



الشركة العراقية للكفالات المصرفية، مساهمة خاصة
THE IRAQI COMPANY FOR BANK GUARANTEES, JSC.

Annual Report 2010



ICBG

THE IRAQI COMPANY FOR BANK GUARANTEES, JSC.



www.icbg-iq.com

Table of Contents

Mission Statement	2
ICBG Overview	3
ICBG Member Banks	4
Chairman's Statement	5
Statement of Mr. Mudher Hillawi, Director General, Gulf Commercial Bank	6
Board Meeting	6
Management Report	7
Mission	7
Results Overview	7
Highlights 2010	8
Looking Ahead	8
Financial Results	9
Activity Report	10
Analytical data:	10
Performance indicators:	10
Number of loans:	11
Risk Management	13
Salaries and Wages	13
Loan Lets Manufacturer Battle Imports	14
Raising of livestock keeps Raji Happy	14
New Pneumatic Nail Guns Improve Furniture Production	15
Preventative Medicine Saves Lives	15
Independent Auditor's Report	16
Financial Statements	17
Notes to the financial statements	20
Corporate Information	31



الشركة العراقية للكفالات المصرفية، مساهمة خاصة
THE IRAQI COMPANY FOR BANK GUARANTEES, JSC.

Mission Statement

The goal of the Iraqi Company for Bank Guarantees is to enhance small and medium enterprises access to formal sources of credit from financial institutions. It does so by partially guaranteeing loans extended to SMEs by local private banks.

By partnering and risk sharing with Iraqi private banks, ICBG improves SME access to credit. This directly stimulates economic expansion and job creation, which together advance private sector development in Iraq.

ICBG OVERVIEW

The Iraqi Company for Bank Guarantees, Joint Stock Company. (ICBG-JSC) was established in March 2006 as a Limited Liability Company by an original group of eleven Iraqi private banks under the auspices of the Central Bank of Iraq and through the technical assistance and financial support of USAID, which provided a grant to cover potential claims during the beginning phase of its operations. Late in 2009, ICBG was transformed into a Joint Stock Company.

The company is organized as a Non Banking Financial Institution (NBFI), regulated by the Central Bank of Iraq (CBI).

As of October 2010, ICBG's 15 shareholder banks held over 98% of all outstanding shares, with the small balance held by three financial institutions and 16 individual shareholders.

The mission of ICBG remains to be Iraq's premier provider of loan guarantees to privately-owned, commercial banks for loans targeted to Iraqi small and medium enterprises. ICBG had approved over 2,500 loans worth almost \$30 million as 2010 came to a close. Sixteen banks are signatories to ICBG's loan guarantee program.

Since its inception, ICBG has steadily increased its operations and consolidated its relationship with the Iraqi banking sector and the business community. This success would have not been possible without the commitment and efforts of those who participated in its establishment and development, and particularly, all the Members of the Board, and General Managers past and present.

ICBG Member Banks



الشركة العراقية للكتفالات المصرفية، مساهمة خاصة
THE IRAQI COMPANY FOR BANK GUARANTEES, JSC.

1- Shareholder Banks



Gulf Commercial Bank

Chairman: Abu Talib Al Hashmi



Ashur International Bank for Investment

Chairman: Wadee Nouri Al Handhal



Investment Bank of Iraq

Chairman: Thamer Al Shaikhley



Iraqi Middle East Investment Bank

Chairman: Majeed Al Hafedh



The Bank of Baghdad

Chairman: Imad Al Sharief



National Bank of Iraq

Chairman: Talal Al Fanner



North Bank

Chairman: Nowzad Al Jaff



Sumer Commercial Bank

Chairman: Khalil Salman Al Jumaily



Basra International Bank for Investment

Chairman: Hasan Ghalib Kubba



The Al-Huda Bank

Chairman: Hamed Yasser Al-Mousawi



United Bank for Investment

Chairman: Raad Ibraheem Al-Badry



The Trans Iraq Bank

Chairman: Dr. Sabah Hashim Allawi



The Emerald Bank

Chairman: Delaire Mohammed Kader



Mosul Bank for Investment and Development

Chairman: Qusay Yehya



Al Warka Bank for Investment and Finance

Chairman: Sa'ad Al Bunnieh

2- Participating Bank



The Economy Bank

Chairman: Husam Obaid Ali



Wadee AL Handhal
Chairman

Chairman's Statement

Honorable shareholders:

On behalf of my fellow members of the Board of Directors allow me to present the results of The Iraqi Company for Bank Guarantees JSC (ICBG) in 2010.

The Iraqi Company for Bank Guarantees (ICBG) continues to work towards fulfilling its mission to advance small and medium enterprises access to loans from the formal banking sector. During 2010, ICBG was pleased to guarantee 1140 loan applications from its partner banks, thus enabling the banks to disburse ID 15,558,696,000 of new loans to small and medium enterprises in Iraq. ICBG is positioning itself as a respected partner in the Iraqi financial sector.

It is important to note that the general security conditions were still difficult, however ICBG and its loyal staff was able to maintain its operations at a satisfactory level and, despite the uncertain political/security environment, and the staff managed to remain focused on our mission and to increase the number and volume of loans guaranteed.

ICBG strengthened its management when its Board of Directors appointed a new Managing Director in November. The MD will be instrumental in developing the strategic plan for the company's business by aligning ICBG's short term decisions with its long term goals. Importantly, ICBG is also putting special emphasis on controlling its risk exposure through more systematic risk management procedures to minimize potential losses from default of guaranteed loans. We are pleased to report that no claims occurred in 2010 and that none are pending.

Also, during 2010, ICBG achieved a

number of key milestones: Its Board of Directors approved new by-laws and policies to reflect its new Joint Stock Company corporate charter, which the company adopted in June 2009.

The year 2011 will continue to be challenging and a very crucial year for ICBG. It will still pose new market hurdles and opportunities, and we are anticipating increased business opportunities thanks to our renewed marketing efforts and attentive responses to partner loan guarantee applications.

