CENTRAL BANK OF IRAQ

FINANCIAL STATEMENTS

31 DECEMBER 2017

Building a better working world

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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 2017, 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 2017, 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 (34) 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 1,332,795 million (2016: IQD 1,313,671 million). The final outcome of these lawsuits and the impact on CBI's financial statements as of 31 December 2017, 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 2017, 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.

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Emphasis of Matters

As further explained in note (1) to the financial statements, CBI does not control the financial and administrative affairs of its Sulaymania branch, as this branch is technically related to CBI and for all other matters it is related to Kurdistan Regional Government (KRG) and its operations are financed by KRG. In addition, CBI did not receive the financial statements of its branch in Sulaymania and does not have access to its accounting records. Therefore, the accompanying financial statements do not include the financial statements of Sulaymania branch. CBI does not have any information to quantify the significance of the branch's financial statements and its effect on CBI's financial statements as of 31 December 2017.

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, 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.

On 14 August 2017, based on the administrative order signed by the Governor, CBI announced the opening of CBI's branch in Erbil with the authorities given to the branch in accordance with CBI law No. 56 of 2004 as amended. The financial statements as of 31 December 2017 do not include the financial information of CBI's old branch in Erbil as CBI considers that the accounting records of the old branch before this date is the responsibility of KRG Ministry of Finance and Economy. There were no activities performed by the new branch until 31 December 2017 (except for the land that was provided as grant by KRG for the construction of a new administrative building for the new branch and salaries of CBI's employees in Erbil branch which were recorded in CBI's financial statements as at 31 December 2017). CBI is still in the interconnecting phase of the accounting records of the new branch in Erbil.

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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.

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- 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

Ernst & Young
Baghdad – Iraq
31 March 2018

CENTRAL BANK OF IRAQ

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017

	Notes	2017 IQD million	2016 IQD million
ASSETS			
Gold reserve	3	4,434,627	3,957,959
Cash and balances with central banks	4	7,618,502	7,864,502
Due from banks and other financial institutions	5	14,044,182	14,135,561
Held to maturity investments	6	31,853,110	27,062,097
Loans to commercial and governmental banks	7	1,450,482	620,880
Due from Ministry of Finance	8	19,334,101	19,534,101
Foreign currencies investments at International Monetary Fund	9	2,310,965	2,176,159
Property and equipment, net	10	381,998	194,109
Intangible assets, net	11	6,961	8,606
Other assets	12	946,271	990,239
TOTAL ASSETS		82,381,199	76,544,213
LIABILITIES AND EQUITY			
LIABILITIES			
Currency issued	13	44,236,654	45,231,515
Treasury bills issued	14	745,322	64,677
Deposits of local banks and other financial institutions	15	21,501,774	22,655,974
Due to foreign governments and banks	16	39,196	39,619
Due to International Monetary Fund	17	2,228,296	2,299,663
Due to governmental institutions	18	7,100,936	3,953,620
Other liabilities	19	105,197	99,653
TOTAL LIABILITIES		75,957,375	74,344,721
EQUITY			
Capital	20	1,000,000	1,000,000
General reserve	21	477,425	845,232
Emergency reserve	21	1,089,690	1,089,690
Gold revaluation reserve	22	109,045	(367,623)
Lands and buildings revaluation reserve	23	212,056	-
Retained earnings (Accumulated losses)	24	3,535,608	(367,807)
TOTAL EQUITY		6,423,824	2,199,492
TOTAL LIABILITIES AND EQUITY		82,381,199	76,544,213

