

CENTRAL BANK OF IRAQ

FINANCIAL STATEMENTS

DECEMBER 31, 2006

**INDEPENDENT AUDITORS' REPORT
TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ
BAGHDAD - IRAQ**

We were engaged to audit the accompanying financial statements of Central Bank of Iraq (CBI), which comprise the balance sheet at December 31, 2006, the income statement, statement of changes in deficit and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Qualifications

1. As further explained in note (1) to the financial statements, currently the CBI does not control the financial and administrative affairs of its Erbil and Sulaimaniyah branches, as these branches are technically reporting to the CBI and for all other matters they are reporting to Kurdistan Regional Government (KRG) and their operations are financed by KRG. In addition, the CBI did not receive the financial statements of its branches in Erbil and Sulaimaniyah and does not have access to their accounting records. Therefore, the accompanying financial statements do not include the financial statements of Sulaimaniyah and Erbil branches. The CBI does not have any information to quantify the significance of the branches financial statements and its effect on the CBI's financial statements as of December 31, 2006. In addition, the CBI's liabilities as of December 31, 2006 include current accounts due to Sulaimaniyah and Erbil branches in the amount of ID 485,714 million that have neither been reconciled nor confirmed by the branches.
2. As further explained in note (5) to the financial statements, the CBI's financial statements as of December 31, 2006 include old outstanding balances at foreign banks in the amount of ID 2,017,436 million, of which an impairment loss provision of ID 2,000,091 million has been made during 2005. In addition, during 2005 and 2006 the CBI wrote off balances at foreign banks in the total amount of ID 1,071,904 million. The provided for and the written off accounts include balances in the amount of ID 440,437 million that were 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), while there is no confirmation from the Ministry of Finance to identify the amounts that could be refunded from the DFI to the CBI.

3. As further explained in note (14) to the financial statements, the CBI liabilities as of December 31, 2006 include certain past due foreign governments and banks' loans, and current and time deposit accounts in the amount of ID 12,498,102 million. The CBI does not have sufficient information to support the existence and completeness of these accounts. In addition, the CBI did not quantify and provide for the accrued interest that could be due on these accounts. Many of the past due foreign banks loans and deposit accounts have been reconciled and settled under the Iraqi External Debt Reconciliation Project. To the date of this report, the CBI is still in the process of negotiation with the Ministry of Finance (MOF) to transfer the liabilities balances from the CBI records to the MOF. Also, the balances due to foreign governments and banks are carried at cost, as these balances can not be reliably measured at amortized cost using the effective interest method as required by IAS 39. We did not receive confirmations for these accounts and no sufficient information is available to extend our audit procedures to ensure the existence, completeness and valuation of the accounts balances and the related accrued interest.
4. As explained in note (35) to the financial statements, the CBI has outstanding off-balance sheet credit related commitment balances in the amount of ID 3,933,699 million, of which the CBI is the guarantor of the debt, letters of credit and letters of guarantees that are related to the CBI and other Governmental institutions. Due to inaccuracy of the off-balance sheet records and the unavailability of sufficient information, we could not extend our audit procedures to ensure the completeness and valuation of these balances. In addition, the effect of these off-balance sheet accounts on the CBI's financial statements as of December 31, 2006, if any, are uncertain and could not be quantified at this stage.
5. As further discussed in note (35) to the financial statements, there are lawsuits in different countries against the CBI for the settlement of past due debts of the CBI and other Iraqi Government institutions in the amount of ID 4,409,711 million. The final outcome of these lawsuits and effects on the CBI's financial statements as of December 31, 2006, if any, is uncertain and have not been quantified and provided for. We did not receive confirmations from the 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 effect on the financial statements as of December 31, 2006, if any.
6. The CBI did not prepare reconciliations of certain local banks' current accounts as of December 31, 2006. Due to weaknesses in the systems internal control, we could not extend our audit procedures to ensure the completeness and accuracy of certain local banks current account balances in the amount of ID 2,566,940 million.
7. As further discussed in note (17) to the financial statements, the CBI's liabilities as of December 31, 2006 include many un-reconciled suspense accounts in the amount of ID 603,767 million. In addition, as disclosed in note 10, there are suspense accounts with debit balances in the amount of ID 78,798 million. All suspense accounts with debit balances have been provided for in the financial statements. Due to weaknesses in the systems internal control, we could not extend our audit procedures to determine the effect of the suspense balances on the CBI's financial statements as of December 31, 2006.

