

**CENTRAL BANK OF IRAQ**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2016**

**INDEPENDENT AUDITOR'S REPORT**  
**To the Ministry of Finance and Governor of Central Bank of Iraq**  
**Baghdad - Iraq**

**Qualified Opinion**

We have audited the financial statements of Central Bank of Iraq (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified opinion below, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Qualified Opinion**

As further discussed in note (33) to the financial statements, there are lawsuits in different countries against CBI for the settlement of past due debts of CBI and other Iraqi governmental institutions amounting to IQD 1,313,671 million (2015: IQD 1,326,684 million). The final outcome of these lawsuits and the impact on CBI's financial statements as of 31 December 2016, if any, is uncertain and have not been quantified and provided for. We did not receive confirmations from some of CBI's legal advisors and due to the unavailability of sufficient information, we could not extend our audit procedures to ensure the completeness of these lawsuits and their impact on the financial statements as of 31 December 2016, if any.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iraq, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matters

1. As further explained in note (1) to the financial statements, CBI does not control the financial and administrative affairs of its Erbil and Sulaymania branches, as these branches are technically related to CBI and for all other matters they are related to Kurdistan Regional Government (KRG) and their operations are financed by KRG. In addition, CBI did not receive the financial statements of its branches in Sulaymania and Erbil and does not have access to their accounting records. Therefore, the accompanying financial statements do not include the financial statements of Sulaymania and Erbil branches. CBI does not have any information to quantify the significance of the branches financial statements and its effect on CBI's financial statements as of 31 December 2016.

Also, on 13 October 2015 CBI's Board of Directors and based on the Prime Minister's approval decided that both Erbil and Sulaymania branches are not subject to the management and supervision of CBI and are not considered as part of CBI's financial system, and there is no financial obligation on CBI resulted from their financial obligations as both of them are part of the administrative, technical and financial system of Kurdistan Regional Government (KRG)'s Ministry of Finance and Economy.

On 23 October 2016, the CBI's Board of Directors decided to open new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system. However, CBI did not declare the official date for opening these new branches.

2. As further explained in note (5) to the financial statements, the CBI's financial statements as of 31 December 2016 include old outstanding balances at foreign banks in the amount of IQD 481,042 million (2015: IQD 489,999 million). An impairment loss of IQD 481,042 million has been provided for as of 31 December 2016 (2015: IQD 489,999 million). Due to the absence of the details, the CBI did not prepare reconciliations of certain frozen and old outstanding deposits at foreign banks as at 31 December 2016.
3. According to CBI's Board of Directors resolution dated 13 October 2015 and as further explained in notes (9), (17) and (34) to the financial statements, the Board decided to derecognize all of the International Monetary Fund (IMF) accounts from CBI's records and to transfer them to the Ministry of Finance (MOF) records.

On 26 May 2016, the CBI recognized again some of the IMF accounts in CBI accounting records. As of 31 December 2016, these accounts comprise of the Quota account asset which amounted to IQD 2,176,159 million and liabilities in the form of securities account which amounted to IQD 2,294,669 million and IMF account number (1) which amounted to IQD 4,973 million and IMF account number (2) which amounted to IQD 21 million.

The de-recognition and transfer of the IMF accounts to MOF was supported by an agreement signed between MOF and CBI.



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

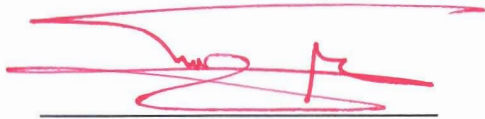


Ernst & Young  
Baghdad – Iraq  
25 July 2017

# CENTRAL BANK OF IRAQ

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

	Notes	2016 <u>IQD Million</u>	2015 <u>IQD Million</u>
<b>ASSETS</b>			
Gold reserve	3	3,957,959	3,627,247
Cash and balances with central banks	4	7,864,502	4,511,665
Due from banks and other financial institutions	5	14,135,561	16,369,485
Held to maturity investments	6	27,062,097	38,613,909
Loans to commercial and governmental banks	7	620,880	7,500
Due from Ministry of Finance	8	19,534,101	8,580,912
Foreign currencies investments at International Monetary Fund	9	2,176,159	-
Property and equipment, net	10	194,109	191,942
Intangible assets, net	11	8,606	10,787
Other assets	12	990,239	562,268
<b>TOTAL ASSETS</b>		<b><u>76,544,213</u></b>	<b><u>72,475,715</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency issued	13	45,231,515	38,585,119
Treasury bills issued	14	64,677	1,080,130
Deposits of local banks and other financial institutions	15	22,655,974	24,484,967
Due to foreign governments and banks	16	39,619	39,799
Due to International Monetary Fund	17	2,299,663	-
Due to governmental institutions	18	3,953,620	5,929,109
Other liabilities	19	99,653	120,004
<b>TOTAL LIABILITIES</b>		<b><u>74,344,721</u></b>	<b><u>70,239,128</u></b>
<b>EQUITY</b>			
Capital	20	1,000,000	1,000,000
General reserve	21	845,232	1,462,461
Emergency reserve	21	1,089,690	1,089,690
Gold revaluation reserve	22	(367,623)	(698,335)
Accumulated losses	23	(367,807)	(617,229)
<b>TOTAL EQUITY</b>		<b><u>2,199,492</u></b>	<b><u>2,236,587</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>76,544,213</u></b>	<b><u>72,475,715</u></b>



Ali M. Ismaiel  
The Governor



Ihsan Shamran AlYasiri  
Head of Accounting Department

The attached notes 1 to 34 form part of these financial statements.

# CENTRAL BANK OF IRAQ

## STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2016

	Notes	2016 IQD Million	2015 IQD Million
<b>REVENUES</b>			
Interest income	24	929,922	435,653
Interest expense	25	(28,193)	(64,079)
<b>Net interest income</b>		<u>901,729</u>	<u>371,574</u>
Net fee and commission income	26	445,727	571,346
Gold revaluation gain (loss)	22	330,712	(412,379)
Foreign currency translation loss		(1,641,161)	(1,228,792)
Other income		13,283	16,536
<b>Gross Profit (loss)</b>		<u>50,290</u>	<u>(681,715)</u>
<b>EXPENSES</b>			
Employees' expenses		(34,300)	(39,281)
General and administrative expenses		(38,512)	(68,297)
Depreciation and amortization	10,11	(14,573)	(11,368)
Loss from derecognizing IMF accounts		-	(228,947)
<b>LOSS FOR THE YEAR</b>		<u>(37,095)</u>	<u>(1,029,608)</u>
Add: Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>(37,095)</u>	<u>(1,029,608)</u>

The attached notes 1 to 34 form part of these financial statements.

# CENTRAL BANK OF IRAQ

## STATEMENT OF CHANGE IN EQUITY YEAR ENDED 31 DECEMBER 2016

		<i>Capital</i>	<i>General</i>	<i>Emergency</i>	<i>Gold revaluation</i>	<i>Accumulated</i>	<i>Total</i>
		<i>IQD</i>	<i>reserve</i>	<i>reserve</i>	<i>reserve</i>	<i>losses</i>	<i>IQD</i>
		<i>Million</i>	<i>IQD</i>	<i>IQD</i>	<i>IQD</i>	<i>IQD</i>	<i>Million</i>
	<i>Notes</i>	<i>Million</i>	<i>Million</i>	<i>Million</i>	<i>Million</i>	<i>Million</i>	<i>Million</i>
Balance at 1 January 2016		1,000,000	1,462,461	1,089,690	(698,335)	(617,229)	2,236,587
Total comprehensive income for the year		-	-	-	-	(37,095)	(37,095)
Transfers to/from reserves	21	-	(617,229)	-	-	617,229	-
Gold revaluation reserve for the year	22	-	-	-	330,712	(330,712)	-
<b>Balance at 31 December 2016</b>		<b>1,000,000</b>	<b>845,232</b>	<b>1,089,690</b>	<b>(367,623)</b>	<b>(367,807)</b>	<b>2,199,492</b>
Balance at 1 January 2015		100,000	4,358,758	1,089,690	(285,956)	(1,996,297)	3,266,195
Total comprehensive income for the year		-	-	-	-	(1,029,608)	(1,029,608)
Transfers to/from reserves	21	-	(1,996,297)	-	-	1,996,297	-
Gold revaluation reserve for the year	22	-	-	-	(412,379)	412,379	-
Capital increase	20	900,000	(900,000)	-	-	-	-
<b>Balance at 31 December 2015</b>		<b>1,000,000</b>	<b>1,462,461</b>	<b>1,089,690</b>	<b>(698,335)</b>	<b>(617,229)</b>	<b>2,236,587</b>

The attached notes 1 to 34 form part of these financial statements.



