statements

NORTH BANK
(Joint Stock Private Co.) - Baghdad

Statement of Changes in Equity

	<u>Share Capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
At January 1st 2008	100,000,000	3,595,235	13,195,697	116,790,932
Profit for the year			14370408	14,370,408
Donated equipments (General reserve)		55		55
Bonus shares-investments		76,159		76,159
Dividends related to 2007			(13,195,600)	(13,195,600)
Settlement of excess tax			(221,071)	(221,071)
Transfer to general reserve		2,155,562	(2,155,562)	
Transfer to statutory reserve		2,874,082	(2,874,082)	
At December 31st 2008	<u>100,000,000</u>	<u>8,701,093</u>	<u>9,119,790</u>	<u>117,820,883</u>

NORTH BANK
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Cash Flow Statement

	<u>Year Ended December 31st</u>	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Profit before taxation- income statement	17,200,424	18,217,347
Depreciation and amortization	286,852	251,528
	<u>17,487,276</u>	<u>18,468,875</u>
Corporation tax paid	(3,636,507)	(452,942)
Cash flows from operating profit before changes in operating assets & liabilities	<u>13,850,769</u>	<u>18,015,933</u>
Changes in operating assets and liabilities		
Increase in deposits from other banks	(59,159)	(3,370,220)
Increase in amounts due to customers	83,162,271	90,648,157
Decrease/Increase in other deposits	2,434,521	1,133,776
Increase/Decrease in bills of exchange	(6,518,594)	2,632,310
Decrease/ Increase in loans and advances	24,854,061	(62,493,485)
Increase in other reserves	76,213	63,664
Decrease/Increase in receivables	2,294,416	(32,065,402)
Increase/Decrease in trading liabilities	187,574	(38,177)
Decrease in payables	(1,095,894)	(1,596,090)
Decrease /Increase in other liabilities	(38,972,955)	39,430,143
Increase in provisions	1,946,133	4,560,687
Recoveries from provisions	(4,145)	Nil
Decrease/Increase in other assets	964,073	(2,977,108)
Net cash from operating activities	<u>83,119,284</u>	<u>53,944,188</u>
Cash flows from investing activities		
Purchase of securities	(576,159)	(63,664)
Purchase of property and development	(288,210)	(445,627)
Expenditure for deferred revenue	(140,638)	(287,309)
Projects under construction	(1,202,963)	3,190,853
Net cash used in investing activities	<u>(2,207,970)</u>	<u>2,394,253</u>
Balance carried forward	80,911,314	56,338,441

NORTH BANK
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Cash Flow Statement

	<u>Year Ended December 31st</u>	
	<u>2008</u>	<u>2,007</u>
Balance - brought forward	80,911,314	56,338,441
Cash flows from financing activities		
Issue of ordinary shares	Nil	75,000,000
Dividends paid	<u>(13,195,600)</u>	<u>Nil</u>
Net cash from financing activities	<u>(13,195,600)</u>	<u>75,000,000</u>
Net increase in cash and sash equivalents	67,715,714	131,338,441
Cash and cash equivalents at beginning of year	<u>169,465,531</u>	<u>38,127,090</u>
Cash and cash equivalents at end of year	<u>237,181,245</u>	<u>169,465,531</u>

NORTH BANK
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Notes To The Financial Statements
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1- *General information*

North Bank provides various banking activities in Iraq, as it has its operations in Baghdad and Kurdistan Region in the North of Iraq.

The Bank is a private joint-stock company, and was incorporated in Iraq as per Registration certificate issued by the Registrar of Companies in Baghdad No. 9173 dated October 7th 2003, while the Central Bank of Iraq gave its necessary approval to that effect as per letter No. 9/2/341 dated March 9th 2004.

The Bank has a primary listing on Iraq Stock Exchange.

The financial statements have been approved for issue by the Board of Directors on January 29th 2009

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2- *Summary of significant accounting policies*

The significant accounting policies adopted in the preparation of the financial Statements are set out below:-

2-1 –Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and the regulations of The Central Bank of Iraq.

The financial statements are prepared under historic cost basis for the measurement of the treasury bills, bonds and financial assets with fixed income, and shares and securities with variable income held for trading.

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The accounting policies used in the preparation of the financial statements, are consistent with those used in previous years.