8. As further discussed in notes (11) to the financial statements, during 2004, the CBI incurred a loss of ID 1,026,327 million as a result of the withdrawal of the old Iraqi Dinar currency from circulation, and the issuance of the new Iraqi Dinar currency. To the date of this report, the reconciliation process of the currency replacement has not been finalized with certain local banks, while the loss was reconciled to be ID 994,414 million as of December 31, 2006. The result of such reconciliations and its effect on the CBI's financial statements has not been determined. Due to weaknesses in the internal control systems, we could not extend our audit procedures to ensure the accuracy of the currency replacement losses and to ensure the completeness of the issued currency balance as of December 31, 2006.
9. The CBI has significant un-reconciled difference of interest income on the Treasury bills balance between the Federal Reserve Bank of New York confirmation and the CBI records. Due to weaknesses in the internal control systems, the Bank could not reconcile the difference. We could not extend our audit procedures to ensure the completeness and accuracy of the interest income on Treasury bills balance as of December 31, 2006.
10. As further discussed in notes (24) and (34) to the financial statements, as part of its accounting records, the CBI maintains certain accounts related to the Development Fund for Iraq (DFI) and the Memorandum of Understanding (MOU) which are considered as fiduciary accounts managed on behalf of the Ministry of Finance (MOF). As of December 31, 2006, the accounts balances that are related to the DFI and the MOU have been excluded from the CBI's financial statements, which resulted in un-reconciled differences. The DFI assets balances exceeded the related liability balances in the CBI records in an amount of ID 11,823 million, and the MOU assets balances less than the related liability balances in the CBI records in the amount of ID 9,810 million. A provision has been made for both differences in the 2005 financial statements, however, the provision for both differences had been reduced in the 2006 financial statements, due to decrease in the un-reconciled difference between the DFI and the MOU assets balances and related liability balances in the CBI records for the year then ended. However, due to weaknesses in the internal control systems, the effect of the reconciliations of these differences on the CBI financial statements as of December 31, 2006 has not been determined yet.
11. The CBI did not receive statement of accounts of the balances due to the Ministry of Finance and certain governmental parties disclosed in note 16 to the financial statements amounting to ID 3,941,818 million and ID 738,842 million, respectively. Therefore, no reconciliations have been made as of December 31, 2006. We did not receive confirmations of these balances as of December 31, 2006, and due to weaknesses in the internal control systems, we could not extend our audit procedures to ensure the completeness, valuation and accuracy of these balances as of December 31, 2006.
12. The CBI has an accumulated losses balance as of December 31, 2006 in the amount of ID 13,350,845 million (2005: 13,493,259 million). In addition, the CBI's total liabilities as of December 31, 2006 exceed its total assets by ID 13,189,186. As further discussed in note (20) to the financial statements, to the date of this report, the Ministry of Finance did not make any capital contribution to cover the CBI's accumulated losses as required by the Central Bank of Iraq Law of 2004.
13. The statement of cash flows for the year ended December 31, 2005 has not been prepared due to the 2005 financial statements was represent the first issued financial statements in accordance with IFRS. It was not practical to prepare an opening balance sheet as of January 1, 2004 as required by IFRS 1 and to restate the financial statements as of December 31, 2004 to be in accordance with IFRS.

14. Due to the security situation in Iraq, we were not able to visit Basrah and Mousel branches to observe the physical count of the cash on hand in foreign currencies of ID 57,742 million and the Iraqi Dinar currency in on the vault of Basrah and Mosul Branches of ID 225,588 million as of December 31, 2006. We could not extend our audit procedures to ensure the existence and accuracy of these balances at Basrah and Mosul Branches.

Disclaimer of Opinion

Because of the significance of the matters discussed in the preceding paragraphs, we do not express an opinion on the financial statements.

Ernst + Young

Baghdad - Iraq
9 October, 2007

Central Bank of Iraq

BALANCE SHEET

As of December 31, 2006

	<i>Notes</i>	<i>2006 ID Million</i>	<i>2005 ID Million</i>
ASSETS			
Gold reserve	3	159,073	142,902
Cash and balances with central banks	4	4,858,618	5,373,898
Due from banks	5	360,296	723,738
Treasury bills	6	20,033,353	10,896,779
Due from Ministry of Finance	7	5,407,472	5,393,890
Foreign currencies investments at International Monetary Fund (IMF)	8	2,950,235	3,124,262
Property and equipment	9	22,014	20,974
Other assets	10	8,670	7,957
TOTAL ASSETS		33,799,731	25,684,400
LIABILITIES AND DEFICIT			
LIABILITIES			
Currency issued	11	11,916,555	10,256,511
Treasury bills issued	12	1,632,300	-
Deposits of local banks	13	11,148,851	6,813,378
Due to foreign governments and banks	14	12,498,102	13,995,714
Due to International Monetary Fund	15	2,756,529	2,918,825
Due to governmental institutions	16	6,304,768	4,227,127
Other liabilities	17	731,812	820,617
		46,988,917	39,032,172
DEFICIT			
Capital	18	500	500
General reserve	19	2,100	2,100
Gold revaluation reserve	19	159,059	142,887
Accumulated losses	20	(13,350,845)	(13,493,259)
		(13,189,186)	(13,347,772)
TOTAL LIABILITIES AND DEFICIT		33,799,731	25,684,400

Dr. Sinan Shabibi
Governor of the Central Bank of Iraq

The attached notes from 1 to 35 form part of these financial statements.

Central Bank of Iraq

INCOME STATEMENT

Year ended December 31, 2006

	<i>Notes</i>	2006 <i>ID Million</i>	2005 <i>ID Million</i>
REVENUES			
Interest income	21	1,091,676	632,040
Interest expense	22	(462,307)	(189,359)
Net interest income		629,369	442,681
Net fee and commission income	23	157,976	22,015
Gold revaluation gain	19	16,172	22,053
Other income		63,234	37,509
		866,751	524,258
EXPENSES			
Staff expenses		12,255	10,113
Depreciation		397	156
Foreign currency translation loss		677,255	274,574
General and administrative expenses		103,579	38,927
Written off deposits at foreign banks	5	56,114	1,015,790
Provision for impairment of deposits at banks (recovery of provisions) Other provisions	24	(141,435)	2,278,234 535,864
		708,165	4,153,658
NET INCOME (LOSS) FOR THE YEAR		158,586	(3,629,400)

