In the name of the Almighty

*The report of the independent accountant and the legal controller to the general assembly of the stockholders of the …….. Bank (LLP)*

Financial statements related report

**Introduction**

1. The combined financial statements of the group and the ............... Bank (LLP) includes balance sheets dated 12.20.2016, the income and loss statements, cash flow, return of the investment deposits, and the changes in the rights of the shareholders for the aforementioned date and accounting work has been done on the explanatory notes 1 to 62 by this accounting firm.

**The responsibility of the board of directors regarding the financial statements**

1. According to the accounting standards and the banking regulations, board of directors of the bank is responsible for preparing the aforementioned financial statements. This responsibility includes design, implementation and maintaining internal control related to the financial statements in a way that these statements are free of any important misrepresentations resulting from cheating or mistakes.

**The responsibility of the accountant and the legal controller**

1. The responsibility of this institution is providing its opinion with regard to the aforementioned financial statements according to the accounting standards. These standards obligate this institution to adhere to the professional and ethical accounting behavior and plan and execute its work in a way to ensure lack of any important misrepresentations in the financial statements.

Accounting includes methods which are used to obtain accounting evidence on the amounts and the other information disclosed in the financial statements. Selection of the accounting methods, such as evaluating the danger of important misrepresentation resulting from cheating or making an error in the financial statements, depends on the judgment of the accountant. To assess these risks and dangers, the internal control procedures related to preparation and submission of the financial statements are reviewed so that suitable accounting methods for the existing conditions could be designed. This is not done to issue an opinion on the effectiveness of these control mechanisms of the commercial unit. Moreover, accounting pertains to assessment of the accounting methods and reasonability of the accounting estimates done by the board of directors and the wholesomeness of the financial statements.

**The basis of conditional assessment**

1. According to the explanatory notes 43, in line with the law of eliminating the production hurdles and the communicated instructions, the Central Bank of the Islamic Republic of Iran has transferred the ownership rights of the properties known as Vozara 1, Vozara 2, Hakim, and Shahrak Gharb in return for checks, shares and properties that are easier to liquidate.

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The profit originating from this action has been determined to be 9.530 billion Rials. Regarding this, even though, according to the approvals of the board of directors, the bill of transaction, and the certified experts of the Ministry of Justice, considering the legal transfer of the ownership of the purchased shares to the bank, and receiving the major part of the money coming from the transferred properties up to the date of this report, a major portion of the risks involving the transferred properties have been transferred to the new owners. However, considering the fact that legal transfer of the ownership of the properties known as Vozara 1, Vozara 2, Shahrak Gharb and the building called Mica Mall Kish to the bank and the buyers of the aforementioned properties, determination of the possible effects of the creation of conditions if the foreseen obligations resulting from breach of the contracts was not possible for this institution.

1. Following the approval of the board of directors on 11.21.2016, 10% of the shares of Iran Investment Company, according to the contract entered into with the Masir-e-Abrisham-e-Novin company, based on the report of the share evaluation expert (Taamin-e-Sarmayeh Amin company), has been sold for the sum of 2.300 billion Rials. In relation to this, the sum of 580 billion Rials of profit has been identified. With regard to this case, part of the price of the transaction has been received and the ownership of the shares has officially and legally been transferred to the buyer in 07.2017. Since the process of legal transfer of the ownership of the shares and payoff of the price of the transaction has not been realized at the time the balance sheets are prepared, determination of the profit originating from the sale of the shares does not benefit from necessary compatibility with the accounting standards.
2. The remaining amount of the due from the other accounts and received documents (explanatory notes 15) include the sum of 494 billion Rials of protested receivable documents, past due and unpaid annual commercial and non-commercial receivables of the secondary economic company of Negin- ………… -Iranian. The steps taken by the company has not resulted in collecting these receivables. According to the abovementioned facts, no information has been obtained regarding the amount of the possible needed adjustments to the accounts related to establishing the reserve for the accounts that their collectability is suspicious and their presence is necessary in the standards of accounting.

1. According to the contents of the explanatory notes 14 and 15, a major portion of account receivables of the people, secondary and the affiliated companies, include the past due receivable documents, total up to 10.318 billion Rials, which is related to the prices of the properties that their ownership has been transferred to others and the amounts paid on the accounts in previous years along with the calculated interest. With regard to this, even though a major portion of these receivables were of capital raising and given loans nature, beside the fact that no information has been obtainable on the correctness of the classification of the aforementioned receivables and the fact that not adequate, suitable and effective guarantees to ensure the collection of a major portion of theses receivables has been obtained, and lack of achieving a definite result related to collection of the principle and the interest of these receivables, no information was obtainable about the amount of possible adjustments to the accounts in relation to establishment of the necessary reserve for the receivables with suspicious nature surpassing

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the 1.573 billion Rials of the existing reserve, which including it in adhering to the accounting standards and the regulations of the Central Bank is deemed vital in the method used to calculate the reserve of the financial credit institutions. This state has arisen because of lack of access to the needed information and the compatibility accounts statements between the parties.