The financial statements have been presented in “Thousands” of Iraqi Dinars, which is the functional currency of the Bank. Balances dominated in other currencies have been in “thousands” as well.

2-2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risk and returns different from segments operating in other economic environments.

2-3 Foreign currency translation

(a)- Functional and presentation currency

Items included in the financial are measured using the currency of the primary economic environment in which the Bank operates.

The financial statements are presented in Iraqi Dinars which is the Bank’s functional and presentation currency.

(b)- Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transaction and from transaction at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

NORTH BANK - (Private Joint Stock Co.)- Baghdad
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2-4 Financial assets

The Bank classify its financial assets in the following categories :
financial assets at fair value through profit or loss; loans and receivables,
held in maturity investments; and available for sale financial assets.
Management determines the classifications of its investments at initial
recognition.

(a)- *Financial assets at their fair value through profit or loss.*

A financial asset is classified as held for trading if it is acquired or
incurred principally for the purpose of selling or repurchasing in the
near term or it is a part of portfolio of identified functional
instrument that are managed together and for which there is evidence
of a recent actual pattern of short- term profit-taking.

Financial assets and financial liabilities are designated at fair value
through profit and loss when:-

- Certain investments, such as equity investments, that are managed
and evaluated on a fair value basis in accordance with a documented
risk management or investment strategy and reported to key
management personnel on that basis are designated at fair value through
profit and loss.
- Financial instruments such as debt securities held, containing one or
more embedded derivatives significantly modify the cash flows, are
designated at fair value through profit and loss.

b)- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed
or determinable payments that are not quoted in an active market.
loans and receivables are stated at cost, net of suspended interest,
provisions of impairment and any amounts written off.

NORTH BANK - (Private Joint Stock Co.)- Baghdad
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(b)- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. loans and receivables are stated at cost, net of suspended interest, provisions of impairment and any amounts written off.

(c) -*Held-to-maturity financial assets*

Held-to- maturity are non derivatives financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

(d)- *Available for sale financial assets*

Available for sale investments are those intended to be held for an indefinite period of time, which maybe sold in response to needs for liquidity or changes in interest rate, exchange rates, or equity prices.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Gains or losses arising from changes in the fair value of available –for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time the cumulative gains or losses previously recognized in equity is recognized in profit and loss.

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2-5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2-6 Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit and loss, are recognized within “interest income” and “interest expense” in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

2-7 Fees and commissions income

Fees and commissions are generally recognized on an actual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no profit of the loan package for itself or has retained a part of the same effective interest rate as the other participants.

2-8 Dividend income

Dividends are recognized in the income statement when the entity’s right to revenue payment is established.

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2-9 Impairment of financial assets

(a)- Assets carried at amortized cost

The Bank at each balance sheet date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”)and that event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated .

The amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate , the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible. It is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating) the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment change for credit loss.

(b)- Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is an objective evidence that a financial asset is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exist for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss- is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not recovered the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

(c) – Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

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2- 10 Property, plant and equipments

Land and building comprise mainly branches and offices. All property, plant, and equipments are stated at “historical cost less depreciation”. Historical costs includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets’ carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight line method to allocate their cost to their residual values over the estimated useful lives, as follows:-

Buildings.....	25 – 40 years
Leasehold improvements.....	25 years
Equipments and vehicles.....	3 – 8 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount, if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

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2 –11 Cash and cash equivalents

For the purpose of “ cash flow statement”, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills, and other eligible bills, loans and advances to banks, amounts due from other banks.

2- 12 Provisions

Provisions for restructuring costs and legal claims are recognized when the bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement, is determined by considering the class of the obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at present value of the expenditure expected to be required to settle the obligations using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to obligation. The increase in the provision due to passage of time is recognized on interest expenses.

2- 13 Financial guarantee contracts

Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

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Financial guarantees are initially recognized in the financial statements at fair value on the date of the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure require to settle any financial obligation arising at the balance sheet date. These estimates are determined on experience of similar transactions, and history of past losses, supplemented by the judgment of Management.

2- 14 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary difference arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates, (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized when it is probable that future taxable profit will be available against which the temporary differences can be utilized,.

The tax effect on taxation losses available to carry-forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred taxation related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, and subsequently recognized in the income statement together with deferred gain or loss.

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2-15 Share capital

(a)- Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b)- Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the company's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in subsequent events (Note. 35).