I would like to extend my sincere thanks to my fellow members of the Board of Directors, to Mt. Ameen Sattar our new Managing Director and his capable staff, and of course to USAID-Tijara, for its strategic contributions both in the organizational development and in the ongoing institutional strengthening of our company. We will work together to meet the ambitious objectives of the ICBG going forward.

Wadee Al Handhal
Chairman

Statement of Mr. Mudher Hillawi, Director General, Gulf Commercial Bank

Small and medium sized enterprises are the main drivers of economic growth and job creation in most developing economies. The main factor that restricts the access to capital by such enterprises in developing countries is their inability to provide accurate financial data due to that fact that commercial banks prefer to mitigate their credit risk exposure and accordingly request high levels of collateral before approving any loan to SMEs. Consequently, the idea of establishing the ICBG was reached in 2006.

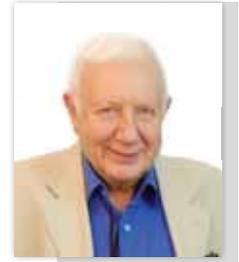
Gulf Commercial Bank was among the founder banks and actively contributed to the formation of the "participating bank agreement". The size of our contribution amounted at that time to ID 850 million, the highest contribution to the company's paid-in capital.

Iraqi small and medium enterprises lack access to banking services as they are not provided with loan finance unless tangible guarantees are given. The Iraqi commercial banks attribute this to their inability to assess SME credit risk. As a result, the participating banks in ICBG utilize all credit officer trainings and technical support provided by the USAID-Tijara project.

Gulf Commercial Bank also decided to establish the first dedicated in-house unit to specialize in SME lending, and encourages its branch banks throughout Iraq to start lending to SMEs in accordance with the mandate of the ICBG and its participating bank agreement.

Gulf Commercial Bank is considered as the largest user of the loan guarantee services offered by the ICBG, with cumulative value of loans guaranteed as of December, 31st, 2010 amounting to \$5.6 million. It is our intention to increase the level of credit available for SMEs and make increased use of guarantee services offered by ICBG.

The company has witnessed an expansion and growth in its relations with both local banks and international development agencies, and presently is the only company in Iraq that guarantees SMEs loans. The Managing Director pursues an aggressive expansion plan aimed at delivering the company's services to a larger section of the Iraqi banking and financial community.



*Mudher Hillawi,
Director General,
Gulf Commercial Bank*

Board Meeting



From left to right: Mr Ameen Al Sattar Managing Director, Mr Salem Al Jarah Board Member, Mr Adel Al Hassoun Board Member, Mr Abdul Al Hijami Board Member, Mr Thamir Al Shaikhley Vice Chairman, Mr Wadee Al Handhal Chairman.

Management Report

We are pleased to present the annual report of the Iraqi Company for Bank Guarantees, JSC, and highlight the results and progress achieved during the year 2010.

This year marked an important turning point in the history of the company, after its transformation into a Joint Stock Company which welcomed new shareholders and the change in its management. It was another successful year despite the recurring security concerns and the economic problems faced by the country. ICBG managed to meet the challenges and make substantial progress as outlined in the activity report.



*Ameen Abdul Sattar Ameen
Managing Director of ICBG*

Mission

The mission of ICBG remains to be Iraq's premier provider of loan guarantees to privately-owned, bank financial institutions for loans targeted to Iraqi small and medium enterprises.

In order to apply for and obtain a guarantee, participating banks must enter into a Participating Bank Agreement with ICBG which sets forth ICBG's operating guidelines.

The main objectives of ICBG are to:

- Enhance access for eligible Iraqi Small and Medium Enterprises (SMEs) to credit from private banks;
- Support use of modern credit approval methods and banking practices in providing loans to SMEs;
- Assist private banks in developing profitable new markets lending to SMEs

These objectives support the overall mission of the Company to stimulate private sector development that underpins sustainable economic growth in Iraq

Results Overview

The company experienced relatively rapid growth in 2009, which level was almost maintained in 2010. ICBG guaranteed 1140 new loans in 2010, making a total cumulative number since inception of 2210 for a volume of close to ID 35 billion.

Jobs sustained plus new jobs created in 2010 totaled 4046, of which 3673 male and 373 females.

Increased revenue and tighter cost control enable the company to show a net profit after taxes amounting to ID 923 million.

Highlights 2010

During the year, the company was restructured. A new Managing Director was confirmed by decision of the Board of Directors during the Board meeting held on November 22, 2010. A risk manager was hired to focus on improving risk management and to monitor delinquencies. ICBG hired a marketing manager in order to strengthen the business development efforts. New by-laws and policies were reviewed and approved by the Board of Directors. The company also continued to train its employees and partner banks.

Looking Ahead

Year 2011 will be another important year for the development of the company. ICBG will focus on marketing activities to develop its business and its relationship with the participant banks and on adding new ones. Special effort will be put on the development of the interaction with governmental and local authorities aimed at promoting the expansion of the SME sector in Iraq.

Again the company will put an emphasis on capacity building and training for the staff and partner banks by participating or organizing workshops and seminars.

We believe that ICBG will continue to experience strong growth in the coming year, thanks to the development of SME lending by our partner banks and our guarantee activity.

We would like to thank the shareholders, board members, partner banks, and the staff of ICBG for their commitment and efforts to serve the best interest of our company and of the Iraqi economy.

Our gratitude goes to USAID and to the USAID-*Tijara* project for their continuing support.

Ameen Abdul Sattar Ameen
Managing Director of ICBG

Financial Results

Revenues

Loan guarantee fees increased from ID 130 million to ID 271 million. Income from invested funds was ID 1,213 million. A larger amount of investment compensated for the reduced rate of interest. Gross revenue reached ID 1,485 million, a 22% increase over last year.