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Central Bank of Iraq

STATEMENT OF CHANGES IN DEFICIT

Year ended December 31, 2006

	<i>Notes</i>	<i>Capital ID Million</i>	<i>General reserve ID Million</i>	<i>Gold revaluation reserve ID Million</i>	<i>Accumulated losses ID Million</i>	<i>Total ID Million</i>
Restated balance at January 1, 2005		500	2,100	120,834	(9,841,806)	(9,718,372)
Net loss for the year		-	-	-	(3,629,400)	(3,629,400)
Gold revaluation reserve for the year	19	-	-	22,053	(22,053)	-
Balance at December 31, 2005		500	2,100	142,887	(13,493,259)	(13,347,772)
Net income for the year		-	-	-	158,586	158,586
Gold revaluation reserve for the year	19	-	-	16,172	(16,172)	-
Balance at December 31, 2006		500	2,100	159,059	(13,350,845)	(13,189,186)

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Central Bank of Iraq

CASH FLOW STATEMENT

Year ended December 31, 2006

	2006
	<i>Notes</i> ID Million
OPERATING ACTIVITIES	
Net Income	158,586
Adjustments for:	
Depreciation	397
Revaluation of Gold Reserve	(16,171)
Provision for impairment losses of due from local banks	1,569
Provision for impairment losses of deposits with foreign banks(Recovery)	(278,143)
Written off deposits at foreign banks	56,114
Provision for impairment (Recovery)	(71,853)
	<hr/>
Operating Profit before changes in operating assets and liabilities	(149,501)
Changes in assets and liabilities	
Due from Banks	583,902
Due to foreign governments and banks	(1,497,610)
Due from Ministry of Finance	(13,582)
Other assets	71,139
Other liabilities	(88,807)
Deposits of local banks	4,335,473
Currency issued	1,660,044
Due to International Monetary Fund	(162,296)
Due to Governmental institutions	2,077,641
	<hr/>
Net cash from operating activities	6,816,403
INVESTING ACTIVITIES	
Purchase of held to maturity investments	(9,136,574)
Foreign currencies investments at IMF	174,027
Purchase of property and equipment	(1,436)
	<hr/>
Net cash used in investing activities	(8,963,983)
FINANCING ACTIVITIES	
Treasury bills issued	1,632,300
	<hr/>
Net cash flow from financing activities	1,632,300
Net decrease in cash and cash equivalents	(515,280)
Cash and cash equivalent beginning of the year	5,373,898
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	4 4,858,618

Dr. Sinan Shabibi
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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

1 ACTIVITIES

The financial statements were authorised for issue in accordance with Board of Directors approval on 9 October, 2007

The Central Bank of Iraq (CBI) 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, Sulaimaniyah and Erbil. However, currently the CBI does not control the financial and administrative affairs of Erbil and Sulaimaniyah branches, as these branches are technically reporting to the CBI and for all other issues they are reporting to Kurdistan Regional Government (KRG) and they are financed by KRG.

As a result, the CBI does not have access to the accounting records of its Erbil and Sulaimaniyah branches. Therefore, the accompanying financial statements do not include the financial statements of Sulaimaniyah and Erbil branches. The CBI does not have any information to quantify the significance of the branches financial statements and its effect on the CBI's financial statements as of December 31, 2006 and 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of available for sale investments.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) except for the following major matters:

- The financial statements of Sulaimaniyah and Erbil branches have not been included in the CBI financial statements.
- The financial statements do not include certain disclosures relating to liquidity risk, foreign currency risk, interest rate risk and other risks that should be disclosed in the financial statements as required by International Accounting Standard (IAS) 32.
- The balances due to foreign governments and banks are carried at cost, as these balances can not be reliably measured at amortized cost using the effective interest method as required by IAS 39.

Changes in accounting policies

The accounting policies are consistent with those used in the previous year.

New and amended standards and interpretations issued but not yet effective

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the CBI's financial position and performance and information about exposure to risks arising from financial instruments.

Gold

Gold is stated on the basis of the closing price in London gold market as of December 31, 2006. The CBI maintains the gold as part of its foreign reserve management and does not have a present intent to dispose it.

The gains or losses on the revaluation of gold at market price are taken to the income statement. The cumulative gain revaluation reserve is disclosed in a separate component in equity.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale

All investments are initially recognized at cost, being the fair value of the consideration given including directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Available for sale

After initial recognition, investments which are classified as “available for sale” are normally re-measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity, is included in the statement of income.

Held to maturity investments

Investments classified as held to maturity have fixed or determinable payments and fixed maturity and are intended to be held to maturity. They are carried at amortized cost using the effective interest method, less provision for impairment in value.

De-recognition of financial assets and liabilities

A financial asset (in whole or in part) is derecognized either when the CBI has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and no longer has control over the asset or a proportion of the asset.

A financial liability is removed from the CBI balance sheet when, and only when, it is extinguished; when the obligation specified in the contract is discharged or cancelled or expires.

Due from banks

These are stated at cost less any amounts written off and provision for impairment.

Due from Ministry of Finance and IMF

These are stated at amortized cost less any amounts written off and provision for impairment.

Property and equipment

All items of property and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment, other than freehold land which is deemed to have an indefinite life.

The estimated useful lives of the property and equipment for the calculation of depreciation are as follows:

Buildings	20 years
Furniture and equipment	3 to 5 years
Motor vehicles	5 years

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unissued 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 income statement when incurred.