2- 16 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 – *Financial risk*

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks . Taking risk is the core to the financial business, and the operational risks are an inevitable consequences of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performances.

The Bank's risk management policy are designated to identify and analyze these risks to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank's regularly reviews its risk management policies and systems to reflect changes in markets, products, and emerging best practice.

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Risk management is carried out by treasury department under policies approved by the Board of Directors. The Bank's treasury identifies and evaluate the risks in a close cooperation with the operating units. The Board provides written principles for over all risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk, liquidity risk and market risk.

3- 1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important for the Bank's business, management therefore carefully manages its exposure to credit risk. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that brings debt securities and other bills into the Bank's assets portfolio. There is also credit risk in off-balance sheet instruments, such as loans commitments.

3-1-1 Credit risk measurements

(a)- Loans and advances

In measuring credit risk of loan and advances the customers to a counterparty at a counterparty level, the Bank reflects three components:-

- (i)-*the "probability of default" by the client or counterparty on its contractual obligation.
- (ii)-* current exposure to the counterparty and its likely future development, from which the Bank derives " the exposure of default".
- (iii)-* the likely recovery ratio on the default obligation (the loss given default).

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These credit risk measurements, which reflects expected loss, are required by the Basel Committee on Banking regulations and the Supervisory Practice. The operational measurements can be contrasted with impairment allowances required under IAS 39 which are based on losses that have been incurred at the balance sheet date, rather than expected losses.

3-1-2 Risk limit control and mitigation policies

The Bank's managers, limit and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups.

The Bank structure the level of credit risk it undertakes by the placing limits of the amount of risk accepted in the to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review when considered necessary. Limits to the level of credit risk are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate

Some of other specific control and mitigation measures are outlines below:

- (a)- Collaterals
- (b)- Derivatives
- (c)- Master netting arrangements
- (d)- Credit related commitments

3-1-3- Impairment and promising policies

The impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

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For current practical purposes in Iraq, the Bank follows the rules and procedures for impairment as provided by the “Guidelines” stipulated by the Central Bank of Iraq.

3 – 2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with the financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

3-2-1 Liquidity risk management process

The Bank’s liquidity management process includes:

- Day to day funding management by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow.
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring balance sheet liquidity ratio against internal and regulatory Requirements.
- Managing the concentration and profile of debt maturities.

3-2-2 Funding approach

Sources of liquidity are regularly reviewed by a team from the “treasury” in order to maintain a wide diversification by currency, geography, provider, and terms.

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3-2-3 Off balance sheet items

(a)- Loan commitments

The date of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities has to be considered in this respect.

(b)- Financial guarantees and other financial facilities

Financial guarantees are also included with this category, based on the Contractual maturity date.

(c)- Operating lease commitments

Future minimum lease payments under non-cancelable operating lease has to taken into consideration in this regards.

(d)- Capital commitment

Capital commitment for the acquisition of buildings and equipments need not to be omitted when the off-balance sheet item is being considered.

3 – 3 Fair value of financial; assets and liabilities

Throughout the process of evaluation, the following has to be considered

(a)- Financial instruments measured at fair value, using a valuation technique.

(b)- Financial instruments not measured at fair value.

(i)- Due from other banks.

(ii)- Loans and advances to customers

(iii)- Investment securities

(iv)- Due to other banks and customers, other deposits, other borrowers.

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3 – 4 Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the Banking markets where the entities within the bank operate.

- To safeguard's the Bank's ability to continue as a "going concern" so that it can continue to provide returns to shareholders and benefits for other stakeholders.

- To maintain a strong capital base to support the development of the Business.

Capital adequacy and the use of regulatory capital are monitored frequently by Management, employing techniques based on the guidelines developed Central Bank of Iraq.

4 - Critical accounting estimates and judgments

The Bank makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgment are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a)-Impairment losses on loans and advances

The Bank review its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes a judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flow from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment statutes of the borrowers in a group, or national or local economic conditions that correlate with defaults on assets

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in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flow. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual experience.

(b)-Impairment available for-sale equity investments

The Bank determines that available for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its costs. The determination of what is significant or prolonged required judgment. In making this judgment, the Bank evaluate among other factors, the normal volatizing in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financial cash flow.

(c)- Taxation

The Bank is subject to taxation in various jurisdictions. Significant estimates are required in determining the total provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in which such determination is made.