# CENTRAL BANK OF IRAQ

## STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2016

		2016	2015
	Notes	<u>IQD Million</u>	<u>IQD Million</u>
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(37,095)	(1,029,608)
Adjustments for:			
Depreciation of property and equipment		9,635	6,689
Amortization of intangible assets		4,938	4,679
Revaluation of Gold Reserve		(330,712)	412,379
Loss from derecognizing IMF accounts		-	228,947
Foreign currency translation loss		<u>1,641,161</u>	<u>1,228,792</u>
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>1,287,927</b>	<b>851,878</b>
<b>CHANGES IN ASSETS AND LIABILITIES</b>			
Loans to commercial and governmental banks		(613,380)	(7,500)
Due from Ministry of Finance		(10,953,189)	(6,125,392)
Other assets		(441,265)	(181,662)
Currency issued		6,646,396	(1,298,567)
Deposits of local banks and other financial institutions		(2,002,650)	(7,256,749)
Due to foreign governments and banks		(180)	(203)
Due to governmental institutions		(1,801,821)	3,922,275
Other liabilities		<u>(20,351)</u>	<u>(8,050)</u>
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>		<b><u>(7,898,513)</u></b>	<b><u>(10,103,970)</u></b>
<b>INVESTING ACTIVITIES</b>			
Held to maturity investments		10,226,905	5,492,885
Purchase of property and equipment		(11,802)	(16,021)
Purchase of intangible assets		<u>(2,757)</u>	<u>(8,530)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b><u>10,212,346</u></b>	<b><u>5,468,334</u></b>
<b>FINANCING ACTIVITIES</b>			
Treasury bills		<u>(1,015,453)</u>	226,731
<b>NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>		<b><u>(1,015,453)</u></b>	<b><u>226,731</u></b>
Net increase (decrease) in cash and cash equivalents		1,298,380	(4,408,905)
Effect of foreign currency translation on cash and cash equivalents		(179,467)	(1,179,810)
Cash and cash equivalents beginning of the year		<u>20,881,150</u>	<u>26,469,865</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	27	<b><u><u>22,000,063</u></u></b>	<b><u><u>20,881,150</u></u></b>

The attached notes 1 to 34 form part of these financial statements.

# CENTRAL BANK OF IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 1. ACTIVITIES

The Central Bank of Iraq ("CBI" - also referred to in these financial statements as "the Bank") is a governmental entity that was established under the Central Bank of Iraq Law Number 43 of 1947 as amended, and carrying out its activities under the Central Bank Law of 2004 issued by the Coalition Provisional Authority Order Number 56.

The primary objectives of the CBI are to achieve and maintain domestic price stability and to foster and maintain a stable and competitive market-based financial system. Subject to these objectives, the CBI shall promote sustainable growth, employment and prosperity in Iraq.

In accordance with the Central Bank Law, the main functions of the CBI in achieving its objectives include the following:

- a. Formulate and implement monetary policy, including exchange rate policy.
- b. Hold and manage all official foreign reserves of Iraq, other than working balances of the Government of Iraq.
- c. Hold gold and manage the Government of Iraq reserves of gold.
- d. Provide liquidity services to banks.
- e. Issue and manage Iraqi currency.
- f. Establish, oversee and promote sound and efficient payment systems.
- g. Issue licenses or permits to banks and to regulate and supervise banks.

The CBI's head office is located in Baghdad with four branches in Basrah, Mosul, Erbil and Sulaymania. However, CBI does not control the financial and administrative affairs of Erbil and Sulaymania branches, as these branches are technically related to CBI and for all other matters they are related to Kurdistan Regional Government (KRG) and are financed by KRG.

As a result, CBI does not have access to the accounting records of Erbil and Sulaymania branches. Therefore, the accompanying financial statements do not include the financial statements of Sulaymania and Erbil branches. CBI does not have any information to quantify the significance of the branches financial statements and its impact on CBI's financial statements as of 31 December 2016 and 2015.

On 13 October 2015, CBI Board of Directors and based on the Prime Minister's approval decided that both Erbil and Sulaymania branches are not subject to the management and supervision of CBI and are not considered as part of CBI's financial system, and there is no financial obligation on CBI resulted from their financial obligations as both of them are part of the administrative, technical and financial system of KRG's Ministry of Finance and Economy.

On 23 October 2016, the CBI's Board of Directors decided to open new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system. However, CBI did not announce the official date for opening these new branches until the date of these financial statements.

The Financial Statements were authorized for issue by the Governor of Central Bank of Iraq on 25 July 2017.

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with Central Bank Law of 2004 issued by the Coalition Provisional Authority Order Number 56.

The financial statements have been prepared under the historical cost basis except for gold reserve that has been measured at fair value.

The financial statements have been presented in Iraqi Dinar "IQD", which is the functional and presentation currency of the CBI. All amounts in the financial statements are rounded to the nearest million IQD unless otherwise stated.

#### Changes in accounting policies:

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2015, except that the bank applied the following changes from January 2016:

#### Equity Method in Separate Financial Statements (Amendments to IAS 27 and IFRS 1)

In August 2014, the IASB amended IAS 27 Separate Financial Statements which restore the option for entities, in the separate financial statements, to account for investments in subsidiaries, associates and joint ventures using the equity method as described in IAS 28 Investments in Associates and Joint Ventures. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment

#### IAS 1 Presentation of Financial Statements - Amendments to IAS 1

The amendments to IAS 1 include narrow-focus improvements related to :

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income (OCI) arising from equity accounted investments

#### Investment entities (Amendments to IFRS 10 and IAS 28)

The amendments address the issues arising in practice in the application of the investment entities consolidation exception and clarify that:

- The exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

**2. ACCOUNTING POLICIES (Continued)**

**2.1 Basis of preparation (Continued)**

**Standards issued and effective: (Continued)**

**Investment entities (Amendments to IFRS 10 and IAS 28) (Continued)**

- Subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- Application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity: The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

The implementation of the new amendments did not have impact on the Bank's financial position or performance and became effective for annual periods which started from 1 January 2016

**Standards issued but not effective:**

The following standards and interpretations have been issued but not effective:

**IFRS 9 Financial Instruments**

During July 2014, the IASB issued IFRS 9 "Financial Instruments" with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 as issued in July 2014 will be



## 2. ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### Standards issued but not effective: (Continued)

##### IFRS 9 Financial Instruments (Continued)

implemented at the mandatory date on 1 January 2018, which will have an impact on the recognition and measurement of financial assets.

##### IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

##### IAS 7 Disclosure Initiative - Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The amendments will be effective for annual periods beginning on or after 1 January 2017, with early application permitted. The application of amendments will result in adding limited amount of disclosure information.

##### IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms

**2. ACCOUNTING POLICIES (Continued)**

**2.1 Basis of preparation (Continued)**

**Standards issued but not effective: (Continued)**

**IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (Continued)**

and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, a temporary exemption from implementing IFRS 9 to annual periods beginning before 1 January 2021 at latest and an overlay approach that allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

**Transfers of Investment Property (Amendments to IAS 40)**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed.

## 2. ACCOUNTING POLICIES (Continued)

### 2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

#### 2.2.1 Impairment losses on loans and advances

The Bank reviews its financial assets at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

#### 2.2.2 Reassess the useful lives of tangible and intangible assets

A periodic review is performed by the management to reassess the useful lives of tangible and intangible assets for the purpose of annual depreciations and amortizations based on the general condition of the assets and the estimations of the expected useful lives, and any identified impairment is recorded in the statement of profit or loss.

#### 2.2.3 Legal provision

Legal provision is calculated for any legal liabilities according to the lawyer's opinion.

#### 2.2.4 Separation of Erbil and Sulaymania branches

As explained in note (1), CBI Board of Directors and based on the Prime Minister's approval decided that both Erbil and Sulaymania branches are not subject to the management and supervision of CBI and are not considered as part of CBI's financial system, and there is no financial obligation on CBI resulted from their financial obligations as both of them are part of the administrative, technical and financial system of KRG's Ministry of Finance and Economy.

On 23 October 2016, the CBI's Board of Directors decided to open new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system. However, CBI did not announce the official date for opening these new branches until the date of these financial statements.