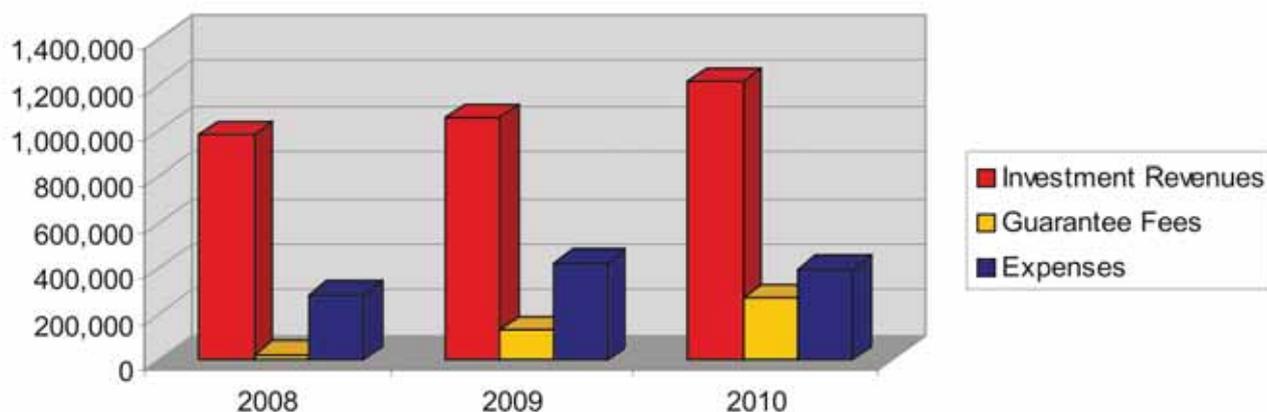
Expenses

Total expenses decreased from ID 445 million to ID 397 million due to reduced non-recurring expenses transformation of the company into a JSC in 2009. No additional provisions were created for loan loss claims in 2010.

Net Results

Net income after taxes increased 92% from ID 479 million in 2009 to ID 923 million in 2010. The company expects to improve further its net results in the coming year thanks to an anticipated increase in guarantee fee revenues.

Investment Revenue, Guarantee Fees and Expenses (ID 000's)



Activity Report

In accordance with the provisions of Articles 117 and 134 of the Iraqi Company's Law, we are providing below detailed explanations of the activities of ICBG for the year ended December 31, 2010. This document forms an integral part of this year's financial statements.

Analytical data:

A. Contracts:

The company did not enter into any contracts in which the Board Members and Managing Director may have had an interest during the year reported.

B. Net income for the year:

The net income before taxes and reserves from the company's activities during 2010 amounted to ID 1,088,598,000.

C. Reserves and Provisions:

Reserves: Mandatory reserves representing 5% of the net profit after taxes were withheld in accordance with the Iraqi Company Law. Net income after taxes amounted to ID 923,306,000 and reserves withheld to ID 46,165,000. Mandatory Reserves as of December 31st, 2010 totaled ID 140,394,000 Net income after withholding of reserves is included in retained earnings.

D. Corporate taxes:

The corporate taxes for 2010 were ID 165,292,000

E. Travel, advertising, entertainment and donations expenses:

Expenses for travel and missions amounted to ID 43,282,000. Advertising and publicity expenses totaled ID 2,857,000, and entertainment, an additional ID 9,006,000. There were no expenditures for donations and gifts.

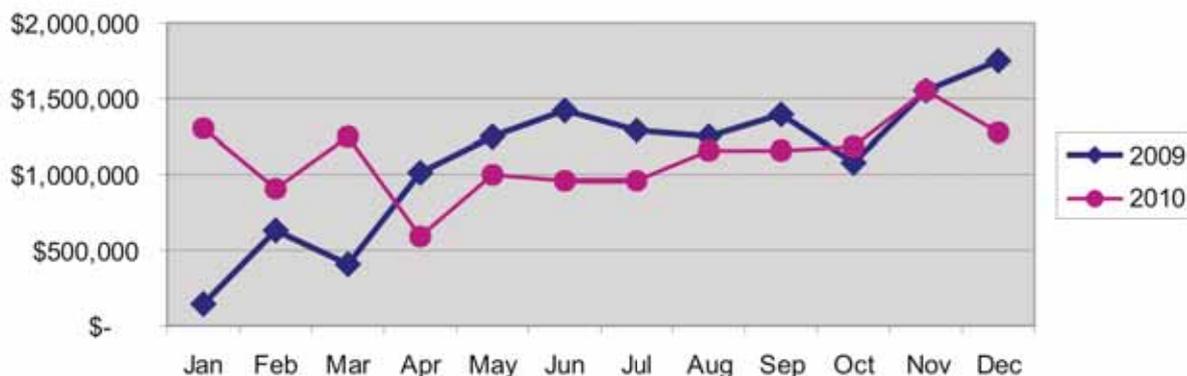
Performance indicators:

As indicated in paragraph B of the analytical data, the net profit before tax for the year ended December 31st, 2010, amounted to ID 1,088,598,000. The net profit was distributed in the following manner:

In (ID 000's)	
165,292,000	Tax provisions
46,165,000	Mandatory reserves
877,141,000	Retained Earnings

Loan Guarantee Fees totaled ID 271 million or 18% of total revenues, while interest revenue on investments were 82% of total revenues

**Loans Guaranteed by ICBG and Disbursed by Banks
(2009 vs 2010)**



Number of loans:

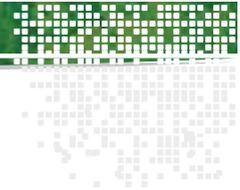
The number of loans guaranteed increased during the reported year. The growth can be seen by comparing the number of loans disbursed in 2010 with previous year's achievements:

Total	2010	2009	2008	2007	Years
2210	1140	954	102	14	Number of Guaranteed Loans

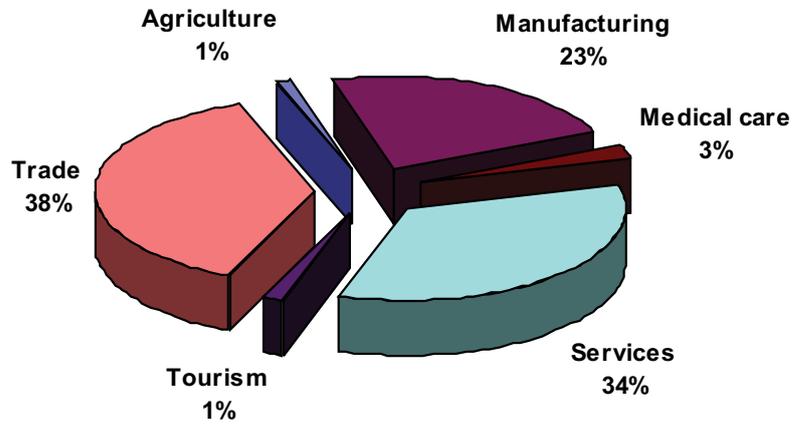
Growth rate for 2010 is 20% above 2009 results.

Results of company's activities as of 31/12/2010:

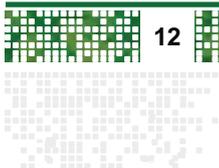
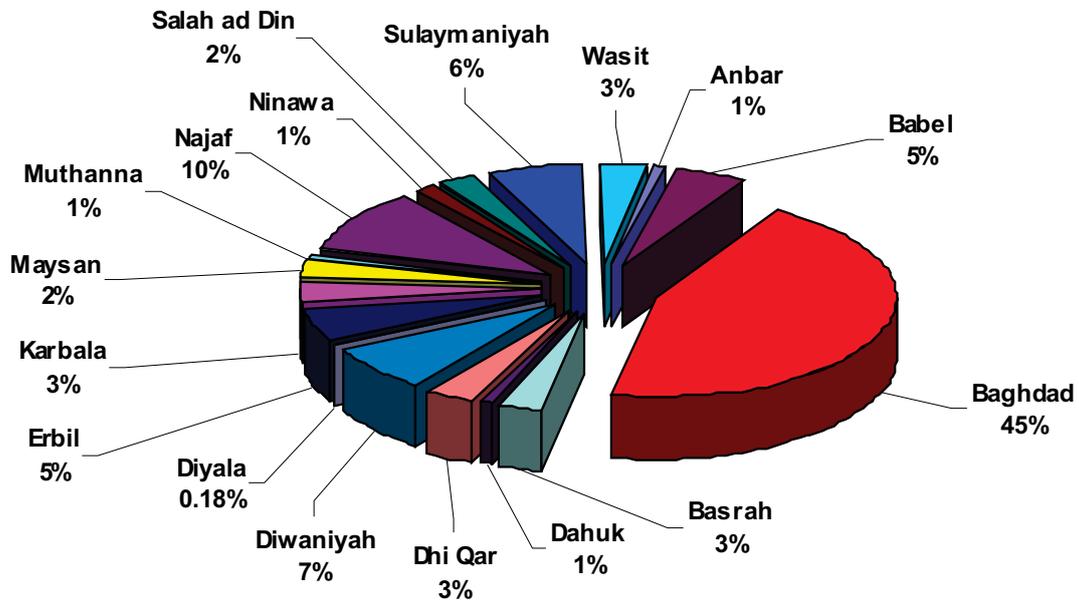
Bank	Loans Guaranteed Since Inception	Guaranteed Loan Outstanding Value as of 31 Dec 2010 (ID)
Ashur International Bank	163	1,594,310,000
Baghdad bank	481	2,203,949,000
Basra Bank	97	227,344,000
Gulf Commercial Bank	794	4,898,997,000
AlHuda Bank	10	104,420,000
Middle East Bank	192	1,327,132,000
Investment Bank	108	1,141,911,000
Mosul Bank	1	-
National Bank	319	1,009,843,000
North Bank	18	66,888,000
Sumer Bank	19	22,201,000
United Bank	8	74,875,000
Total	2210	12,671,871,000



ICBG Guaranteed Loans by Sector in 2010



ICBG Guaranteed Loans by Provinces in 2010



ICBG Guaranteed Loans by Gender and Province in 2010 (in ID 000's)

Province	Female borrowers	Male borrowers	Total
Anbar		149,000	149,000
Babel	150,035	567,135	717,170
Baghdad	1,024,210	5,943,780	6,967,990
Basrah	81,900	350,420	432,320
Dahuk		115,000	115,000
Dhi Qar	25,700	499,550	525,250
Diwaniyah	109,040	1,007,740	1,116,780
Diyala	6,000	22,000	28,000
Erbil	71,300	768,900	840,200
Karbala	5,850	507,650	513,500
Maysan	17,550	356,230	373,780
Muthanna		128,400	128,400
Najaf	22,850	1,543,460	1,566,310
Ninawa	56,745	175,950	232,695
Salah ad Din	17,850	357,130	374,980
Sulaymaniyah	72,428	926,778	999,206
Wasit	19,000	449,115	468,115
Grand Total	1,680,458	13,868,238	15,548,696

Risk Management

By monitoring the condition of the credit portfolio together with bank clients and by conducting routine evaluations of loan risk, we can state with complete confidence that delinquencies were within normal limits and were under control. There were no guarantee payouts during the 2010 fiscal year.

Salaries and Wages

A total amount of ID 202 million was paid for the staff salaries and wages during 2010.

**ICBG STAFF**

Loan Lets Manufacturer Battle Imports

When he was a younger man working for his father at the family's plastics factory in Najaf, Falah Hasn Kadhum worried about competition from powerful Baghdad manufacturers. After his father died and Falah, now age 41, and his brother assumed control of the factory, well-made foreign imports produced the biggest challenge to his production of plastic, cutlery, water jugs, clothes hangers and storage containers. How could he compete against brightly-colored imports made with industrial resins?