NORTH BANK - (Private Joint-Stock Co.) -Baghdad

Notes to the financial statements

December 31st 2008

5 - Net interest income

	<u>2,008</u>	<u>2,007</u>
Interest income		
Loans and advances		
Interest on loans	1,623,657	2,410,920
Interest on overdraft facilities	10,700,162	13,860,255
Cash and short term funds		
Interest on issued letters of credit	279,378	62,383
Interest on treasury securities	259,620	Nil
Interest on deposits	Nil	212,401
Interest on accounts abroad	526,186	156,396
Overnight investments	3,494,105	3,972,576
	<u>16,883,108</u>	<u>20,674,931</u>
Interest expense	<u>(9,947,443)</u>	<u>(2,973,454)</u>
	<u>6,935,665</u>	<u>17,701,477</u>

6 - Net fee and commission income

Fee and commission income		
Commissions on transfers	2,183,883	3,416,460
Commissions on letters of credit	1,315,168	670,704
Commissions on letters of guarantees	3,484,933	1,487,827
Commissions on deferred guarantees	23,272	6,447
Sundry banking commissions	220,367	308,331
	<u>7,227,623</u>	<u>5,889,769</u>
Fees and commission expenses	<u>(5,855,995)</u>	<u>(2,532,934)</u>
	<u>1,371,628</u>	<u>3,356,835</u>

7 - Dividend income

Trading securities	<u>7,762</u>	<u>Nil</u>
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NORTH BANK - (Private Joint-Stock Co.) -Baghdad
Notes to the financial statements
December 31st 2008

8 - Net trading income

	<u>2,008</u>	<u>2,007</u>
Foreign exchange		
Transactions' gains less losses	15,940,850	6,297,331
Profits from financial instruments	163,013	284,900
Other operating income		
Sundry advances	72	417
revocable expenses	122,070	75,090
Sundry other revenues		
Previous year's revenues	107,245	59,721
Accidental revenues	2,763	53
	<u>16,336,013</u>	<u>6,717,512</u>

9 - Administrative expenses

Staff costs

Salaries and wages	415,105	504,282
Bonuses	482,086	267,334
Allowances	1,922,989	1,198,095
	<u>2,820,180</u>	<u>1,969,711</u>
Social security contribution	91,871	34,223
	<u>2,912,051</u>	<u>2,003,934</u>

Goods, supplies, and commodities

Fuel and oil	68,531	84,313
Office requisites	142,378	88,931
Supplies to staff	8,540	1,165
Water and electricity	7,041	2,944
	<u>226,490</u>	<u>177,353</u>

Services

Maintenances services	117,400	160,657
Research and development	17,469	36,508
Publicity, printing, and entertainment	180,689	117,206
Transport, delegation, and communication	253,276	194,644
Rental of assets	289,553	191,790
Miscellaneous services expenses	686,706	1,425,780
	<u>1,545,093</u>	<u>2,126,585</u>

Depreciation

Depreciation of property, plant and equipments	132,274	44,388
Amortization of deferred revenue expenditure	158,131	157,139
(see Note 18)	290,405	201,527

	<u>4,976,039</u>	<u>4,559,398</u>
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NORTH BANK - (Private Joint-Stock Co.) -Baghdad

Notes to the financial statements

December 31st 2008

10 - Other operational expenses

	<u>2,008</u>	<u>2,007</u>
Decline in market value of investment securities as of December 31st	143,000	Nil
Credit risk	1,803,133	4,493,520
Foreign currency transactions (Net losses)	<u>290,772</u>	<u>35,429</u>
	2,236,905	4,528,949
Sundry other expenses		
Donations	14,844	100
Compensations and penalties	5,323	479
Bad debts written off	11,150	489
Taxes and dues	117,399	440,594
Staff subsidies	<u>275</u>	<u>5,175</u>
	148,991	446,837
Miscellaneous expenses	<u>88,709</u>	<u>23,193</u>
	<u>2,474,605</u>	<u>4,998,979</u>

11 - Corporation tax

	<u>2,008</u>	<u>2,007</u>
Profit before tax	17,200,424	18,217,347
Income not subject to tax	(259,620)	Nil
Expenses not deductible for taxation purposes	<u>1,925,969</u>	<u>4,552,226</u>
Taxable profits	<u>18,866,773</u>	<u>22,769,573</u>
Corporation tax at 15% of taxable profits	<u>2,830,016</u>	<u>3,415,436</u>