Local banks reserves and deposits

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

Fair values

The estimated fair value of the currency issued is the face value of the banknotes and coins issued.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

Due to foreign governments and banks

All due to foreign governments and banks balances are carried at cost, less amounts repaid, as these balances could not be reliably measured at amortized cost as of December 31, 2006.

Treasury Bills Issued

All treasury bills issued are initially recognized at fair value of the liability on the date of issue including directly attributable transaction costs.

After initial measurement, treasury bills issued are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Provisions

Provisions are recognized when the CBI has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably estimated.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the CBI in the balance sheet.

Offsetting

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

Revenue recognition

Interest income as well as fees which are considered an integral part of the effective yield of a financial asset, are recognized using the effective interest method. Commission income and other fees receivable are recognized as the services are provided.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortized cost, impairment is based on estimated cash flows which are discounted at the original effective interest rate.
- (b) for assets carried at fair value, impairment is the difference between cost or previously written down amount and fair value.
- (c) for assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Trade and settlement date accounting

Purchases and sales of financial assets are recognized on the trade date, i.e. the date that the CBI commits to purchase or sell the asset.

Judgments

In the process of applying the CBI's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect in the amounts recognized in the financial statements:

The CBI treats the deposits at banks as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

Impairment losses on deposits at foreign banks

The CBI reviews its problem deposits at foreign banks on an annual basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Due to foreign governments and banks and off balance sheet commitments

The CBI liabilities as of December 31, 2006 include past due foreign banks loans, current and time deposits accounts and off balance sheet commitments. Many of the past due foreign banks loans, current and time deposits accounts have been reconciled and being settled by the Government of Iraq under the Iraqi External Debt Reconciliation Project. The outcome of the final settlement of these liabilities and off balance sheet commitments is uncertain and its effect on the financial statements as of December 31, 2006 can not be reliably measured.

Central Bank of Iraq

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

3 GOLD RESERVE

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Gold reserve in CBI vault	115,733	103,967
Gold reserve at Bank for International Settlements	43,124	38,741
Gold coins at CBI vault	216	194
	<u>159,073</u>	<u>142,902</u>

4 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Cash on hand	3,906,310	3,947,845
Current account with Federal Reserve Bank of New York	269	465
Overnight deposits with Federal Reserve Bank of New York	952,039	1,425,588
	<u>4,858,618</u>	<u>5,373,898</u>

5 DUE FROM BANKS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Due from local banks	20,566	19,048
Current accounts with foreign banks	51,925	296,603
Time deposits with foreign banks	290,226	396,922
Frozen and old outstanding deposits with foreign banks	2,017,436	2,307,596
	<u>2,380,153</u>	<u>3,020,169</u>
Provision for impairment losses of due from local banks	(19,766)	(18,197)
Provision for impairment losses of deposits with foreign banks	(2,000,091)	(2,278,234)
	<u>360,296</u>	<u>723,738</u>

The United Nations Security Council (UNSC) decided in its Resolution 1483 (2003), that all member states in which there are funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of May 22, 2003 shall freeze those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall cause their transfer to the Development Fund for Iraq (DFI).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

5 DUE FROM BANKS (continued)

During 2005, a provision for impairment losses of ID 2,278,234 million has been recorded against the frozen and old outstanding accounts with foreign banks as of December 31, 2005. During 2006, this provision was reduced to ID 2,000,091 million as of December 31, 2006. In addition, during 2006 the CBI wrote off balances at foreign banks in the amount of ID 56,114 million (2005: ID 1,015,790 million) which includes balances in the amount of ID 43,730 million that were transferred from the foreign banks to the DFI as required by the UNSC Resolution 1483.

On November 22, 2005, the Iraqi Council of Ministers requested the Ministry of Finance (MOF) to make the necessary arrangements to refund all CBI balances at foreign banks that have been transferred to the DFI as required by UNSCR 1483 (2003). To the financial statements issuance date, the MOF has not confirmed the amounts of ID 440,437 million (equivalent US Dollar 332 million) that may be refunded from the DFI to the CBI.

Due to the absence of the details, the CBI did not prepare reconciliations of certain frozen and old outstanding deposits at foreign banks as of December 31, 2006.

The current account with foreign bank as of December 31, 2006 includes un-reconciled balance of ID 267,286 million which represent the difference between the CBI's current account balance per CBI's records and the confirmation received from bank.

6 TREASURY BILLS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Face value	20,269,320	11,000,550
Unamortized discount	(235,967)	(103,771)
	<u>20,033,353</u>	<u>10,896,779</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the Federal Reserve Bank of New York (FRBNY). The Treasury bills have original maturities of 13 days to 182 days. The Treasury bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back at maturity or when sold prior to maturity. The CBI intends to hold all Treasury bills until maturity dates.

Interest received on matured Treasury bills is disclosed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

7 DUE FROM MINISTRY OF FINANCE

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Due from Ministry of Finance	5,393,890	5,055,508
Accrued interest	13,582	338,382
	<u>5,407,472</u>	<u>5,393,890</u>

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

The MOF will 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. During the year 2006, the CBI issued Treasury bills in the total amount of ID 720,000 millions.

On April 1, 2007 the MOF has paid ID 179,796 million for the first due installment of the amount due to the CBI.