The answer came in the form of a \$30,000 SME loan from the Najaf branch of Gulf Commercial Bank. Falah used the money to buy polystyrene, polyethylene, 150kv generator and a German-made high-pressure molding and injection machine. Competing with plastic imports quality has allowed Falah Plastic Factory to use its existing cost advantages to increase its revenues 20%. Today Falah's distribution extends to Karbala and Hilla and he no longer worries about imports.



A new molding machine allows Falah to produce quality plastic products at competitive prices.

Raising of livestock keeps Raji Happy

If Raji Jeyad Obeis is smiling it's because he has one of the most profitable farms in Al-Midhtiya, a small town just outside Hilla. After obtaining a two - year \$20,000 loan from Baghdad Bank one of 16 financial institutions whose loans today can be guaranteed by the Iraqi Company for Bank Guarantees, the 53-year old former Iraqi Army captain hired four employees to working with him in the farm and began raising cows, sheep and the fodder to feed them. When fattened properly livestock can bring profits ranging from 30% to 100% if sold during Eid al-Fitr and Eid al-Adha. Raji also sells milk, cream and cheese in the Midhtiya market. Raji has paid back half of his loan and he is looking for other investment opportunities to expand his business.



Thanks to a \$20,000 loan, former army captain Raji was able to start a cattle breeding farm and hire four employees.

New Pneumatic Nail Guns Improve Furniture Production

Hassan Hussein Saeed's Soma Furniture factory in Erbil produces sofas and chairs that he sells mostly in Baghdad, where families who fled overseas to escape terrorist violence now are returning and buying new furniture. He rarely has time to relax on his furniture, however, since he received an ID 50 million (\$42,350) ICBG-guaranteed SME loan last year from Ashur Bank. "My output has more than doubled thanks to the new equipment I was able to buy," he says. "I have 19 employees working two shifts 26 days a month." Hassan's sofa sets consist of three sofas and two chairs. Each set costs \$500 to make and sells for \$610. In the past, Hassan produced six sets a day using tacks and hammers. He now turns out 13 sets a day thanks to the pneumatic nail guns he purchased with his loan. Once his first loan is paid back Hassan, 40, plans to apply for a second. "With an ID 60,000 (\$50,700) loan I could afford to hire more people and double my output once more



Hassan bought a new automatic pneumatic nail gun and doubled his furniture production.

Preventative Medicine Saves Lives

A single ICBG-guaranteed SME loan, like a stone cast into a pond, produces ripples that impact the lives of hundreds of people. Before clinical chemist Wafa Sahib Hamza Al-Shabani received a \$12,821 SME loan from Gulf Commercial Bank and opened the Al-Noor Laboratory, residents of Diwaniyah had to drive all the way to Baghdad for blood, fertility, hormone and cancer screening. Now that can save time and money and have the tests done at home thanks to the sophisticated analyzer that tests for cardiac and tumor markers plus thyroid irregularities.

The Gulf loan also helped cover the cost of a computer system that allows her to file and quickly retrieve patient records. The Al-Noor Lab also has a website where patients can access payment forms and read about maladies prevalent in the community.

"I am seeking to educate patients about the medical conditions they face," says Wafa, 47. "Being honest and thorough means I spent more time with each patient, but forming a trusting relationship with people makes my laboratory and better business."



With a \$12,821 loan, Wafa opened a medical laboratory and bought A sophisticated medical tests analyzer.

F. H. Al-Salman & Co
Cooperating Firm Of
PRICEWATERHOUSECOOPERS



شركة فرقان السلمان وشركاؤه
للمحاسبة والتدقيق
بغداد - العراق

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report
To the shareholders of
Iraq Company For Bank Guarantees
(Private Joint Stock Co.)
Baghdad

Report on the financial statements

We have audited the accompanying financial statements of Iraqi Company for Bank Guarantees (Private Joint Stock Co.), which comprise the balance sheet as of December 31st 2010, 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 related notes.

Management's responsibility for the financial statements

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 circumstances.

Auditor's responsibility

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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of 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.

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 presents fairly, in all material respects, the financial position of the Company as of December 31st 2010, and of its financial performance and its cash flow for the year then ended with International Financial Reporting Standards.

Farquad Al-Salman, B.Sc, FCCA
F.H.Al-Salman & Co.
Cooperating Firm of PricewaterhouseCoopers
Public Accountants and Auditors
Baghdad-Iraq
March 2nd 2011

**IRAQ COMPANY FOR BANK GUARANTEES
(PRIVATE JOINT STOCK CO.)
BAGHDAD - IRAQ**

Balance Sheet
As Of December 31st 2010

STATEMENT (A)

		December 31st	
	Note	2010	2009
	Number	Iraqi Dinars (000)	Iraqi Dinars (000)
ASSETS			
Non-current assets			
Property, plant and equipments	5	54,608	54,762
Current assets			
Trade and other receivables	6	343,709	647,970
Cash and cash equivalents	7	<u>14,555,798</u>	<u>13,176,860</u>
		<u>14,899,507</u>	<u>13,824,830</u>
Total assets		<u>14,954,115</u>	<u>13,879,592</u>
EQUITY			
Capital and reserves attributable to equity holders of the company			
Ordinary shares	8	7,000,000	7,000,000
Retained earnings	9	1,075,361	198,220
Other reserves	9	<u>140,394</u>	<u>94,229</u>
		8,215,755	7,292,449
Liabilities			
Non-current liabilities			
Conditional grant received	10	5,673,398	5,673,398
Current liabilities			
Trade and other payables	11	274,937	170,518
Current income tax liability	12	165,292	118,494
Provisions for other liabilities and charges	13	367,307	367,307
Other payables	14	<u>257,426</u>	<u>257,426</u>
		<u>1,064,962</u>	<u>913,745</u>
Total equity and liabilities		<u>14,954,115</u>	<u>13,223,273</u>

The notes on pages (7) to (22) are an integral part of these financial statements