12 - Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	<u>2,008</u>	<u>2,007</u>
Profit attributable to equity holders	14,370,408	14,801,911
No. of ordinary shares in issue	100,000,000	100,000,000
Basic earning per share (expressed in ID per share)	<u>0.144</u>	<u>0.148</u>

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December 31st 2008

13 - Cash and balances with banks

	<u>2,008</u>	<u>2,007</u>
Cash in hand - local currency	30,558,809	10,258,334
Cash in hand - foreign currency	26,009,022	8,090,651
Balances at local banks (including Central Banks)	114,344,542	106,979,435
Balances at foreign banks abroad	66,268,872	44,137,111
	<u>237,181,245</u>	<u>169,465,531</u>

Mandatory reserve at central banks in Baghdad and Kurdistan Region are included with balances at local banks, which consists of both local and foreign currencies.

14 - Discounted bills of exchange

	<u>2,008</u>	<u>2,007</u>
Discounted bills of exchange in foreign currency	439,500	504,225
Internal transfers in local currency	5,291,260	149,496
in foreign currency	71,319	121,014
Cheques withdrawn on other branches	1,491,250	Nil
	<u>7,293,329</u>	<u>774,735</u>

This accounts include amounts of bills of exchange presented for discounting prior to date of maturity by customers who enjoy privileges of discounting within the limit allowed for the customers. Also it includes amounts of transfers or cheques withdrawn on other branches for a fee acquired by the bank.

NORTH BANK - (Private Joint-Stock Co.) -Baghdad

Notes to the financial statements

December 31st 2008

15 - Loans and advances to customers

	<u>2,008</u>	<u>2,007</u>
Short term loans		
to corporate entities	564,350	905,491
to individual (retail customers)	<u>5,468,935</u>	<u>8,495,933</u>
	6,033,285	9,401,424
Overdraft facilities		
to corporate entities	14,118,677	17,635,518
to individual (retail customers)	<u>32,642,926</u>	<u>59,910,894</u>
	46,761,603	77,546,412
Customers' export shipping documents held by Bank as a result of issuance of letters of guarantees, and letters of credit	10,420,999	1,093,321
Staff loans	<u>Nil</u>	<u>28,791</u>
Gross loans and advances	63,215,887	88,069,948
Less: allowances for impairment	<u>(7,461,841)</u>	<u>(5,658,708)</u>
	<u>55,754,046</u>	<u>82,411,240</u>

16 - Investment securities

	<u>2,008</u>	<u>2,007</u>
Equity securities		
Listed	622,021	395,328
Unlisted	<u>967,801</u>	<u>618,335</u>
	1,589,822	1,013,663
Less: allowance for impairment	<u>(143,000)</u>	<u>Nil</u>
	<u>1,446,822</u>	<u>1,013,663</u>

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17 - Receivables

This is a general account which indicates the Bank's rights held with other parties, specifically those rights which were incurred as a result of trading activities and dealings of temporary nature apart from credit and other facilities granted by the Bank.

"Non trading debtors account" includes Bank's rights with others for non "trading and banking activities, such as sale of non current assets, securities, and other financial instruments, and settlements of other obligations in that respect.

"Contra debit balances" represent trading balances as of balance sheet date between the main branch and the other branches.

	<u>2,008</u>	<u>2,007</u>
Non trading debtors	29,857,304	2,632,855
Contra debit balances	3,901,585	26,532,496
Defaulting debtors	1,862,158	1,111,404
Staff advances	360,220	573
Other debit balances	Nil	7,998,356
	<u>35,981,267</u>	<u>38,275,684</u>

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Notes to The Financial Statements
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18 - Property, plant and equipment