Ali M. Ismaiel
Governor of the Central Bank of Iraq

Ihsan Shamran AlYasiri
Director General of Accounting Directorate

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

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2017

	Notes	2017 IQD million	2016 IQD million
REVENUES			
Interest income	25	**1,479,171**	929,922
Interest expense	26	**(51,285)**	(28,193)
Net interest income		**1,427,886**	901,729
Net fees and commissions income	27	**364,418**	445,727
Gold revaluation gain	22	**476,668**	330,712
Foreign currency translation gain (loss)		**1,891,097**	(1,641,161)
Other income		**25,022**	13,283
Gross profit		**4,185,091**	50,290
EXPENSES			
Employees' expenses		**(34,653)**	(34,300)
General and administrative expenses		**(57,735)**	(38,512)
Depreciation and amortization	10,11	**(17,930)**	(14,573)
Allowance for balances at central banks	4	**(42,393)**	-
Impairment losses on lands	10	**(20,104)**	-
PROFIT (LOSS) FOR THE YEAR		**4,012,276**	(37,095)
Add: Other comprehensive income items will not be classified to statement of income in subsequent periods			
Unrealized gains from lands and buildings revaluation		**212,056**	-
Total of other comprehensive income items		**212,056**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,224,332**	(37,095)

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

STATEMENT OF CHANGE IN EQUITY
YEAR ENDED 31 DECEMBER 2017

	Notes	*Capital* *IQD million*	*General reserve* *IQD million*	*Emergency reserve* *IQD million*	*Gold revaluation reserve* *IQD million*	*Lands and buildings revaluation reserve* *IQD million*	*Retained earnings (Accumulated losses)* *IQD million*	*Total* *IQD million*
Balance at 1 January 2017		1,000,000	845,232	1,089,690	(367,623)	-	(367,807)	2,199,492
Total comprehensive income for the year		-	-	-	-	212,056	4,012,276	4,224,332
Transfers to/from reserves	24	-	(367,807)	-	-	-	367,807	-
Gold revaluation reserve for the year	22	-	-	-	476,668	-	(476,668)	-
Balance at 31 December 2017		1,000,000	477,425	1,089,690	109,045	212,056	3,535,608	6,423,824
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	24	-	(617,229)	-	-	-	617,229	-
Gold revaluation reserve for the year	22	-	-	-	330,712	-	(330,712)	-
Balance at 31 December 2016		1,000,000	845,232	1,089,690	(367,623)	-	(367,807)	2,199,492

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

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2017

	Notes	2017 IQD million	2016 IQD million
OPERATING ACTIVITIES			
Profit (loss) for the year		4,012,276	(37,095)
Adjustments for:			
Depreciation of property and equipment		12,958	9,635
Amortization of intangible assets		4,972	4,938
Revaluation of Gold Reserve		(476,668)	(330,712)
Gain from land granted as government grants		(11,354)	-
Impairment losses of lands		20,104	-
Allowance for balances at central banks		42,393	-
Other expenses		6,100	-
Foreign currency translation (gain) loss		(1,891,097)	1,641,161
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		1,719,684	1,287,927
CHANGES IN ASSETS AND LIABILITIES			
Restricted balances at central banks		(42,393)	-
Deposits with maturities more than 3 months		(2,901,436)	-
Loans to commercial and governmental banks		(829,602)	(613,380)
Due from Ministry of Finance		200,000	(10,953,189)
Other assets		62,952	(441,265)
Currency issued		(994,861)	6,646,396
Deposits of local banks and other financial institutions		(1,161,844)	(2,002,650)
Due to foreign governments and banks		(430)	(180)
Due to governmental institutions		3,141,362	(1,801,821)
Other liabilities		5,542	(20,351)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(801,026)	(7,898,513)
INVESTING ACTIVITIES			
Held to maturity investments		(3,128,234)	10,226,905
Purchase of property and equipment		(3,641)	(11,802)
Purchase of intangible assets		(3,327)	(2,757)
NET CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		(3,135,202)	10,212,346
FINANCING ACTIVITIES			
Treasury bills		680,645	(1,015,453)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		680,645	(1,015,453)
Net (decrease) increase in cash and cash equivalents		(3,255,583)	1,298,380
Effect of foreign currency translation on cash and cash equivalents		16,768	(179,467)
Cash and cash equivalents beginning of the year		22,000,063	20,881,150
CASH AND CASH EQUIVALENTS, END OF THE YEAR	28	18,761,248	22,000,063

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

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 Number 56 of 2004 as amended.

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 of Iraq 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 Sulaymania branch, as this branch is technically related to CBI and for all other matters it is related to Kurdistan Regional Government (KRG) and is financed by KRG.
As a result, CBI does not have access to the accounting records of Sulaymania branch. Therefore, the accompanying financial statements do not include the financial statements of Sulaymania branch. CBI does not have any information to quantify the significance of the branch's financial statements and its impact on CBI's financial statements as of 31 December 2017.
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 Board of Directors decided to open two new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system.