Income Statement

For The Year Ended December 31st 2010

STATEMENT (B)

	Note Number	Year ended December 31st	
		2010 Iraqi Dinars (000)	2009 Iraqi Dinars (000)
Revenues from guaranteed loans -2%	16	271,467	129,803
Revenues from DAI contract		—	25,782
Less: Cost of guarantees - 6%	13	—	(173,167)
Gross profit		271,467	(17,582)
Administrative expenses	15	(383,380)	(424,442)
Other income	18	468	4,184
Operating loss		(111,445)	(437,840)
Finance income	17	1,213,672	1,055,403
Non-operational and other expenses	19	(13,629)	(20,116)
Profit before tax		1,088,598	597,447
Corporation tax	12	(165,292)	(118,494)
Profit for the year		923,306	478,953

The notes on pages (7) to (22) are an integral part of these financial statements

Statement Of Changes In Equity

For The Year Ended December 31st 2010

STATEMENT (C)

	Ordinary Share Capital Iraqi Dinars (000)	Reserves		TOTAL Iraqi Dinars (000)
		Retained Earnings Iraqi Dinars (000)	Statutory Capital Reserve Iraqi Dinars (000)	
Balance at beginning	7,000,000	198,220	94,229	7,292,449
Current year's profits	—	877,141	46,165	923,603
Balance at end	7,000,000	1,075,361	140,394	8,215,255

The notes on pages (7) to (22) are an integral part of these financial statements

Statement of Cash Flow

For The Year Ending December 31st 2010

STATEMENT (D)

	<u>Year Ending December 31st</u>	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Cash flows from operating activities		
Profit before tax	1,088,598	597,447
Add: Depreciation	6,760	6,155
Provision for guarantees re defaulted loans	—	367,307
Cash generated from operations	1,095,358	970,909
income tax paid	(118,494)	(83,239)
Cash flows from operating profit, before changes in operating assets and liabilities	976,864	887,670
(Decrease)/Increase in trade and other receivables	304,261	(464,445)
Increase/ (Decrease) in trade and other payables	104,419	(98,621)
Net cash from operating activities	1,385,544	324,604
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,606)	(6,260)
Net cash used in investing activities	(6,606)	(6,260)
Cash flows from financing activities		
Proceed from "conditional" grant	—	2,145,860
Issue of ordinary shares	—	211,000
Dividends paid	—	(257,426)
Net cash from financing activities	—	2,099,434
Net increase in cash and cash equivalents	1,378,938	2,417,778
Cash and cash equivalents at beginning of year	13,176,860	10,759,082
Cash and cash equivalents at end of year	14,555,798	13,176,860

The notes on pages (7) to (22) are an integral part of these financial statements

Notes to the financial statements

1- General information

Iraq Company for Bank Guarantees (Private Joint-Stock Co.) was established in March 7th 2006 as a "limited liability Co." with a paid up capital of ID.5,450,000,000 (as per Registrar of Companies registration certificate No. M-sh/30328). The paid up capital was increased to ID.7,000,000,000 when the structure of the company was covered into a "Joint-Stock Company" on September 14th 2009, after obtaining all the necessary approvals in that respect. (including the Central Bank of Iraq).

The aim of the company is to assist small and medium size projects in Iraq by providing the necessary financing, via guaranteeing of loans in that respect provided by private banks operating in Iraq.

The company is domiciled in Iraq and had not been a member of another company through out the fiscal year 2010.

2- Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied for all the years presented, unless otherwise stated.

(2.1) Basis of preparation

The financial statements of Iraq Company for Bank Guarantees (Private- Joint Stock) have been prepared in accordance with International Reporting Standards (IFRS). The financial statements have been prepared under historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The area involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note (4).

Interpretations to existing standards that are not yet effective and not relevant to Company operations

The following interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after May 1st 2006, or later period, but not relevant for the Company's operations.

IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economics (Effective from March 1st 2006).

IFRIC 7, provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Company's operations; and

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1st 2006)

IFRIC 8 requires considerations of transactions involving the issuance of equity instruments-where the identifiable consideration received is less than the fair value of the equity instrument issued – to

establish whether or not they fall within the scope of IFRS 2. As the Company did not issue any equity instruments in the current year or in the previous year, IFRIC is not relevant to Company's operations.

IFRIC, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1st 2006). IFRIC 9 requires any entity to assess whether an embedded derivative to be separated from the host contract and accounted for as a derivative when the entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that is significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Company's operations, as the Company does not have embedded derivatives.

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1st 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. As the Company does prepare interim financial statements IFRIC 10 is not relevant to Company's operations.

(2.2) Foreign currency transactions

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the Currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Iraqi Dinars (ID) which is the Company's functional and presentation currency.

b) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value gain or loss.

(2.3) Property, plant and equipments

Property plant and equipments are shown at historical costs, less depreciation, Historical costs include expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated on the straight-line method to allocate their cost over their estimated useful lives, at the rates prevailing with the statutory legislations in this respect.

The residual value of the assets and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other (losses) or gains – net, in the income statement.

(2.4) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount may not be revocable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its revocable amount. The revocable amount is the higher of an asset's carrying amount exceeds its revocable amount. The revocable amounts the higher of an asset's market value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (cash generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal; of the impairment at each reporting date.

(2.5) Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at an amortized cost using the effective interest majored, less provision for impairment. The carrying down of the asset is reduced through the use an allowance account, and the amount of the loss is recognized in the income statement, with general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

(2.6) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks, other short term highly liquid investments with original maturities of three month or less, and bank overdrafts. Bank overdraft are shown within borrowings in current liabilities on the balance sheet

(2.7) Trade and other payables

Trade payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(2.8) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowing are subsequently stated at amortized cost, any difference between the proceeds (net of redemption costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(2.9) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources that might be required to settle the obligation and reliable estimate of the amount can be made.