### 2.3 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below:

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### 2.3.1 Foreign currency translations

The financial statements of CBI are presented in Iraqi Dinar (IQD) which is CBI's functional currency.

Foreign currency transactions are recorded in IQD at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities in foreign currencies are translated into IQD at rates of exchange prevailing at the date of the statement of financial position. Any gains or losses are taken to the income statement.

Below is exchange rates for foreign currencies per IQD as at 31 December 2016:

<u>Currency</u>	<u>Exchange rate for foreign currencies per IQD as at 31 December 2016</u>	<u>Exchange rate for foreign currencies per IQD as at 31 December 2015</u>
USD	1,182.000	1,182.000
EUR	1,235.545	1,291.453
GBP	1,448.541	1,750.542
AUD	851.631	861.442
SDR	1,583.986	1,639.269

##### 2.3.2 Gold Reserve

Gold is stated on the basis of the closing price in London gold market as of 30 December 2016. CBI maintains the gold as part of its foreign reserve management and does not have a present intent to dispose off. The gains or losses on the revaluation of gold at market price are taken to the income statement, then transferred within statement of changes in equity such that the cumulative gain revaluation reserve is disclosed in a separate component in equity.

##### 2.3.3 Recognition of financial instruments

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss which are measured initially at their fair value.

##### 2.3.4 Held-to-maturity investment

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

Held-to-maturity investments are carried at amortized cost using the effective interest method less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-



## 2. ACCOUNTING POLICIES (Continued)

### 2.3 Summary of significant accounting policies (Continued)

#### 2.3.4 Held-to-maturity investment (Continued)

maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

#### 2.3.5 De-recognition of financial assets and liabilities

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or

Either:

- a) the Bank has transferred substantially all the risks and rewards of the asset, or
- b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### 2.3.6 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### 2.3.7 Amortized cost measurement

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

## **2. ACCOUNTING POLICIES (Continued)**

### **2.3 Summary of significant accounting policies (Continued)**

#### **2.3.8 Fair value**

- The Bank values financial instruments, such as derivatives and non-financial assets, at fair value at the date of the financial statements.
- Fair value represents the price that will be obtained when selling the assets or the amount that will be paid to transfer the commitment of the regulated transaction between the participants in the market.
- In the absence of the primary market, the most suitable market will be used to trade assets and liabilities.
- A fair value measurement of a non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

#### **2.3.9 Impairment of financial assets**

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, the recoverable amount is estimated in order to determine the amount of impairment loss to be recognized in the statement of profit or loss.

Impairment is determined as follows:

For assets carried at amortized cost, impairment is based on the difference between the carrying value and the estimated cash flows discounted at the original effective interest method.

Impairment is recognized in the statement of profit or loss. If in a subsequent period, the amount of the impairment loss decreases, the carrying value of the asset is increased to its recoverable amount. The amount of the reversal is recognized in the statement of profit or loss.

#### **2.3.10 Recognition of income and expense**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- **Interest and similar income and expense**  
For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial assets or financial liability.

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.10 Recognition of income and expense (continued)

- **Fee and commission income**

Fee and commission income and expenses that are integral to the financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fee, transfer commission, branch coordination commission are recognized as the related services are performed.

#### 2.3.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current accounts with central banks, current accounts with local banks and amounts due from banks on demand or with an original maturity of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

#### 2.3.12 Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years
Motor Vehicles	5 years
Other furniture and equipment	3 to 5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' or 'Other operating expenses' in the income statement in the year the asset is derecognized.

#### 2.3.13 Intangible assets

Intangible assets consist of software programs, which are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in the statement of comprehensive income on a straight-line basis over the estimated life. The estimated useful life of these intangible assets is between 3 to 5 years.

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.14 Impairment of non-financial assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

#### 2.3.15 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### 2.3.16 Fiduciary Assets

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

#### 2.3.17 Issued currency

The liability of the CBI towards banknotes and coins issued as a legal tender in Iraq under the Central Bank of Iraq Law of 2004 is stated at the face value. The issued banknotes and coins that are returned to the CBI are reduced from the issued currency balance. Any un-issued and returned banknotes and coins kept in the CBI vaults are not reflected in the financial statements. The cost of printing the banknotes and melting of coins is recorded in the statement of profit and loss when incurred.



# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 Summary of significant accounting policies (continued)

##### 2.3.18 Local banks reserves and deposits

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

##### 2.3.19 Due to foreign governments and bank

All due to foreign governments and banks balances are carried at amortized cost, less amounts repaid

### 3. GOLD RESERVE

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Gold reserve at CBI vault	188,246	172,517
Gold reserve abroad	3,768,265	3,453,403
Gold coins at CBI vault	1,448	1,327
	<u>3,957,959</u>	<u>3,627,247</u>

### 4. CASH AND BALANCES WITH CENTRAL BANKS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Cash on hand	2,425,889	2,218,349
Allowance for cash on hand losses of Mosul branch	(98,418)	(98,418)
Overnight deposits with Federal Reserve Bank of New York	3,725,075	1,643,926
Current account with Federal Reserve Bank of New York	2,520	(129,480)
Current account with Central Bank of United Arab Emirates	1,197	1,195
Current account with Banque de France	355	428
Current account with Bank of England	11	15
Current account with Reserve Bank of Australia	136	80
Current account with De Nederlandsche Bank N.V.	211	193
Current account with Banca D'Italia	-	3
Cash seized by Banca D'Italia *	37,070	38,744
Time deposit with Reserve Bank of Australia	1,172,795	241,635
Time deposit with Banque de France	597,661	594,995
	<u>7,864,502</u>	<u>4,511,665</u>

\* During 2015, Court of Rome ordered CBI to pay EUR 30 million (equivalent to IQD 37,070 million) to Novaparc Healthcare International Limited. Banca D'Italia seized the amount from CBI's current account as a result to the Court of Roma's order, the effect of this litigation is undeterminable until the date of issuance of the financial statements.

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Current accounts with local banks	3,543	8,788
Due from governmental banks	5,201	5,436
Current accounts with foreign banks	13,531	13,433
Time deposits with foreign banks	14,118,487	16,347,264
Frozen and old outstanding deposits with foreign banks*	<u>481,042</u>	<u>489,999</u>
	<u>14,621,804</u>	<u>16,864,920</u>
Allowance for impairment losses of due from governmental banks	(5,201)	(5,436)
Allowance for impairment losses of deposits with foreign banks*	<u>(481,042)</u>	<u>(489,999)</u>
	<u>14,135,561</u>	<u>16,369,485</u>

\* The United Nations Security Council (UNSC) decided in its Resolution number 1483 (2003), that all member states in which there are funds or other financial assets or economic resources for the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of 22 May 2003 shall freeze those funds or other financial assets or economic resources and immediately cause their transfer to the Development Fund for Iraq (DFI), unless those funds are themselves subject of a prior judicial, administrative, or arbitral lien or judgment. During the years 2005, 2006 and 2007 the CBI wrote off balances at foreign banks totaling IQD 1,071,942 million. The provided for and the written off accounts include balances for an amount of IQD 401,310 million (2015: IQD 401,310 million) that have been transferred from certain foreign banks to the Development Fund for Iraq (DFI) account as required by the United Nations Security Council Resolution (UNSCR) 1483 (2003). The Ministry of Finance (MOF) has not returned the funds to the CBI although a resolution has been issued by the Council of Ministers ordering the return of the funds to the CBI. During 2012, a letter was sent to the Council of Ministers again requesting the return of these funds from the MOF and in 2013 a letter was sent to the Ministry of Finance (MOF). Given the non-responding from the Ministry of Finance to pay back these amounts, the CBI Board took a decision during 2014 to stop demanding the Ministry of Finance for these funds and to consider this matter finalized. Some banks did not transfer the balances to the Development Fund for Iraq account, and the balances at the American banks were transferred to the US Treasury. Correspondence with these banks are still ongoing for the purpose of settlement of these balances in the records. Due to the absence of the details, the CBI did not prepare reconciliations of certain frozen and old outstanding deposits at foreign banks as at 31 December 2016.