8 FOREIGN CURRENCIES INVESTMENTS AT IMF

	<i>2006</i>		<i>2005</i>	
	<i>SDR</i>	<i>ID Million</i>	<i>SDR</i>	<i>ID Million</i>
International Monetary Fund (IMF)				
Quota Subscription	1,188,400,000	2,368,873	1,188,400,000	2,505,354
Special Drawing Rights (SDR)				
Holdings with IMF	291,653,681	581,362	293,575,190	618,908
	<u>1,480,053,681</u>	<u>2,950,235</u>	<u>1,481,975,190</u>	<u>3,124,262</u>

The foreign currency investments at IMF are considered as available for sale investments.

NOTES TO THE FINANCIAL STATEMENTS

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9 PROPERTY AND EQUIPMENT

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Land	20,494	20,108
Buildings	458	403
Furniture and equipment	3,334	2,709
Motor vehicles	613	244
	<hr/>	<hr/>
Premises and equipment cost	24,899	23,464
Accumulated depreciation	(2,997)	(2,601)
Project in progress	112	111
	<hr/>	<hr/>
Net book value	22,014	20,974
	<hr/> <hr/>	<hr/> <hr/>

10 OTHER ASSETS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Interest receivables	110,358	115,961
Suspense accounts	78,798	145,651
Loans to employees	4,465	2,950
Others	269	468
	<hr/>	<hr/>
	193,890	265,030
Provision for impairment	(185,220)	(257,073)
	<hr/>	<hr/>
	8,670	7,957
	<hr/> <hr/>	<hr/> <hr/>

The suspense accounts balances comprise many debit balances that have not been reconciled as of December 31, 2006. Therefore, the effects of the reconciliation of these balances on the financial statements as of December 31, 2006 have not been determined. However, the CBI recorded a provision for impairment for the total amount of the suspense accounts balances.

During 2006, the CBI recorded a provision for the impairment of the following other assets:

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Interest receivable	106,423	111,434
Suspense accounts	78,797	145,639
	<hr/>	<hr/>
	185,220	257,073
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

11 CURRENCY ISSUED

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Coins	5,456	5,015
Banknotes	11,911,099	10,251,496
	<u>11,916,555</u>	<u>10,256,511</u>

During 2004, the CBI incurred a loss of ID 1,026,327 million as a result of the withdrawal of the old Iraqi Dinar currency from circulation and the issuance of the new Iraqi Dinar currency. To the financial statements date, the reconciliation process of the currency replacement has not been finalized with certain local banks, while the loss was reconciled to be ID 994,414 million as of December 31, 2006. The result of such reconciliations and its effect on the CBI's financial statements has not been determined.

12 TREASURY BILLS ISSUED

	<i>2006</i> <i>ID Million</i>
Face value	1,720,000
Unamortized discount	(87,700)
	<u>1,632,300</u>

In compliance with the rescheduling agreement signed between the CBI and the MOF referred to in note 7; during 2006 the CBI issued one year discounted Treasury bills in the amount of ID 720,000 millions. In addition, the CBI issued ID 1 trillion six months discounted Treasury bills, where the purpose of issuing these Treasury bills is to ensure proper control over market liquidity.

The discounted Treasury bills are auctioned off to local banks with original maturities of six months and interest rate between 7.30% - 15% in accordance with the instructions issued of CBI, where discount rate is designated as the highest discount rate given by the awarded offers.

13 DEPOSITS OF LOCAL BANKS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Current accounts	4,671,415	3,081,816
Overnight deposits	1,962,303	1,914,422
Time deposits	4,492,927	1,734,200
Others	22,206	82,940
	<u>11,148,851</u>	<u>6,813,378</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

13 DEPOSITS OF LOCAL BANKS (continued)

According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at the CBI equivalent to 20% of total customers' deposits in Iraqi Dinar and foreign currencies. The local banks current accounts at the CBI include a compulsory reserve of ID 2,024,056 million as of December 31, 2006 (2005: ID 2,931,105 million). No interest is due on the compulsory reserve balances.

The local banks reserves and deposits balance as of December 31, 2006 includes balances in US Dollars in the amount of US Dollar 1,386,921,161 (equivalent to ID 1,837,671 million) (2005: US Dollar 1,202,851,839 equivalent to ID 1,774,206 million).

14 DUE TO FOREIGN GOVERNMENTS AND BANKS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Due to foreign Governments and financial institutions	10,594,687	11,736,608
Foreign banks deposits	1,484,282	1,652,314
Overdraft accounts	417,733	551,851
Others	1,400	54,941
	<u>12,498,102</u>	<u>13,995,714</u>

The balance due to foreign governments and banks represents past due accounts that are outstanding for many years. Many of these accounts have been reconciled and settled by the Government of Iraq under the Iraqi External Debt Reconciliation Project. Moreover, the CBI in the process of negotiations with the Ministry of Finance to transfer these debts to the Ministry of Finance.

The CBI did not quantify and provide for the accrued interest that could be due on these accounts, except for ID 42,824 million due on certain accounts.

15 DUE TO INTERNATIONAL MONETARY FUND

	<i>2006</i> <i>SDR</i>	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>SDR</i>	<i>2005</i> <i>ID Million</i>
SDR allocations	68,463,800	136,471	68,463,800	144,334
IMF securities	1,015,649,429	2,024,524	1,017,300,000	2,144,645
Currency Holdings:				
IMF EPCA loan	297,100,000	592,218	297,100,000	626,339
IMF No. 1 Account including Currency Valuation Adjustments	1,650,571	3,290	1,650,576	3,480
IMF No. 2 Account including Currency Valuation Adjustments	12,991	26	12,991	27
	<u>1,382,876,791</u>	<u>2,756,529</u>	<u>1,384,527,367</u>	<u>2,918,825</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

15 DUE TO INTERNATIONAL MONETARY FUND (continued)

The balance of SDR 68,463,800 represents an allocation of SDRs by the International Monetary Fund (IMF) to Iraq. SDRs are allocated by the IMF to members that are participants in the IMF's SDR Department at the time of allocation in proportion to their quotas in the IMF.