(2.10) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in

the ordinary course of the Company's activities. The Company recognizes when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and special criteria have been met.

(2.11) Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(2.12) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in the current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(2.13) Share capital

Ordinary shares are classified as equity

(2.14) Comparatives

Usually comparative figures are adjusted to be in conformity with changes in presentation in current year.

3-Financial risk Management**(3.1) Financial risk factors**

The Company's activities expose it to a variety of financial risks: material risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management is programmed to focus on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

a) Market risk

The Company operations are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US \$.

The Company's income and operating cash flows are substantially independent of changes in market rates. The Company has no significant interest bearing assets or liabilities

b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Deposits are made with banks that have acceptable credit rating. The utilization of credit limits is regularly mentioned.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities.

Company's management aims at maintaining flexibility in funding by keeping committed lines available.

(3.2) Capital risk management

The Company's objectives when managing capital are to safe guard Company's ability to continue as a "going concern" in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital by monitoring the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including borrowings and trade and other payables, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

(3.3) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Trade receivables and inventory value net of impairment provisions should approximate/their fair value.

4- Critical accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and the assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:-

a) Taxation

The Company is subject to corporation tax. Significant is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company 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 amount that initially recorded, such difference shall have an impact on the "corporation tax" for the period in which such determination is made.

b) *Provision for impairment of trade receivables*

The Company establishes a provision for impairment of trade receivables, in accordance with the applicable accounting policies in that respect. The recoverable amount of trade receivables is compared with the carrying amount of receivables, in order to determine the amount of the impairment. Such calculations require the use of estimates.

5 - Property, plant and equipment

Furniture and office appliances

	December 31st	
	2010 Iraqi Dinars (000)	2009 Iraqi Dinars (000)
Cost		
Balance as of January 1st 2010	64,629	58,369
Addition during the year	6,606	6,260
Balance as of December 31st 2010	<u>71,235</u>	<u>64,629</u>
Provision for accumulated depreciation		
Balance as of January 1st 2010	9,867	3,712
Depreciation for the year	6,760	6,155
Balance as of December 31st 2010	<u>16,627</u>	<u>9,867</u>
Net book value (after depreciation)	<u>54,608</u>	<u>54,762</u>

6 - Trade and other receivables

Trade and other receivables as of December 31st 2010 consist of the following:-

Accrued income- from deposits with banks

Name of Bank	Amount of Deposit Iraqi Dinars (000)	Accrued Interest Iraqi Dinars (000)
Suomer Investment Bank	2,655,000	179,211
North Bank for Investment	2,500,000	43,746
Ashur International Bank for Investment	1,000,000	8,332
Bank of Baghdad	1,000,000	12,498
National Bank of Iraq	1,500,000	<u>70,000</u>
		313,787
Prepayment - rent of office		9,000
Advances		<u>20,922</u>
		<u>343,709</u>

7 - Cash and cash equivalence

	<u>December 31st</u>	
	2010	2009
<u>Balance at banks</u>	<u>Iraqi Dinars (000)</u>	<u>Iraqi Dinars (000)</u>
Local banks - current account	4,270,222	441,981
Banks abroad - current account	30,633	5,505
Saving accounts	99,943	74,374
Deposits with local banks	<u>10,155,000</u>	<u>12,655,000</u>
	<u>14,555,798</u>	<u>13,176,860</u>

8 - Share capital - Ordinary shares

ICBG is a "Private Joint-Stock" company with a fully subscribed and paid up, the balance as of December 31st 2010 was 7 Billion ordinary shares at a par value of one Iraqi Dinar per share, as in accordance with the requirements of the prevailing legislation

The structure of the share capital consists of the following:-	<u>Iraqi Dinars (000)</u>
15 Private banks operating in Iraq	6,946,881
3 Corporate shareholders	41,097
16 Individual (Retail) shareholders	<u>12,022</u>
	<u>7,000,000</u>

Details of the main shareholders are as follows:-

<u>Private banks operating in Iraq</u>	<u>Iraqi Dinars (000)</u>	<u>Iraqi Dinars (000)</u>
Gulf Commercial Bank	1,058,836	
Iraq Investment Bank	996,551	
Iraqi Middle East Investment Bank	747,413	
Ashur International Bank for Investment	498,275	
Al-Warka'a Bank for Investment and Finance	498,275	
National Bank of Iraq	498,275	
Soumer Bank for Investment	498,275	
Al-Mousul Bank for Investment and Finance	498,275	
North Bank for Investment and Finance	498,275	
Al Basra International Bank for Investment	498,275	
Bank of Baghdad	498,275	
United Investment Bank	102,744	
Al-Huda Islamic Bank	25,000	
Pan Iraq Bank	25,000	
Emirald Bank - Erbil	<u>5,137</u>	6,946,881
Corporate shareholders-3 private limited liability companies		41,097
Retail shareholdings - 16 individuals -		<u>12,022</u>
		<u>7,000,000</u>

9 - Reserves

In accordance with the applicable statutory regulations that the "post tax profit" is to be distributed in the following manner:-

Statutory capital reserve - 5% (Provided it does not exceed 50% of the paid up capital)
The purpose of this account is to cushion and safeguard ICBG's capital adequacy
While the remaining 95% of the profit is transferred to "Retained Earnings"
whereby it can be utilised in the ordinary course of the business.