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The movement on allowance for impairment losses of due from governmental banks during 2016 was as the following:

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Balance at 1 January	5,436	5,959
Adjustments for foreign currency translation	(235)	(523)
Balance at 31 December	<u>5,201</u>	<u>5,436</u>

The movement on allowance for impairment losses of deposits with foreign banks during 2016 was as the following:

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Balance at 1 January	489,999	1,690,552
Written off balances during the year	(786)	(1,183,996)
Adjustments for foreign currency translation	(8,171)	(16,557)
Balance at 31 December	<u>481,042</u>	<u>489,999</u>

### 6. HELD TO MATURITY INVESTMENTS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Federal Reserve Bank of New York - Bonds and bills (net)	13,408,246	20,028,809
Islamic Development Bank - Islamic Sukuk (net)	1,182,000	-
Banque De France - Bonds (net)	5,647,145	8,954,214
De Nederlandsche Bank N.V. - Bonds (net)	3,465,169	5,604,321
Bank of England - Bonds (net)	3,359,537	4,026,565
	<u>27,062,097</u>	<u>38,613,909</u>

### 7. LOANS TO COMMERCIAL AND GOVERNMENTAL BANKS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Loans to commercial banks *	20,165	7,500
Loans to governmental banks **	600,715	-
	<u>620,880</u>	<u>7,500</u>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 7. LOANS TO COMMERCIAL AND GOVERNMENTAL BANKS (continued)

\* CBI granted loans to commercial banks amounted to IQD 20,165 million (2015: IQD 7,500 million) as part of CBI's plan to grant the commercial banks a total amount of IQD 1,000,000 million for financing small and medium projects with low interest rates and administrative margins that do not exceed 5.5% with maturities of 3 years in order to achieve economic and social development.

\*\* During 2016, CBI granted loans to specialized governmental banks amounted to IQD 600,715 million as part of CBI's plan to grant the specialized governmental banks a total amount of IQD 5,000,000 million for financing large projects with interest rates of 2% with maturities of 5-10 years in order to achieve economic and social development.

### 8. DUE FROM MINISTRY OF FINANCE

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Due from Ministry of Finance*	2,355,519	2,355,519
Government of Iraq treasury bills**	15,225,393	6,225,393
MOF treasury bills to pay amounts due to farmers***	1,000,000	-
MOF bonds to pay amounts due to farmers****	953,189	-
	<u>19,534,101</u>	<u>8,580,912</u>

\* On 21 February 2006, a restructuring agreement was signed between CBI and MOF for the settlement of the total balance of IQD 5,393,890 million due to the CBI as of 31 December 2005. The balance should be settled over 7.5 years starting from 31 March 2006, through 30 equal quarterly installments of IQD 179,796 million each. An annual interest rate of 5% will be charged on the outstanding balance.

The MOF shall finance the quarterly repayments by issuing one year Treasury bills every quarter bearing an annual interest rate of 5%, which CBI could then auction to local banks.

The MOF did not settle installments related to the year 2008 that should be settled and paid to the CBI in 2009 amounting to IQD 719,185 million. On 24 December 2009, the CBI and the MOF agreed to reschedule the remaining balance due to the CBI, amounting to IQD 3,955,519 and to start making payments to the CBI from 1 March 2011, through equal quarterly installments of IQD 100,000 million each. During the years 2011, 2012, 2013 and 2014, fifteen installments were paid amounting to IQD 1,500,000 million.

During 2015 one installment was paid from the Ministry of Finance to the Central Bank of Iraq amounting to IQD 100,000 million related to the last installment of 2014.

On 18 July 2016, a rescheduling agreement had been signed between the CBI and MOF for the remaining balance which amounted to IQD 2,355,519 million. The balance should be settled over 12 semi-annual installments of IQD 200,000 million each except for the last installment will amount to IQD 155,519 million, the first installment is due on 30 June 2017. An annual interest rate of 0.5% will be charged on the outstanding balance starting from 1 January 2017 and will be paid on semi-annually basis with each installment.

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 8. DUE FROM MINISTRY OF FINANCE (continued)

\*\* During 2015, CBI purchased Government of Iraq treasury bills through secondary market (Al-Rasheed and Al-Rafidain Banks) with 364 days maturities and interest rates between 1.99% and 7.48%.

During 2016, the CBI renewed the government of Iraq treasury bills according to the request of MOF with the same terms. Also, during 2016, CBI purchased new Government of Iraq treasury bills amounted to IQD 9,000,000 million through the secondary market (Al-Rasheed and Al-Rafidain Banks) with 364 days maturities and interest rates 7.48%.

\*\*\* During 2016, CBI purchased MOF treasury bills to pay amounts due to farmers through secondary market (Al-Rasheed and Al-Rafidain Banks) with 364 days maturities and 7.48% interest rate.

\*\*\*\* During 2016, CBI purchased three MOF bonds to pay amounts due to farmers through secondary market (Al-Rafidain Bank) with 3 years maturities and 5% interest rate.

### 9. FOREIGN CURRENCIES INVESTMENTS AT IMF

	2016		2015	
	SDR	IQD Million	SDR	IQD Million
International Monetary Fund				
Quota Subscription	<u>1,373,850,000</u>	<u>2,176,159</u>	-	-
	<u>1,373,850,000</u>	<u>2,176,159</u>	<u>-</u>	<u>-</u>

On 13 October 2015, CBI Board of Directors decided to derecognize all IMF accounts (assets and liabilities) from the records and to manage these accounts off-balance sheet on the basis that these accounts are related to Ministry of Finance.

On 26 May 2016 according to the approval of the Governor, CBI recognized again some of IMF accounts in CBI accounting records. These accounts comprise of the Quota account asset and liabilities in the form of securities account and IMF accounts number (1) and (2). The de-recognition and transfer of the IMF accounts to MOF was supported by an agreement signed between MOF and CBI.

During 2016, CBI increased its quota in IMF Quota Subscription by an amount of SDR 356,550,000 by increasing IMF securities by the same amount.

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 10. PROPERTY AND EQUIPMENT

2016	Land IQD million	Buildings IQD million	Projects under construction IQD million	Computers, Furniture & Fixtures IQD million	Vehicles IQD million	Total IQD million
Cost at 1 January	75,993	20,893	76,884	34,390	5,468	213,628
Additions	-	-	4,895	6,902	5	11,802
Cost at 31 December 2016	<u>75,993</u>	<u>20,893</u>	<u>81,779</u>	<u>41,292</u>	<u>5,473</u>	<u>225,430</u>
Accumulated Depreciation:						
At 1 January	-	1,997	-	15,933	3,756	21,686
Depreciation charge for the year	-	1,949	-	7,602	84	9,635
At 31 December 2016	<u>-</u>	<u>3,946</u>	<u>-</u>	<u>23,535</u>	<u>3,840</u>	<u>31,321</u>
Net book value	<u>75,993</u>	<u>16,947</u>	<u>81,779</u>	<u>17,757</u>	<u>1,633</u>	<u>194,109</u>
2015	Land IQD million	Buildings IQD million	Projects under construction IQD million	Computers, Furniture & Fixtures IQD million	Vehicles IQD million	Total IQD million
Cost at 1 January	75,993	2,821	82,056	31,696	5,286	197,852
Additions	-	-	12,900	2,939	182	16,021
Disposals	-	-	-	(245)	-	(245)
Transfers from Projects under construction	-	18,072	(18,072)	-	-	-
Cost at 31 December 2015	<u>75,993</u>	<u>20,893</u>	<u>76,884</u>	<u>34,390</u>	<u>5,468</u>	<u>213,628</u>
Accumulated Depreciation:						
At 1 January	-	952	-	10,637	3,653	15,242
Depreciation charge for the Year	-	1,045	-	5,541	103	6,689
Disposals	-	-	-	(245)	-	(245)
At 31 December 2015	<u>-</u>	<u>1,997</u>	<u>-</u>	<u>15,933</u>	<u>3,756</u>	<u>21,686</u>
Net book value	<u>75,993</u>	<u>18,896</u>	<u>76,884</u>	<u>18,457</u>	<u>1,712</u>	<u>191,942</u>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 11. INTANGIBLE ASSETS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Balance at 1 January	10,787	6,936
Additions	2,757	8,530
Amortization for the year	(4,938)	(4,679)
Balance at 31 December	<u>8,606</u>	<u>10,787</u>

### 12. OTHER ASSETS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Interest receivable	869,689	481,072
Loans to employees	99,274	80,723
Allowance for impairment losses of loans to employees	(1,000)	(1,000)
Interbranch balances with Basrah and Musol branches	19,655	-
Golden coins for sale	2,369	1,242
Others	252	231
	<u>990,239</u>	<u>562,268</u>

### 13. CURRENCY ISSUED

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Banknotes	<u>45,231,515</u>	<u>38,585,119</u>
	<u>45,231,515</u>	<u>38,585,119</u>



## CENTRAL BANK OF IRAQ

### NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

#### 14. TREASURY BILLS ISSUED

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Face value	65,000	1,086,090
Unamortized discount	(323)	(5,960)
	<u>64,677</u>	<u>1,080,130</u>

The discounted treasury bills are auctioned off to local banks with interest rate 2.5% (2015: interest rates range between 2.5% and 5%) in accordance with the instructions issued by CBI. Treasury bills are issued with original maturity of six months. Total treasury bills issued during the year 2016 amounted to IQD 65,000 million (2015: 4,832,000 million). The purpose of issuing these Treasury bills is to ensure that proper control over market liquidity is maintained.