The Currency Holdings include an Emergency Post Conflict Assistance (EPCA) long term loan of ID 592,218 million (SDR 297,100,000) granted by the IMF to the CBI during 2004. The loan is repayable on 8 quarterly equal installments of SDR 37,137,500 each starting January 3, 2008. The charges on this loan are computed quarterly at rates set by the IMF.

16 DUE TO GOVERNMENTAL INSTITUTIONS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Due to Ministry of Finance	3,941,818	3,458,528
Due to other governmental institutions	1,800,326	551,420
Cash margins	8,612	8,604
Due to Sulaimaniyah and Erbil branches	485,714	130,824
Loan from a local governmental bank	6,875	9,375
Others	61,423	68,376
	<u>6,304,768</u>	<u>4,227,127</u>

The CBI did not receive statement of accounts of the balances due to the Ministry of Finance and Sulaimaniyah and Erbil branches as of December 31, 2006. In addition, the CBI did not receive statement of accounts for part of the balance due to other governmental institutions in the amount of ID 738,842 million. Therefore, no reconciliations have been made to these accounts as of December 31, 2006.

17 OTHER LIABILITIES

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Interest payable	168,059	95,573
Accounts payable	4,122	2,422
Inter-branch balances	(63,640)	16,734
Suspense balances	603,767	686,496
Sundry provisions	16,995	16,995
Others	2,509	2,397
	<u>731,812</u>	<u>820,617</u>

The suspense accounts balances represent liability balances that have not been reconciled as of December 31, 2006. Therefore, the effects of the reconciliation of these balances on the financial statements as of December 31, 2006 have not been determined.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

18 CAPITAL

According to Article 5 of the Central Bank of Iraq Law of 2004, the authorized capital of the CBI shall be ID 100,000 million and shall be fully paid by the Republic of Iraq in exchange for 100% of the CBI's capital stock. The authorized capital stock of the 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.

As of December 31, 2006, CBI's paid capital is ID 500 million. During January 2007 the Ministry of Finance has agreed to cover CBI's unpaid capital by the amount of ID 99,500 million as required by the Central Bank of Iraq Law of 2004.

19 RESERVES

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

The CBI has a gold revaluation gain reserve in the amount of ID 159,059, which represent the cumulative unrealized gain on the revaluation of gold at market prices.

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Gold revaluation reserve, beginning of year as restated	142,887	120,834
Gold revaluation gain for the year	16,172	22,053
	<hr/>	<hr/>
Gold revaluation reserve, end of year	159,059	142,887
	<hr/> <hr/>	<hr/> <hr/>

20 ACCUMULATED LOSSES

According to Article 5 of the Central Bank of Iraq Law of 2004, if the CBI incurs a net operating loss for any financial year, that loss shall first be charged to the general reserve and subsequently to the capital. However, to the financial statements date, there is no resolution from the CBI's Board of Directors to charge the accumulated losses to the general reserve and capital. The general reserve and capital balances do not cover the accumulated loss balance.

According to Article 5 of the Central Bank of Iraq Law of 2004, in the event that the audited annual balance sheet of the CBI shows that the value of its assets falls below the sum of its liabilities and unimpaired authorized capital, the CBI's Board of Directors shall assess the situation and prepare a report on the causes and extent of the shortfall. If the board determines that a capital contribution is required, the board shall consult with the Minister of Finance and request a capital contribution be made on behalf of the Republic of Iraq. Upon the receipt of this request, the Minister of Finance shall, within a period of no more than two months, make a request to the authorized governmental party for the approval of the capital contribution for the CBI over such period and in such amount as is necessary to remedy the shortfall. To the financial statements date, the Ministry of Finance did not make any capital contribution to cover the CBI's accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

21 INTEREST INCOME

	2006 <i>ID Million</i>	2005 <i>ID Million</i>
Treasury bills	717,080	260,503
Due from banks	13,317	20,997
Due from Ministry of Finance	269,694	256,852
Overnight deposits	58,230	58,041
Others	33,355	35,647
	<u>1,091,676</u>	<u>632,040</u>

22 INTEREST EXPENSE

	2006 <i>ID Million</i>	2005 <i>ID Million</i>
Local banks time deposits	195,694	40,716
Local banks overnight accounts	132,530	60,897
Loans from issued foreign governments and financial institutions	42,824	42,300
Treasury bills	40,536	-
Others	50,723	45,446
	<u>462,307</u>	<u>189,359</u>

23 NET FEE AND COMMISSION INCOME

	2006 <i>ID Million</i>	2005 <i>ID Million</i>
Fee and commission income	157,976	22,889
Fee and commission expense	-	(874)
	<u>157,976</u>	<u>22,015</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

24 (RECOVERY OF PROVISIONS) OTHER PROVISIONS

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Provision for DFI accounts (Note 34)	(74,240)	156,028
Provision for MOU accounts (Note 34)	(1,985)	94,455
Provision for interest receivable	-	111,434
Others	(65,210)	173,947
	<u>(141,435)</u>	<u>535,864</u>

25 TAXES

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

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of on balance sheet financial instruments are not materially different from their carrying amounts in the financial statements, except for the following:

- The fair value of the balance due from Ministry of Finance is estimated at ID 4,164,344 million as of December 31, 2006 (2005: ID 4,164,344 million), which is less than the carrying amount by ID 1,229,546 million (2005: ID 1,229,546 million).
- The fair value of the balances due to foreign governments and banks and from Governmental institutions cannot be reliably measured due to the unavailability of sufficient information.