	Statutory Capital Reserve	Retained Earnings
	Iraqi Dinars (000)	Iraqi Dinars (000)
Balance as of January 1st 2010	94,229	198,220
Add : Current year's profit (after tax)	46,165	877,141
Balance as of December 31st 2010	140,394	1,075,361

10 - "Long term liability - " Conditional grant"

USAID has approved for granting ICBG a "grant" for the amount of US\$ 5,000,000 for the purpose of financing the defaulted loans by the private banks which were guaranteed by ICBG. The amount of the "grant" was paid to ICBG on a number of installment over the past number of years , and the total amount had been received by ICBG during 2010, as indicated below:-

	US\$	Iraqi Dinars(000)
Balance as of January 1st 2010	3,000,000	3,527,538
Amounts received during the year	2,000,000	2,145,860
Balance as of December 31st 2010	5,000,000	5,673,398

11 - Trade and other payables

	December 31st	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Trade creditors- DAI	3,672	23,695
Revenues received in advance -Guarantee commission for loan guarantee from banks	137,830	133,437
Accrued expenses - professional audit fees	11,830	11,830
Deductions on behalf of other parties (Staff income tax)	121,605	1,556
	<u>274,937</u>	<u>170,518</u>

12 - Current income tax liability

In accordance with the applicable taxation rules and regulations the "Corporation Tax" provision is calculated as follows:-

	Iraqi Dinars (000)
Profit before tax	1,088,598
Add : Unallowable expenses for taxation purposes	
Staff income tax	13,348
Taxable profit	1,101,946
Provision for Corporation Tax	
15% of Taxable profit	165,292

13 - Provisions for other liabilities and charges

This provision represents the anticipated losses that might be incurred as a result of guaranteeing loans offered by the shareholding private banks, but during the current year no provision was taken as it was considered that the amount of the "conditional grant" is sufficient to cover this function.

	Iraqi Dinars (000)
Opining balance as of January 1st 2010	367,307
Additions during the year	—
Balance as of December 31st 2010	367,307

14 - Other payables

This balance represents unclaimed dividends by the respective shareholders which were declared during previous years'

	Iraqi Dinars (000)
Opining balance as of January 1st 2010	257,426
Additions during the year	—
Balance as of December 31st 2010	257,426

15 - Administrative expenses

	Year ended December 31	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Salaries, wages, and bonuses to staff		
Salaries and wages	162,084	167,759
Bonuses	30,086	53,425
Social security contribution	9,504	7,705
	<u>201,674</u>	<u>228,889</u>

	Year ended December 31	
	2010 Iraqi Dinars (000)	2009 Iraqi Dinars (000)
Goods, commodities and supplies		
Fuel and oil	22,934	13,009
supplies	5,545	4,863
stationary and office supplies	2,681	2,851
Water	—	10
	<u>31,160</u>	<u>20,733</u>
Service expenses		
maintenance	6,591	9,757
Publicity and advertisement	2,857	10,769
Printing and publications	17,992	5,375
Hospitality	9,006	15,871
Transport of staff	1,461	747
Travel and delegations	43,282	31,322
Communication	16,078	10,148
Rental of assets	18,600	14,400
Subscription	7,673	—
Rewards for non-staff members	3,007	27,225
Legal services	1,550	16,665
Bank charges	3,257	13,243
Training	700	—
Professional audit services	11,700	11,830
Other sundry service expenses	<u>32</u>	<u>1,313</u>
	<u>143,786</u>	<u>168,665</u>
Depreciation - Furniture and office appliances	<u>6,760</u>	<u>6,155</u>
Total Administrative expenses	<u>383,380</u>	<u>424,442</u>

16 - Loan Guarantee Fees

Revenue consists of inflows from performing services that constitute ICBG's on going operations and related functions. When revenue is received prior to services being provided, then it is recorded as a liability: Deferred Revenue, i.e. Prepaid Loan Guarantee Fees.

Progress billing represents invoices created as recognition for the probable service provided under the loan guarantee agreements. Progress billing is not equal to Revenue. Revenues are recognized when the entire criterion elaborated in the International Accounting Standards has been fully met. Revenues and associated costs must be recognized in the same accounting period.

	Year ended December 31	
	2010 Iraqi Dinars (000)	2009 Iraqi Dinars (000)
Revenues from loan guaranteed fees	271,467	129,803

17 - Finance income

This source of revenue represent "interest received" from interest bearing accounts held at banks abroad as well as local banks in Iraq.

	Year ended December 31	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Interest received from local banks on deposits	1,204,637	1,053,159
Interest received from banks abroad on deposits	9,035	2,244
	1,213,672	1,055,403

18 - Other income

As the nature of ICBG;s business constitutes dealing with various currencies, as a result of the fluctuating foreign currency exchange during the year, an income is realised during the year

	Year ended December 31	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Income resulting from foreign exchange	468	4,184

19 - Non-operational and other expenses

	Year ended December 31	
	2010	2009
	Iraqi Dinars (000)	Iraqi Dinars (000)
Staff income tax	13,348	9,809
Previous years' expenses	—	9,530
Incidental expenses	281	777
	13,629	20,116

20 - Related party disclosures

The ICBG has business relationships with a number of the Iraqi Banks that have a significant interest in ICBG. The business relationships with these banks cover the financial services that the ICBG provides to clients generally.

The "Supervisory Board" as well as the "Credit Committee" of the ICBG consists of five voting members, each member is an employee of one of the equity investor banks and one non-voting advisory member.

21 - Going Concern Concept

The Directors have formed a judgment at the time of approving the financial statements, on the basis of the current financial projections for the year 2010 and technical assistance and facilities available from donor, that the ICBG has adequate resources to continue in operational existence for the foreseeable future, and accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements.

Corporate Information

Board of Directors: Wadee Al- Handhel (Chairman) Ashur Bank
Thamer Al-Shekhely (Deputy Chairman) Investment Bank
Adel Al- Hasoon (Board Member) Bank of Baghdad
Salim Al- Jarah (Board Member) National Bank
Abed Al-Mutaleb Al- Hejamy (Board Member) Gulf Bank

Auditors: F.H. Al Salman & Co. Co-operating firm of
PriceWaterhouseCoopers
Street No. 34, District No. 925,
Jaddiryah,
Baghdad, Iraq

Legal Advisors: Mamoon Mahmoud Al Khadi & Co.
Street 929, Arasa'at,
Baghdad, Iraq

ICBG Headquarters: Baghdad, Karada District, Nadhal Street,
Mosul Bank branch building, second floor

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