#### 15. DEPOSITS OF LOCAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Current accounts *	19,890,498	24,143,286
Time deposits	2,587,500	332,000
Due to Sulaymania and Erbil branches **	1,919	7,833
Others	176,057	1,848
	<u>22,655,974</u>	<u>24,484,967</u>

\* According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at CBI equivalent to 15% of total customers' deposits in Iraqi Dinar and foreign currencies. The local banks current accounts at CBI include a compulsory reserve of IQD 3,655,403 million as of 31 December 2016 (2015: IQD 3,967,660 million) and a balance in USD amounted to USD 635,276,868 equivalent to IQD 750,897 million (2015: balance in USD 913,792,507 equivalent to IQD 1,080,102 million). Compulsory reserve represents a non-interest bearing liability.

\*\* On 13 October 2015, CBI Board of Directors and based on Prime Minister's approval decided to exclude Erbil and Sulaymania branches from its financial, administrative and technical system and to consider them as separate banks.

On 23 October 2016, the CBI's Board of Directors decided to open new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system. However, CBI did not announce the official date for opening these new branches until the date of these financial statements.

## CENTRAL BANK OF IRAQ

### NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

#### 16. DUE TO FOREIGN GOVERNMENTS AND BANKS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Due to foreign governments and financial institutions	9	9
Overdraft accounts	35,549	35,540
Others	4,061	4,250
	<u>39,619</u>	<u>39,799</u>

#### 17. DUE TO INTERNATIONAL MONETARY FUND

	<u>2016</u> <i>SDR</i>	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>SDR</i>	<u>2015</u> <i>IQD Million</i>
IMF securities	1,370,879,000	2,294,669	-	-
Currency Holdings:				
IMF No. 1 Account including Currency Valuation Adjustments	2,971,000	4,973	-	-
IMF No. 2 Account including Currency Valuation Adjustments	12,580	21	-	-
	<u>1,373,862,580</u>	<u>2,299,663</u>	<u>-</u>	<u>-</u>

On 13 October 2015 CBI Board of Directors decided to derecognize all IMF accounts (assets and liabilities) from the records and to manage these accounts off-balance sheet on the basis that these accounts are related to Ministry of Finance.

On 26 May 2016 according to the approval of the Governor, CBI recognized again some of IMF accounts in CBI accounting records. These accounts comprise of the Quota account asset and liabilities in the form of securities account and IMF accounts number (1) and (2).

The de-recognition and transfer of the IMF accounts to MOF was supported by an agreement signed between MOF and CBI.

During 2016, CBI increased its quota in IMF Quota Subscription by an amount of SDR 356,550,000 by increasing IMF securities by the same amount.

#### 18. DUE TO GOVERNMENTAL INSTITUTIONS

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Due to Ministry of Finance	3,758,697	4,390,179
Due to other governmental institutions	194,923	1,538,930
	<u>3,953,620</u>	<u>5,929,109</u>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 19. OTHER LIABILITIES

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Interest payable	13,546	12,933
Accounts payable	7,919	14,203
Inter-branch balances:		
Inter-branch balances with Basrah and Mosul branches	-	44,411
Others	78,188	48,457
	<u>99,653</u>	<u>120,004</u>

### 20. CAPITAL

According to Article 5 of the Central Bank of Iraq Law of 2004, the authorized capital of CBI shall be IQD 100,000 million and shall be fully paid by the Republic of Iraq in exchange for 100% of CBI's capital stock. CBI has the right to increase its capital in any amounts approved by the Minister of Finance. The authorized capital stock of CBI shall be held solely by the Republic of Iraq, shall not pay any dividend and shall not be transferable or subject to any encumbrances.

On 10 December 2015, CBI Board of Directors and based on the Minister of Finance approval, decided to increase the capital to be IQD 1,000,000 million and the increase was transferred from the general reserve account.

### 21. RESERVES

According to Article 5 of the Central Bank of Iraq Law of 2004, CBI shall hold a general reserve account, an unrealized profit reserve account and other reserves required by International Financial Reporting Standards.

### 22. GOLD REVALUATION RESERVES

	<u>2016</u> <i>IQD Million</i>	<u>2015</u> <i>IQD Million</i>
Gold revaluation reserve, beginning of year	(698,335)	(285,956)
Gold revaluation gain (loss) for the year	330,712	(412,379)
Gold revaluation reserve, end of year	<u>(367,623)</u>	<u>(698,335)</u>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 23. RETAINED EARNINGS (ACCUMULATED LOSSES)

According to Article 6 of the Central Bank of Iraq Law of 2004, within three months after the end of each financial year, CBI shall determine its net profits available for distribution or its net losses. If CBI incurs a net operating loss for any financial year, that loss shall first be charged to the general reserve and subsequently to Capital.

In a period of three months after the end of each financial year, the Board shall distribute the net profits available for distribution as follows:

- 80 percent of any profits available for distribution shall be transferred to the general reserve account until this reserve reaches a sum equal to 10% of the total assets of the CBI;
- Any remaining net profits available for distribution shall be transferred to emergency reserve.

On 23 December 2015, CBI's Board of Directors decided to allocate an amount of IQD 1,996,297 million to the accumulated loss balance as at 31 December 2014 from the general reserve account.

On 29 September 2016, CBI's Board of Directors decided to allocate an amount of IQD 617,229 million to the accumulated loss balance as at 31 December 2015 from the general reserve account.

### 24. INTEREST INCOME

	<i>2016</i> <i>IQD Million</i>	<i>2015</i> <i>IQD Million</i>
Held to maturity	161,037	172,162
Due from banks	82,865	43,873
Due from Ministry of Finance	681,149	214,001
Overnight deposits	4,513	3,588
Others	358	2,029
	<u>929,922</u>	<u>435,653</u>

### 25. INTEREST EXPENSE

	<i>2016</i> <i>IQD Million</i>	<i>2015</i> <i>IQD Million</i>
Local banks time deposits	21,745	2,493
Treasury bills	6,437	54,438
Others	11	7,148
	<u>28,193</u>	<u>64,079</u>

## CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

### 26. NET FEE AND COMMISSION INCOME

	<u>2016</u> <u>IQD Million</u>	<u>2015</u> <u>IQD Million</u>
Fee and commission income	447,232	933,978
Fee and commission expense	(1,505)	(362,632)
	<u>445,727</u>	<u>571,346</u>

### 27. CASH AND CASH EQUIVALENTS

	<u>2016</u> <u>IQD Million</u>	<u>2015</u> <u>IQD Million</u>
Cash and balances with central banks	7,864,502	4,511,665
Current accounts with foreign banks	13,531	13,433
Current accounts with local banks	3,543	8,788
Time deposits with foreign banks	14,118,487	16,347,264
	<u>22,000,063</u>	<u>20,881,150</u>

### 28. TAXES

According to Article 44 of the Central Bank Law of 2004, the CBI is exempted from taxes on income or profit and certain other taxes and customs as stated in the Law.

### 29. RISK MANAGEMENT

#### 29.1 Introduction

The Bank has a risk management unit that manages the Investment Directorate's operational and financial risks which the Investment Directorate is to a certain extent exposed to. A detailed risk management program was developed. This program includes a general risk management framework which involves identifying, analyzing, measuring, evaluating and monitoring risk, evaluating performance, and monitoring the compliance with the limits and standards set for the risks. The Bank also has drafted procedures to deal with financial risks represented by investment guidelines issued by the board of directors which sets limits and standards for dealing with these risks and allows the management of these risks within the limits and levels set forth in these principle guidelines, as well as monitoring cases of exposure to risk to determine if that exposure extends beyond the acceptable limits. For the purpose of assessing the strengths and weaknesses in performances, the standards set by the risk management unit for dealing with operational and financial risks faced by the Investment Directorate, are reviewed on a regular basis according to the prevailing macroeconomic conditions and the possible effects of financial and macroeconomic shocks, and corrective measures are taken to mitigate these effects.

## CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued) 29.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements are detailed below:

	<u>Gross maximum exposure</u>	
	<u>2016</u>	<u>2015</u>
	<u>IQD Million</u>	<u>IQD Million</u>
Balances with central banks	5,537,031	2,391,734
Due from banks	14,135,561	16,369,485
Held to maturity investments	27,062,097	38,613,909
Loans to commercial and governmental banks	620,880	7,500
Due from Ministry of Finance	19,534,101	8,580,912
Foreign currencies investments at International Monetary Fund	2,176,159	-
Other assets	990,239	562,268
Total	<u>70,056,068</u>	<u>66,525,808</u>
<b>Total credit risk exposure</b>	<u><u>70,056,068</u></u>	<u><u>66,525,808</u></u>

Balances with foreign banks: the CBI is exposed to credit risk related to deposits with foreign banks including correspondent banks which are selected based on their credit ratings set by the credit rating agencies S&P or Moody's for investor services. The Board of Directors therefore sets limits as per the credit ratings that the Bank has exposure on, where deposits are not made with foreign banks with a credit rating below AA-. The ratings of these banks are monitored; and in any instance of deviation from the set limits, a report is submitted to the investment committee for corrective measures to be taken.

The schedule below presents the credit ratings of the banks the CBI has credit exposure to according to Moody's and S&P credit rating agency:

Bank	<i>Credit rating</i>	
	<i>As at 31 December 2016</i>	
	<u>Moody's</u>	<u>S&amp;P</u>
Federal Reserve Bank of New York	Aaa	AA+
Banque de France	Aa2	AA
De Nederlandsche Bank N.V.	Aaa	AAA
Bank of England	Aa1	AA
Reserve Bank of Australia	Aaa	AAA
Islamic Development Bank	Aaa	AAA

Investment securities: the CBI relies on long term credit ratings from Standard and Poor's and Moody's. According to risk management policy, the qualified party issuing securities to the CBI must fall above a credit rating of AA - given by these two institutions. The credit ratings

**29. RISK MANAGEMENT (continued)****29.2 Credit risk (continued)**

are monitored on a daily basis by the risk management department to check that the Bank's investments are within the set criteria.

The credit ratings for the treasury securities that are held by the Bank for 2016 are as follows according to Moody's and S&P credit rating agency:

	<i>Credit rating</i>	
	<i>As at 31 December 2016</i>	
<b>Bank</b>	<b><i>Moody's</i></b>	<b><i>S&amp;P</i></b>
Federal Reserve Bank of New York	Aaa	AA+
Banque de France	Aa2	AA
De Nederlandsche Bank N.V.	Aaa	AAA
Bank of England	Aa1	AA
Islamic Development Bank	Aaa	AAA

Local banks: the CBI provides 3 types of banking facilities to the local banks that are experiencing liquidity shortages, and they are the following:

- Primary credit facilities
- Secondary credit facilities
- Last resort facilities

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

- Submitting real estate or securities as collateral.
- The maximum loan period is 90 days.
- In case a bank requests the last resort loan, the Ministry of Finance needs to guarantee the payment in case the bank defaults.

Concentration arises when a number of counterparties which are engaged in similar business activities, or activities in the same geographic region, or when they have similar economic features and for which have an impact on their ability to meet contractual obligations in case they are faced by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Bank's performance towards the developments affecting a particular industry or geographic location. In order to avoid concentration risk, the CBI has diversified its risk by investing in several foreign banks as follows:



# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued)

#### 29.2 Credit risk (continued)

	<i>31 December 2016 IQD million</i>	<i>31 December 2015 IQD million</i>
<b>Bank</b>		
Federal Reserve Bank of New York	17,135,841	21,543,255
Bank of England	3,359,548	4,026,580
De Nederlandsche Bank	3,465,380	5,604,514
Banque de France	6,245,161	9,549,637
Banca D'Italia	-	3
Reserve Bank of Australia	1,172,931	241,715
Bank of International Settlement	6,828,735	7,874,465
Arab Monetary Fund	7,302,707	8,485,752
Islamic Development Bank	1,182,000	-
Other banks	1,773	1,676
	<u>46,694,076</u>	<u>57,327,597</u>

#### Impaired loans and advances

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

#### Allowances for impairment

In order to reduce credit risk, CBI establishes an allowance for impairment losses on its doubtful loans and frozen deposits, especially balances with local and foreign banks which suffer from liquidity problems. CBI has fully provided for its impaired loans which amount to IQD 487,243 million in 2016 (2015: IQD 496,435 million).

#### Write-off policy

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

#### 29.3 Liquidity risk

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

The CBI takes into consideration the following criteria to avoid those risks:

- The party issuing securities is rated AA- or above.
- The extent of the financial instruments to be easily liquidated without incurring loss on the investment.

## 29. RISK MANAGEMENT (continued)

### 29.3 Liquidity risk (continued)

- The term of the deposits does not exceed six months.
- The value of reserves invested in term deposits for each bank must not exceed USD 10 billion.

There is an arrangement between the CBI and the Ministry of Finance that enables the CBI to improve its liquidity in foreign currencies through the financing of the Ministry of Finance needs of local currency in exchange of US Dollars.

### 29.4 Market risk

Market risk is the risk of fluctuation and changes in the fair value or the cash flows from financial instrument due to changes in market prices, interest rates, currency rates, and equity prices. These risks are monitored based on specific policies and procedures carried out through specialized committees and concerned business units.

Sensitivity analysis is based on estimating the possible loss as a result of changes in the interest and foreign exchange rates. The fair value is calculated based on the present value of future cash flows adjusted for changes in interest rates.

#### 29.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The CBI is exposed to interest rate risk as a result of possible mismatches of interest rate re-pricing of assets and liabilities. During 2016 the CBI kept the same interest rate of time deposit, whereas the interest rate of time deposit of local banks with CBI averages 1% for the time deposit (2015: 1%).

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued)

#### 29.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2016:

	<i>Less than month IQD Million</i>	<i>1 month to 3 months IQD Million</i>	<i>3 months to 6 months IQD Million</i>	<i>6 months to 1 year IQD Million</i>	<i>More than 1 year IQD Million</i>	<i>Non interest items IQD Million</i>	<i>Total IQD Million</i>
<b>ASSETS</b>							
Gold reserve	-	-	-	-	-	3,957,959	3,957,959
Cash and balances with central banks	1,172,795	-	597,661	-	-	6,094,046	7,864,502
Due from banks	-	14,118,488	-	-	-	17,073	14,135,561
Held to maturity investments	-	-	6,087,300	-	20,974,797	-	27,062,097
Loans to commercial and governmental banks	-	-	-	-	620,880	-	620,880
Due from Ministry of Finance	-	-	-	16,225,393	3,308,708	-	19,534,101
Foreign currencies investments at IMF	-	-	-	-	-	2,176,159	2,176,159
Property and equipment	-	-	-	-	-	194,109	194,109
Intangible assets	-	-	-	-	-	8,606	8,606
Other assets	-	-	-	-	-	990,239	990,239
<b>TOTAL ASSETS</b>	<b>1,172,795</b>	<b>14,118,488</b>	<b>6,684,961</b>	<b>16,225,393</b>	<b>24,904,385</b>	<b>13,438,191</b>	<b>76,544,213</b>
<b>LIABILITIES</b>							
Currency issued	-	-	-	-	-	45,231,515	45,231,515
Treasury bills issued	-	-	64,677	-	-	-	64,677
Deposits of local banks	2,587,500	-	-	-	-	20,068,474	22,655,974
Due to foreign governments and banks	-	-	-	-	-	39,619	39,619
Due to International Monetary Fund	-	-	-	-	-	2,299,663	2,299,663
Due to governmental institutions	-	-	-	-	-	3,953,620	3,953,620
Other liabilities	-	-	-	-	-	99,653	99,653
<b>TOTAL LIABILITIES</b>	<b>2,587,500</b>	<b>-</b>	<b>64,677</b>	<b>-</b>	<b>-</b>	<b>71,692,544</b>	<b>74,344,721</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,199,492</b>	<b>2,199,492</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,587,500</b>	<b>-</b>	<b>64,677</b>	<b>-</b>	<b>-</b>	<b>73,892,036</b>	<b>76,544,213</b>
<b>ITEM GAP</b>	<b>(1,414,705)</b>	<b>14,118,488</b>	<b>6,620,284</b>	<b>16,225,393</b>	<b>24,904,385</b>	<b>(60,453,845)</b>	<b>-</b>
<b>ACCUMULATED GAP</b>	<b>(1,414,705)</b>	<b>12,703,783</b>	<b>19,324,067</b>	<b>35,549,460</b>	<b>60,453,845</b>	<b>-</b>	<b>-</b>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued)