	<u>Buildings</u>	<u>Plant</u>	<u>Vehicles</u>	<u>Furniturs and office equipments</u>	<u>Deferred revenue expenditure</u>	<u>T O T A L</u>
Cost						
At January 1st	175,525	126,422	29,881	543,601	541,685	1,417,114
Additions during the year	Nil	82,581	37,056	168,572	140,638	428,847
Amorization of deferred expenditure	Nil	Nil	Nil	Nil	(158,131)	(158,131)
At December 31st	<u>175,525</u>	<u>209,003</u>	<u>66,937</u>	<u>712,173</u>	<u>524,192</u>	<u>1,687,830</u>
Provision for Accumulated Depreciation						
At January 1st	35,105	13,944	1,060	88,970		139,079
Depreciation for the year	<u>17,553</u>	<u>19,561</u>	<u>8,028</u>	<u>87,132</u>		<u>132,274</u>
At December 31st	<u>52,658</u>	<u>33,505</u>	<u>9,088</u>	<u>176,102</u>		<u>271,353</u>
Book balance as at December 31st 2008	<u>122,867</u>	<u>175,498</u>	<u>57,849</u>	<u>536,071</u>	<u>524,192</u>	<u>1,416,477</u>

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19 - Projects under construction

Projects under construction consist of all expenditure which might contribute in increasing the productivity of the Bank, for projects which has not been completed at the date of the balance sheet. Such expenditure might include down payment to contractors or sub-contractors for construction of buildings to be utilized as a branch or an expansion of an already existing building .

	2,008	2,007
Buildings	5,383,357	4,298,115
Furniture and office equipments	25,137	9,937
Capital expenditure		
Advance payments	27,016	Nil
Expenditure- re: establishing of branches	75,753	246
	<u>102,769</u>	<u>246</u>
	<u>5,511,263</u>	<u>4,308,298</u>

20 - Other assets

	2,008	2,007
Deposits	1,354,028	1,030,362
Accrued income	427,118	1,900,119
Pre-payments	565,735	180,473
	<u>2,346,881</u>	<u>3,110,954</u>

21 - Deposits from banks

	2,008	2,007
Items in the course of collections	1,584,479	1,793,638
Deposits from other banks	400,000	250,000
	<u>1,984,479</u>	<u>2,043,638</u>

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Notes to the financial statements

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22 - Amounts due to customers

	<u>2,008</u>	<u>2,007</u>
Governmental sector		
Current / settlement accounts	9,106,918	Nil
Mixed sector		
Corporate customers		
Current / settlement accounts	135,535	446,921
Term deposit	3,750,000	500,000
Private sector		
Corporate customers		
Current / settlement accounts	33,209,718	26,254,982
Retail customers		
Current / settlement accounts	44,596,744	23,345,930
Terms deposits	<u>38,383,977</u>	<u>8,587,581</u>
	129,182,892	59,135,414
Saving accounts	49,531,503	27,733,402
Deposits received from banking operations		
Letters of credit	27,686,925	39,601,836
Letters of guarantee	<u>10,646,536</u>	<u>7,414,934</u>
	38,333,461	47,016,770
	<u>217,047,856</u>	<u>133,885,586</u>

23 - Other deposits

	<u>2,008</u>	<u>2,007</u>
Certificates of deposits	2,557,498	1,040,900
Pending letters of credit	18,985	Nil
Other money markets deposits	<u>1,401,529</u>	<u>807,981</u>
	3,978,012	1,848,881
Other temporary deposits	305,681	290
	<u>4,283,693</u>	<u>1,849,171</u>

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Notes to the financial statements

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24 - Trading liabilities

	<u>2,008</u>	<u>2,007</u>
Private sector		
Retail customers	221,884	34,309

25 - Payables

	<u>2,008</u>	<u>2,007</u>
Income received in advance	192,196	304,059
Accrued expenses	1,162,138	1,641,788
Miscellaneous accounts payable		
Amounts received for registration of companies	626,360	981,515
Amounts deposited by the public for subscriptions in other "Private Joint Stock Companies"	Nil	131,227
	<u>1,980,694</u>	<u>3,058,589</u>

26 - Other liabilities

	<u>2,008</u>	<u>2,007</u>
Dividends payable	412,148	Nil
Sundry other liabilities		
Amounts held in custody	Nil	39,467,143
Compensation for deceased customers	3,837	3,837
Amounts withheld by statutory order	82,040	Nil
	<u>498,025</u>	<u>39,470,980</u>
	<u>910,173</u>	<u>39,470,980</u>

27 - Other Provisions

	<u>2,008</u>	<u>2,007</u>
Provision of interest on defaulted debtors		
At January 1st	3,415,436	452,942
Additional provision charged to income statement	Nil	67,945
Amounts utilized during the year	(4,145)	Nil
At December 31	<u>3,411,291</u>	<u>520,887</u>

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Notes to the financial statements