1. In reviewing the cooperative loans given to the customers by the bank, it was observed that the difference in the calculated interest, based on the monitoring policies of the Central Bank, 21%, and the charged rate at the time of settlement of the loan (mostly 30%), equal to 9%, is received from the customers separately, and at the time of settlement of the loans is entered into the bank's account. With respect to this, not only the difference originating from the abovementioned cases at the end of the financial year, 800 billion Rials, has been reflected under the heading of annual adjustments in promissory form and out of the bank's software system, but also the interest gained from the charged rate difference for the year ending on 12.20.2016, considering the complementary contracts entered into by the bank with the customers, is more than 342 billion Rials. These funds should have been placed under the revenue from the given loans in adherence to the accounting standards.
2. The attached financial statements have been prepared in adaptation with the sample financial statements in the Central Bank of the Islamic Republic of Iran's notification and submitting the statements reflecting the changes in the rights of the shareholders and the yield of the investment deposits and separating the rights of the owners of the investment deposits from the amounts owed by the shareholders and their rights in the balance sheet of the bank and submitting some explanatory notes on top of the predicted cases are included in the accounting standards.
3. Since up to the date of preparing this report, the detailed statement of the rescheduled loans of the customers has not been submitted to this accounting agency, no information was obtainable with regard to the adequacy and/or the need to establish a reserve for the receivable that their collection is doubtful and the correctness of the identified promissory interest with regard to the rescheduled loans which their collection is doubtful.
4. The heading of the other accounts and the received documents (explanatory notes 15) includes 253,366 million Rials of paid amounts to the Arman capital supply company, Atiyeh-e-Saba Investment Company, and the First Investment Brokerage of Agriculture Bank (current shareholder of the bank) as fees for providing services of promising to accept the Bank's shares during the increasing of capital. This is done because these companies and firms have entered into a contract with the ………… Bank. With regard to this, in the absence of the agreements made with the major shareholders of the Bank related to the methods of repayment of these funds and not receiving the response to the asked for approvals for approving the remaining sums of these receivables, no information was obtained on the possible effects of the methodsof settlement of these amounts
5. Since the complete software system of the Bank has not been installed, complete execution of the content of the instructions regarding the classification of the assets and calculation of the reserves of the credit unions has not been possible.

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Therefore, determination of possible effects of lack of conformity of the reserve of the receivables with doubtful collectability and the identified compensations in the conditions where the complete software system would be in place was not possible for this agency.

**COMBINED BALANCE SHEET**

**On the date of 31 Azar 1395 (20 December, 2016)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** |  | **30. 09.1395 (20.12.2016)** | **Renewal presented**  **(re-presented)**  **30.09.1394 (21.12.2015)** |
| **Assets** |  | **Million Rls.** | **Million Rls.** |
| **Cash assets** | 10 | 6,384,252.00 | 3.303.214.00 |
| **Collectibles from banks & other credit institutions** | 11 | 1,035,694.00 | 1,069,017.00 |
| **Granted loans and collectibles from non-governmental persons** | 12 | 58,343,456.00 | 27,177,077.00 |
| **Investment in stocks and other securities** | 13 | 2,430,931.00 | 6,192,905.00 |
| **Collectibles from subsidiaries and affiliates** | 14 | 44,278.00 | 565,894.00 |
| **Other account receivables** | 15 | 61,940,027.00 | 49,577,749.00 |
| **Assets held for sale** | 16 | 737,548.00 | 137,334.00 |
| **Fixed tangible assets** | 17 | 3,278,627.00 | 3,898,371.00 |
| **Intangible assets** | 18 | 1,125,934.00 | 1,217,100.00 |
| **Combined goodwill** | 19 | 199.00 | 199.00 |
| **Legal reserve** | 20 | 17,419,240.00 | 10,451,443.00 |
| **Other assets** | 21 | 37,878,631.00 | 2,179,507.00 |
| **Total of assets** | 190,618,817.00 | | 125,385,376.00 |
| **Customers' obligations for issued warranties** | 51-1 | 2,448,945.00 | 3,796,141.00 |
| **Other customer obligations** | 51-2 | 4,461,289.00 | 3,287,119.00 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities & the salaries of the owners of investment deposits and shareholders** |  | **30.09.1395**  **(20.12.2016)** | **Renewal presented**  **(re-presented)**  **30.09.1394 (21.12.2015)** |
| **Liabilities** |  | **Million Rls.** | **Million Rls.** |
| **Liabilities to banks and other credit institutions** | 22 | 5,984,979.00 | 3,474,447.00 |
| **Customer deposits** | 23 | 4,607,221.00 | 841,844.00 |
| **Payable profit of shares** | 24 | 129,459.00 | 135,186.00 |
| **Performance tax reserve** | 25 | 26,432.00 | 576,805.00 |
| **Reserves and other liabilities** | 26 | 8,235,872.00 | 11,169,368.00 |
| **Reserve on the benefits of the staff’s end of service** | 27 | 75,112.00 | 43,458.00 |
| **Total liabilities** | 19,059,074.00 | | 16,241,108.00 |
| **Salaries of the owners of investment deposits** | | | |
| **Termed investment deposits** | 28 | 162,413,640.00 | 101,639,209.00 |
| **Payable profit of termed investment deposits** | 29 | 1,125,609.00 | 872,346.00 |
| **Total salary of deposit investors** |  | 163,539,249.00 | 102,511,555.00 |
| **Total of Liabilities & the salaries of owners of the investment deposits and shareholders** |  | 182,598,324.00 | 118,752,663.00 |
| **Asset** | 30 | 6,000,000.00 | 6,000,000.00 |
| **Legal reserve** | 31 | 355,351.00 | 288,362.00 |
| **Accumulated profit (loss)** |  | 132,092.00 | (549,181.00) |
| **Total salaries attributable to the shareholders' of the principal company** |  | 6,487,443.00 | 5,739,181.00 |
| **Minority share** | 32 | 1,533,050.00 | 893,532.00 |
| **Total salaries of shareholders** |  | 8,020,493.00 | 6,632,713.00 |
| **Total of Liabilities & the rights of the owners of investment deposits and shareholders** |  | 190,618,817.00 | 125,385,376.00 |
| **Customer's obligations for issued warranties** | 51-1 | 2,448,945.00 | 3,796,141.00 |
| **Other customer obligations** | 51-2 | 4,461,289.00 | 3,287,119.00 |