#### 29.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2015:

	<i>Less than month IQD Million</i>	<i>1 month to 3 months IQD Million</i>	<i>3 months to 6 months IQD Million</i>	<i>6 months to 1 year IQD Million</i>	<i>More than 1 year IQD Million</i>	<i>Non interest items IQD Million</i>	<i>Total IQD Million</i>
<b>ASSETS</b>							
Gold reserve	-	-	-	-	-	3,627,247	3,627,247
Cash and balances with central banks	1,885,562	-	594,995	-	-	2,031,108	4,511,665
Due from banks	-	8,485,752	7,861,513	-	-	22,220	16,369,485
Held to maturity investments	-	-	-	6,374,720	32,239,189	-	38,613,909
Loans to commercial banks	-	-	-	-	7,500	-	7,500
Due from Ministry of Finance	-	-	-	6,225,393	2,355,519	-	8,580,912
Foreign currencies investments at IMF	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	191,942	191,942
Intangible assets	-	-	-	-	-	10,787	10,787
Other assets	-	-	-	-	-	562,268	562,268
<b>TOTAL ASSETS</b>	<b>1,885,562</b>	<b>8,485,752</b>	<b>8,456,508</b>	<b>12,600,113</b>	<b>34,602,208</b>	<b>6,445,572</b>	<b>72,475,715</b>
<b>LIABILITIES</b>							
Currency issued	-	-	-	-	-	38,585,119	38,585,119
Treasury bills issued	-	1,080,130	-	-	-	-	1,080,130
Deposits of local banks	332,000	-	-	-	-	24,152,967	24,484,967
Due to foreign governments and banks	-	-	-	-	-	39,799	39,799
Due to International Monetary Fund	-	-	-	-	-	-	-
Due to governmental institutions	-	-	-	-	-	5,929,109	5,929,109
Other liabilities	-	-	-	-	-	120,004	120,004
<b>TOTAL LIABILITIES</b>	<b>332,000</b>	<b>1,080,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,826,998</b>	<b>70,239,128</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,236,587</b>	<b>2,236,587</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>332,000</b>	<b>1,080,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,063,585</b>	<b>72,475,715</b>
<b>ITEM GAP</b>	<b>1,553,562</b>	<b>7,405,622</b>	<b>8,456,508</b>	<b>12,600,113</b>	<b>34,602,208</b>	<b>(64,618,013)</b>	<b>-</b>
<b>ACCUMULATED GAP</b>	<b>1,553,562</b>	<b>8,959,184</b>	<b>17,415,692</b>	<b>30,015,805</b>	<b>64,618,013</b>	<b>-</b>	<b>-</b>

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 29. RISK MANAGEMENT (continued)

### 29.4 Market risk (continued)

#### 29.4.2 Currency risk

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

The risk management department and investment committee review these components and weights to measure deviations from the basic standards for currencies and take the required corrective measures to return to the basic standards. The Bank's weighted currency asset portfolio consists of the following:

	<i>Weight</i>	
	<u>2016</u>	<u>2015</u>
Iraqi Dinar	27.66	12.55
US Dollar	48.39	57.24
Euro	12.13	20.44
SDR	2.84	-
Others	8.98	9.77

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued) 29.4 Market risk (continued) 29.4.2 Currency risk (continued)

Below is the Bank's statement of financial position by currency:

31 December 2016	<i>IQD</i> <i>IQD Million</i>	<i>USD</i> <i>IQD Million</i>	<i>EUR</i> <i>IQD Million</i>	<i>SDR</i> <i>IQD Million</i>	<i>Others</i> <i>IQD Million</i>	<i>Total</i> <i>IQD Million</i>
<b>ASSETS</b>						
Gold reserve	-	3,957,959	-	-	-	3,957,959
Cash and balances with central banks	-	6,635,160	56,399	-	1,172,943	7,864,502
Due from banks	-	11,814,527	176	-	2,320,858	14,135,561
Held to maturity investments	-	14,590,246	9,112,315	-	3,359,536	27,062,097
Loans to commercial and governmental banks	620,880	-	-	-	-	620,880
Due from Ministry of Finance	19,534,101	-	-	-	-	19,534,101
Foreign currencies investments at IMF	-	-	-	2,176,159	-	2,176,159
Property and equipment	194,109	-	-	-	-	194,109
Intangible assets	8,606	-	-	-	-	8,606
Other assets	812,514	39,947	118,694	-	19,084	990,239
<b>TOTAL ASSETS</b>	<b>21,170,210</b>	<b>37,037,839</b>	<b>9,287,584</b>	<b>2,176,159</b>	<b>6,872,421</b>	<b>76,544,213</b>
<b>LIABILITIES AND EQUITY</b>						
Currency issued	45,231,515	-	-	-	-	45,231,515
Treasury bills issued	64,677	-	-	-	-	64,677
Deposits of local banks	19,621,609	3,016,698	17,667	-	-	22,655,974
Due to foreign governments and banks	32,699	1,869	-	-	5,051	39,619
Due to International Monetary Fund	2,299,663	-	-	-	-	2,299,663
Due to governmental institutions	434,804	3,518,815	1	-	-	3,953,620
Other liabilities	99,264	389	-	-	-	99,653
Equity	2,199,492	-	-	-	-	2,199,492
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>69,983,723</b>	<b>6,537,771</b>	<b>17,668</b>	<b>-</b>	<b>5,051</b>	<b>76,544,213</b>
<b>NET</b>	<b>(48,813,513)</b>	<b>30,500,068</b>	<b>9,269,916</b>	<b>2,176,159</b>	<b>6,867,370</b>	<b>-</b>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued)

#### 29.4 Market risk (continued)

##### 29.4.2 Currency risk (continued)

31 December 2015	<i>IQD</i> <i>IQD Million</i>	<i>USD</i> <i>IQD Million</i>	<i>EUR</i> <i>IQD Million</i>	<i>SDR</i> <i>IQD Million</i>	<i>Others</i> <i>IQD Million</i>	<i>Total</i> <i>IQD Million</i>
<b>ASSETS</b>						
Gold reserve	-	3,627,247	-	-	-	3,627,247
Cash and balances with central banks	-	4,229,165	40,770	-	241,730	4,511,665
Due from banks	-	13,575,685	2	-	2,793,798	16,369,485
Held to maturity investments	-	20,028,808	14,558,536	-	4,026,565	38,613,909
Loans to commercial banks	7,500	-	-	-	-	7,500
Due from Ministry of Finance	8,580,912	-	-	-	-	8,580,912
Foreign currencies investments at IMF	-	-	-	-	-	-
Property and equipment	191,942	-	-	-	-	191,942
Intangible assets	10,787	-	-	-	-	10,787
Other assets	301,321	23,805	213,710	-	23,432	562,268
<b>TOTAL ASSETS</b>	<b>9,092,462</b>	<b>41,484,710</b>	<b>14,813,018</b>	<b>-</b>	<b>7,085,525</b>	<b>72,475,715</b>
<b>LIABILITIES AND EQUITY</b>						
Currency issued	38,585,119	-	-	-	-	38,585,119
Treasury bills issued	1,080,130	-	-	-	-	1,080,130
Deposits of local banks	20,231,797	4,252,912	258	-	-	24,484,967
Due to foreign governments and banks	4,260	6,955	-	-	28,584	39,799
Due to International Monetary Fund	-	-	-	-	-	-
Due to governmental institutions	1,522,751	4,406,358	-	-	-	5,929,109
Other liabilities	67,438	52,566	-	-	-	120,004
Equity	2,236,587	-	-	-	-	2,236,587
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>63,728,082</b>	<b>8,718,791</b>	<b>258</b>	<b>-</b>	<b>28,584</b>	<b>72,475,715</b>
<b>NET</b>	<b>(54,635,620)</b>	<b>32,765,919</b>	<b>14,812,760</b>	<b>-</b>	<b>7,056,941</b>	<b>-</b>