27 CREDIT RISK AND CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit risk of the CBI is limited to the amounts on the balance sheet plus commitments disclosed in note 35. However, the CBI does not have formal risk assessment policies.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the CBI's performance to developments affecting a particular industry or geographic location.

- The CBI operates in one geographic market; Iraq. The current political instability in the area increase the risk of carrying out business and could adversely affect the CBI's activities.
- Significant part of CBI's assets in foreign currencies are maintained in one currency; US Dollars.

Central Bank of Iraq

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

29 INTEREST RATE RISK (continued)

	<i>Less than month ID Million</i>	<i>1 month to 3 months ID Million</i>	<i>3 months to 6 months ID Million</i>	<i>6 months to 1 year ID Million</i>	<i>More than 1 year ID Million</i>	<i>Non interest items ID Million</i>	<i>Total ID Million</i>
ASSETS							
Gold reserve	-	-	-	-	-	159,073	159,073
Cash and balances with central banks	952,308	-	-	-	-	3,906,310	4,858,618
Due from banks	-	359,497	-	-	-	799	360,296
Treasury bills	754,051	1,407,454	17,871,848	-	-	-	20,033,353
Due from Ministry of Finance	-	179,796	179,796	359,592	4,674,706	13,582	5,407,472
Foreign currencies investments at IMF	-	922,421	-	-	-	2,027,814	2,950,235
Property and equipment	-	-	-	-	-	22,014	22,014
Other assets	-	-	-	-	-	8,670	8,670
TOTAL ASSETS	1,706,359	2,869,168	18,051,644	359,592	4,674,706	6,138,262	33,799,731
LIABILITIES							
Currency issued	-	-	-	-	-	11,916,555	11,916,555
Treasury bills issued	-	-	964,543	667,757	-	-	1,632,300
Deposits of local banks	6,455,231	-	-	-	-	4,693,620	11,148,851
Due to foreign governments and banks	-	417,733	-	1,484,282	-	10,596,087	12,498,102
Due to International Monetary Fund	-	728,689	-	-	-	2,027,840	2,756,529
Due to governmental institutions	-	6,785	-	-	-	6,297,983	6,304,768
Other liabilities	-	-	-	-	-	731,812	731,812
TOTAL LIABILITIES	6,455,231	1,153,207	964,543	2,152,039	-	36,263,897	46,988,917
TOTAL DEFICIT	-	-	-	-	-	(13,189,186)	(13,189,186)
TOTAL LIABILITIES AND DEFICIT	6,455,231	1,153,207	964,543	2,152,039	-	23,074,711	33,799,731
ITEM GAP	(4,748,872)	1,715,961	17,087,101	(1,792,447)	4,674,706	(16,936,449)	
ACCUMULATED GAP	(4,748,872)	(3,032,911)	14,054,190	12,261,743	16,936,449	-	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

30 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The CBI views the Iraqi Dinar as its functional currency. The CBI does not have a policy to set limits on positions by currency. Significant part of CBI's assets in foreign currencies as of December 31, 2006 are maintained in US Dollars. Following is the foreign currencies positions as of December 31, 2006:

	<i>2006</i> <i>ID Million</i>
US Dollar	9,608,730
SDR	193,706
Euro	132,774
Others	128,645
	<u>10,063,855</u>

31 LIQUIDITY RISK

Liquidity risk is the risk that the CBI will be unable to meet its liabilities when they fall due. The CBI does not have a formal liquidity risk policy.

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.

The maturity profile of the CBI's assets and liabilities based on contractual repayment arrangements has not been quantified as of December 31, 2006 and December 31, 2005. However, all the CBI's assets are either current or do not have a defined maturity period except the Treasury bills and the balance due from the Ministry of Finance which had the following maturity profile as at December 31, 2006:

	<i>Up to 1</i> <i>month</i> <i>ID</i> <i>Million</i>	<i>1 to 3</i> <i>months</i> <i>ID</i> <i>Million</i>	<i>3 to 6</i> <i>months</i> <i>ID</i> <i>Million</i>	<i>6 months</i> <i>to 1 year</i> <i>ID</i> <i>Million</i>	<i>Over 1</i> <i>Year</i> <i>ID</i> <i>Million</i>	<i>Total</i> <i>ID</i> <i>Million</i>
Treasury bills	754,051	1,407,454	17,871,848	-	-	20,033,353
Due from Ministry of Finance	-	193,378	179,796	359,592	4,674,706	5,407,472
	<u>754,051</u>	<u>1,600,832</u>	<u>18,051,644</u>	<u>359,592</u>	<u>4,674,706</u>	<u>25,440,825</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

31 LIQUIDITY RISK (continued)

Treasury bills and the balance due from the Ministry of Finance had the following maturity profile as at December 31, 2005:

	<i>Up to 1 month ID Million</i>	<i>1 to 3 months ID Million</i>	<i>3 to 6 months ID Million</i>	<i>6 months to 1 year ID Million</i>	<i>Over 1 Year ID Million</i>	<i>Total ID Million</i>
Treasury bills	1,953,937	5,898,577	3,044,265	-	-	10,896,779
Due from Ministry of Finance	-	179,796	179,796	359,592	4,674,706	5,393,890
	<u>1,953,937</u>	<u>6,078,373</u>	<u>3,224,061</u>	<u>359,592</u>	<u>4,674,706</u>	<u>16,290,669</u>

All the CBI liabilities as of December 31, 2006 and December 31, 2005 do not have specific maturity dates except the local banks time deposits which have original maturities of 14 to 90 days and the EPCA credit due to the IMF which should be repaid in 8 quarterly installments starting on January 3, 2008 to October 1, 2009.

The repayment dates and the amount that may be repaid from the due to foreign governments and banks balance of ID 12,498,102 million are uncertain.

32 SEGMENTAL INFORMATION

Primary segment information

Management does not organize the CBI operations in business segments.

Secondary segment information

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 2006 ID Million</i>	<i>Foreign Countries 2006 ID Million</i>	<i>Total 2006 ID Million</i>
Revenues	<u>486,559</u>	<u>842,499</u>	<u>1,329,058</u>
Total Assets	<u>9,457,278</u>	<u>24,342,453</u>	<u>33,799,731</u>
Total Liabilities	<u>31,734,286</u>	<u>15,254,631</u>	<u>46,988,917</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

32 SEGMENTAL INFORMATION (continue)

Secondary segment information (continue)

	<u>Iraq</u> <u>2005</u> <u>ID Million</u>	<u>Foreign</u> <u>Countries</u> <u>2005</u> <u>ID Million</u>	<u>Total</u> <u>2005</u> <u>ID Million</u>
Revenues	283,000	430,617	713,617
Total Assets	9,272,756	16,411,644	25,684,400
Total Liabilities	22,130,324	16,901,848	39,032,172

33 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 balance sheet and income statement are as follows:

	<u>2006</u> <u>ID Million</u>	<u>2005</u> <u>ID Million</u>
ASSETS		
Cash at local governmental banks	800	851
Due from Ministry of Finance	5,407,472	5,393,890
Due from a governmental bank	-	8,758
	<u>5,408,272</u>	<u>5,403,499</u>
LIABILITIES		
Governmental local banks reserves and deposits	9,361,919	5,927,624
Due to Ministry of Finance	3,941,818	4,493,015
Due to Governmental institutions	2,356,075	768,600
Loan from Al Rafidain Bank	6,875	9,375
	<u>15,666,687</u>	<u>11,198,614</u>
Off balance sheet commitments on behalf of Government of Iraq	<u>3,933,699</u>	<u>60,244,777</u>
Interest income from Ministry of Finance	<u>269,695</u>	<u>256,852</u>
Interest expenses on governmental banks deposits	<u>275,708</u>	<u>95,912</u>

NOTES TO THE FINANCIAL STATEMENTS

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34 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 MOF and included as part of the CBI's accounting records. As of December 31, 2006, the DFI accounts have been excluded from the CBI's financial statements, which resulted in un-reconciled difference of ID 11,823 million (2005: ID 156,028 million) between the DFI assets balances which exceeds the related liability balances in the CBI records and ID 9,810 million between the MOU assets balances which less than the related liability balances in the CBI records. This difference has been provided for in the accompanying financial statements.

In addition, the CBI maintains certain accounts related to the Memorandum of Understanding (MOU) signed on May 20, 1996 between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council Resolution 986 (1995). As of December 31, 2005, the balances of the MOU accounts have been excluded from the CBI's financial statements, which resulted in un-reconciled difference of ID 1,103,708 million between the MOU assets balances and the related liability balances in the CBI records. This difference has been provided for in the financial statements (ID 1,009,253 million during 2004 and ID 94,455 million during 2005). During 2006 the provision was reduced by ID 1,985.

35 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include standby letters of credit and guarantees which are designed to meet the requirements of the Iraqi ministries and other governmental institutions.

Letters of credit, guarantees (including standby letter of credit) and acceptances commit the CBI to make payments on behalf of the Iraqi ministries and other governmental institutions contingent upon the failure to perform under the terms of the contract.

There are outstanding off balance sheet balances of which the CBI is the guarantor of the debt, letters of credit and letters of guarantees of the CBI and the Iraqi ministries and other Governmental institutions. The off balance sheet accounting records are inaccurate and there is no sufficient evidence to support these accounts and to ensure the completeness and valuation of these balances. In addition, the effects of these off balance sheet accounts on the CBI's financial statements as of December 31, 2006, if any, are uncertain and the CBI's management could not quantify their effect at this stage.

The CBI has the following credit related commitments:

	<i>2006</i> <i>ID Million</i>	<i>2005</i> <i>ID Million</i>
Commitments on behalf of Government of Iraq:		
Loans guaranteed by CBI	39,462	29,512,188
Letters of credit	22,119	2,388,478
Letters of guarantees and acceptance	3,872,118	5,369,958
	3,933,699	37,270,624

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

35 COMMITMENTS AND CONTINGENT LIABILITIES (continue)

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 in the amount of ID ٤,٤٠٩,٧١١ million as of December 31, 2006 (2005: ID 6,754,678 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 December 31, 2006, 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 December 31, 2006.