December 31st 2008

28 - Current tax liability

	<u>2,008</u>	<u>2,007</u>
Provision for corporation tax		
At January 1st	3,415,436	452,942
Additional provision charged to income statement		
- as per Note (11) -	2,830,016	3,415,436
Settlement of previous year's tax provision	<u>(3,415,436)</u>	<u>(452,942)</u>
At December 31st	<u>2,830,016</u>	<u>3,415,436</u>

29 - Share capital

	<u>2,008</u>	<u>2,007</u>
Ordinary shares	<u>100,000,000</u>	<u>100,000,000</u>

The total authorized number of ordinary shares at year end was 100 million ordinary shares at a par value of one Iraqi Dinar per share.

30 - Reserves and retained earnings

	<u>2,008</u>	<u>2,007</u>
Reserves		
General banking reserve (a)	20,203	20,147
Expansion reserve (b)	2,155,562	Nil
Statutory reserve ©	6,385,506	3,511,424
Shares-bonus issue reserve (d)	139,824	63,664
Total reserves at December 31st	<u>8,701,095</u>	<u>3,595,235</u>

Movement in reserves were as follows:

(a) - General banking reserve		
At January 1st	20,147	20,147
Free donation of office equipments	56	Nil
At December 31st	<u>20,203</u>	<u>20,147</u>
(b) - Expansion reserve		
At January1st	Nil	Nil
Transferred from retained earnings	2,155,562	Nil
At December 31st	<u>2,155,562</u>	<u>Nil</u>

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	<u>2,008</u>	<u>2,007</u>
(c)-Statutory reserve		
At January 1st	3,511,424	551,043
Transfer from retained earnings	2,874,082	2,960,381
At December 31st	<u>6,385,506</u>	<u>3,511,424</u>
(d) - Shares-bonus issue reserve		
At January 1st	63,665	Nil
Transfer from listed investments securities	76,159	63,665
At December 31st	<u>139,824</u>	<u>63,665</u>

Retained earnings

Movement in retained earnings

	<u>2,008</u>	<u>2,007</u>
At January 1st	13,195,697	1,354,167
Net profit for the year	14,370,408	14,801,911
Dividends for prior years	(13,195,600)	Nil
Settlement of excess tax assessment	(221,071)	Nil
Transfer to expansion reserve	(2,155,562)	Nil
Transfer to statutory reserve	(2,874,082)	(2,960,381)
	<u>9,119,790</u>	<u>13,195,697</u>

31 - Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprises the following balances:

	<u>2,008</u>	<u>2,007</u>
Cash and balances with banks (including central banks) - Note (13)	237,181,245	169,465,531
Treasury bills	Nil	Nil
Government bonds	Nil	Nil
	<u>237,181,245</u>	<u>169,465,531</u>

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32 - Contingent liabilities and commitments

(a) - Legal proceedings

There were no legal proceedings against the Bank as at December 31st 2008

(b) - Loan commitment, guarantees, and other financial facilities at December 31st, the bank had contractual amounts of the bank's off-balance sheet financial instruments that commit to extend credit to customers, guarantees, and other facilities as follows:-

	<u>2,008</u>	<u>2,007</u>
Loan commitments		
Guarantees and standby letters of credit	155,392,262	91,519,672
Documentary and commercial letters of credit	41,499,682	32,970,983
	<u>196,891,944</u>	<u>124,490,655</u>

33 - Related party transactions

As in accordance with the prevailing regulations issued by the Central Bank of Iraq, there were no third party transactions entered, thus there were no outstanding balances at year end.

The related parties referred to in this respect are directors and other key management personnel.

34 - Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. A dividend in respect of 2008 (9% of the ordinary share capital) is to be proposed. The financial statements for the year ended December 31st 2008 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending December 31st 2009

35 - Money laundering and finance of terrorism

As in accordance with article 47-Dof Iraqi Banking Law No. 94 for 2004, the Bank was not involved in any transactions related to "money laundering" as well as financial transactions that had assisted un financing of terrorism through out the year.

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36 - Capital adequacy

As in accordance with article (16) of the Iraqi Banking Law No. 94 for the year 2004, the rate calculated for " Capital Adequacy" as of December 31st 2008 was 42%

37 - Events after balance sheet date

No events were incurred during the period from which the date of the balance sheet till the date of its approval at the Annual General Meeting, which had a direct effect on the financial position of the Bank or of its assets.