#### 29.4.3 Fair value of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 29. RISK MANAGEMENT (continued)

### 29.4 Market risk (continued)

#### 29.4.3 Fair value of financial instruments (continued)

31 December 2016	Level 1 IQD Million	Level 2 IQD Million	Level 3 IQD Million	Total fair value IQD Million	Total carrying amount IQD Million
<b>ASSETS</b>					
Cash and balances with central banks	-	7,864,502	-	7,864,502	7,864,502
Due from banks Held to maturity	-	14,135,561	-	14,135,561	14,135,561
Investments	26,017,411	-	-	26,017,411	27,062,097
Loans to commercial and governmental banks	-	620,880	-	620,880	620,880
Due from Ministry of Finance	-	19,534,101	-	19,534,101	19,534,101
<b>TOTAL ASSETS</b>	<b>26,017,411</b>	<b>42,155,044</b>	<b>-</b>	<b>68,172,455</b>	<b>69,217,141</b>
<b>LIABILITIES</b>					
Currency issued	-	45,231,515	-	45,231,515	45,231,515
Treasury bills issued	-	64,677	-	64,677	64,677
Deposits of local banks	-	22,655,974	-	22,655,974	22,655,974
Due to foreign governments and banks	-	39,619	-	39,619	39,619
Due to governmental institutions	-	3,953,620	-	3,953,620	3,953,620
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>71,945,405</b>	<b>-</b>	<b>71,945,405</b>	<b>71,945,405</b>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 29. RISK MANAGEMENT (continued)

#### 29.4 Market risk (continued)

##### 29.4.3 Fair value of financial instruments (Continued)

31 December 2015	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>
<b>ASSETS</b>					
Cash and balances with central banks	-	4,511,665	-	4,511,665	4,511,665
Due from banks	-	16,369,485	-	16,369,485	16,369,485
Held to maturity investments	38,577,893	-	-	38,577,893	38,613,909
Loans to commercial banks	-	7,500	-	7,500	7,500
Due from Ministry of Finance	-	8,580,912	-	8,580,912	8,580,912
<b>TOTAL ASSETS</b>	<b>38,577,893</b>	<b>29,469,562</b>	<b>-</b>	<b>68,047,455</b>	<b>68,083,471</b>
<b>LIABILITIES</b>					
Currency issued	-	38,585,119	-	38,585,119	38,585,119
Treasury bills issued	-	1,080,130	-	1,080,130	1,080,130
Deposits of local banks	-	24,484,967	-	24,484,967	24,484,967
Due to foreign governments and banks	-	39,799	-	39,799	39,799
Due to governmental institutions	-	5,929,109	-	5,929,109	5,929,109
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>70,119,124</b>	<b>-</b>	<b>70,119,124</b>	<b>70,119,124</b>

### 30. ASSETS, LIABILITIES AND REVENUES GEOGRAPHIC DISTRIBUTION

The CBI operates in one geographic market; Iraq. However, the CBI has assets and liabilities in foreign countries. Following is a summary of the CBI's total assets and total liabilities in Iraq and in foreign countries and the total revenues generated in Iraq and in foreign countries:

	<i>Iraq 2016 IQD Million</i>	<i>Foreign Countries 2016 IQD Million</i>	<i>Total 2016 IQD Million</i>
Revenues	1,142,022	248,416	1,390,438
Total Assets	23,708,515	52,835,698	76,544,213
Total Liabilities	72,010,442	2,334,279	74,344,721

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 30. ASSETS, LIABILITIES AND REVENUES GEOGRAPHIC DISTRIBUTION (continued)

	<i>Iraq 2015 IQD Million</i>	<i>Foreign Countries 2015 IQD Million</i>	<i>Total 2015 IQD Million</i>
Revenues	1,166,385	219,784	1,386,169
Total Assets	11,388,900	61,086,815	72,475,715
Total Liabilities	70,201,770	37,358	70,239,128

## 31. RELATED PARTY TRANSACTIONS

The CBI is a governmental entity and enters into transactions with governmental banks, ministries and other governmental institutions in the ordinary course of business at commercial interest and commission rates. Transactions with related parties included in the statement of financial position and income statement are as follows:

	<i>2016 IQD Million</i>	<i>2015 IQD Million</i>
<b>ASSETS</b>		
Loans to governmental banks	600,715	-
Due from Ministry of Finance	2,355,519	2,355,519
Government of Iraq treasury bills	15,225,393	6,225,393
Treasury bills to pay amounts due to farmers	1,000,000	-
Bonds to pay amounts due to farmers	953,189	-
Current accounts with local banks	3,543	8,788
Due from a governmental bank	5,201	5,436
Allowance for impairment losses of due from governmental banks	(5,201)	(5,436)
<b>LIABILITIES</b>		
Deposits of governmental banks	14,593,683	14,917,119
Due to Ministry of Finance	3,758,697	4,390,179
Due to other governmental institutions	194,923	1,538,930
<b>INCOME STATEMENT</b>		
Interest income from Ministry of Finance	681,148	214,001
Interest expenses on governmental banks deposits	6,204	3,199
Fee and commission income from Ministry of Finance	-	4,664
Fee and commission expense to Ministry of Finance	-	360,754

## 32. ACCOUNTS MANAGED ON BEHALF OF THE MOF

The CBI maintains the cash payments and receipts records of the Development Fund for Iraq (DFI), which was established during May 2003 and recognized by the United Nations Security Council Resolution (UNSCR) 1483 (2003). The DFI's bank accounts are managed by the CBI on behalf of the Ministry of Finance (MOF).

On 27 May 2014, the immunity over the Development Fund for Iraq account was cleared and the Bank decided to transfer all this balance to CBI's account at the Federal Reserve Bank of New York. Also a decision was taken to open a second account at the Federal Reserve Bank of New York named Iraq 2, in which all the balances from the oil shipments, amounts recovered and frozen balances shall be deposited in this account, and at the same time an account was opened against the current account of the Ministry of Finance in which all amounts are deposited in it.

## 33. COMMITMENTS AND CONTINGENT LIABILITIES

There are lawsuits in different countries against the CBI for the settlement of past due debt of the CBI, Iraqi ministries and other governmental institutions for the amount of IQD 1,313,671 million as of 31 December 2016 (2015: IQD 1,326,684 million).

Many of the lawsuits may relate to debts reconciled or settled under the Government of Iraq's External Debt Reconciliation Project. However, to the financial statements issuance date, there are no sufficient information regarding the balances that have been reconciled, settled or exempted as of 31 December 2016, and the balances that will be reconciled and settled subsequent to year end.

Due to the unavailability of sufficient information, the final outcome of these lawsuits and its effect on the CBI's financial statements, if any, is uncertain and could not be quantified and provided for as of 31 December 2016.

The CBI management believes that these commitments, if any, would be the liability of Ministry of Finance and not the CBI, however, the Ministry of Finance did not confirm its commitment to pay the outcomes of these lawsuits up to the date of these financial statements.

## 34. OFF-BALANCE SHEET

- The Central Bank of Iraq, in its role as the banker of the Ministry of Finance and the fiscal agent of the Government of Iraq, as stipulated in the Central Bank Law of Iraq (Article 4, section 1.d), holds promissory notes in its off balance sheet amounting to IQD 3,015,137 million (2015: IQD 1,521,200 million), which represent International Monetary Fund financing to Iraq for budget support and therefore for the use of the Ministry of Finance.
- On 13 October 2015, CBI Board of Directors decided to derecognize all IMF accounts (assets and liabilities) from the records and to manage these accounts off-balance sheet on the basis that these accounts are related to Ministry of Finance.
- On 26 May 2016, the CBI recognized again some of the IMF accounts in CBI accounting records. These accounts comprise of Quota account asset and liabilities in the form of securities account and IMF accounts number (1) and (2).
- The de-recognition and transfer of the IMF accounts to MOF was supported by an agreement signed between MOF and CBI.
- As of 31 December 2016, the IMF accounts related to MOF held off CBI's records comprise of Reserve tranche positions amounted to SDR 289,950,000 (2015: SDR 171,100,000), SDR Holdings amounted to SDR 13,511,684 (2015: SDR 67,945,339), IMF loans to MOF amounted to SDR 1,801,300,000 (2015: SDR 928,437,500) and SDR allocations amounted to SDR 1,134,495,508 (2015: SDR 1,134,495,508).