On 14 August 2017, based on the administrative order signed by the Governor, CBI announced the opening of CBI's branch in Erbil with the authorities given to the branch in accordance with CBI law No. 56 of 2004 as amended. The financial statements as of 31 December 2017 do not include the financial information of CBI's old branch in Erbil as CBI considers that the accounting records of the old branch before this date is the responsibility of KRG Ministry of Finance and Economy. There were no activities performed by the new branch until 31 December 2017 (except for the land that was provided as grant by KRG for the construction of a new administrative building for the new branch and salaries of CBI's employees in Erbil branch which were recorded in CBI's financial statements as at 31 December 2017). CBI is still in the interconnecting phase of the accounting records of the new branch in Erbil.

1. ACTIVITIES (continued)

The Financial Statements were authorized for issue by the Governor of Central Bank of Iraq on 31 March 2018.

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 Number 56 of 2004 as amended.

The financial statements have been prepared under the historical cost basis except for Lands and buildings due to adoption of revaluation model in accordance with IAS 16 for these classes of assets. In addition to gold reserve which 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 2016, except that the bank applied the following changes from 1 January 2017:

Revaluation of lands and buildings
CBI re-assessed its accounting policy with respect to the measurement of certain classes of property and equipment after initial recognition. CBI has previously measured all property and equipment using the cost model, whereby after initial recognition, those assets were carried at cost less accumulated depreciation and accumulated impairment losses. According to CBI's Board of Directors decision dated on 25 December 2017, CBI voluntarily elected to adopt the revaluation model for subsequent measurement of lands and buildings since CBI's Management believes that this model more effectively demonstrates the financial position of these classes of assets. As such, the revaluation model is adopted effective 31 December 2017 whereby lands and buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Lands and buildings revaluation reserve amounted to IQD 212,056 million that has been recorded within equity.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Bank's financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Un-recognised Losses
Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Bank's financial statements.

2. ACCOUNTING POLICIES (continued)

Standards issued but not effective:

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required; however, the entities are exempted from restating their comparative information.

The Bank plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Bank has performed an impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank adopts IFRS 9. The Bank expects based on preliminary figures an increase in the loss allowance for an amount of IQD 5,315 million resulting in an equal negative impact on equity.

(a) Classification and Measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the new classification and measurement category of IFRS 9 which comprises mainly from financial assets and liabilities held to maturity. It expects that CBI will use amortized cost measurement for all financial assets and liabilities held to maturity and to use the new category starting from 1 January 2018.

Credit facilities are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FVTOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

2. ACCOUNTING POLICIES (continued)
2.1 Basis of preparation (continued)
Standards issued but not effective (continued)
IFRS 9 Financial Instruments (continued)

Incurred Loss versus Expected Loss Methodology

The application of ECL will significantly change the credit loss methodology and models. ECL allowances represent credit losses that should reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. This compares to the present incurred loss model under IAS 39 that incorporates a single best estimate, the time value of money and information about past events and current conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. This compares to the present incurred loss model which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses. Because of the inclusion of relative credit deterioration criteria and consideration of forward looking information, the ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier under IFRS 9.

Stage Migration and Significant Increase in Credit Risk

- For non-Impaired Financial Instruments

Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12 months of ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL.

- For Impaired Financial Instruments

Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

For the business and government portfolios, the individually assessed allowances for impaired instruments recognized under IAS 39 will generally be replaced by stage 3 allowances under IFRS 9, while the collective allowances for non-impaired financial instruments will generally

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Standards issued but not effective (continued)

IFRS 9 Financial Instruments (continued)

Stage Migration and Significant Increase in Credit Risk (continued)

be replaced by either stage 1 or stage 2 allowances under IFRS 9. For the retail portfolios, the portion of the collective allowances that relate to impaired financial instruments under IAS 39 will generally be replaced by stage 3 allowances, while the non-impaired portion of the collective allowances will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9.

Key Drivers of Expected Credit Loss

The following concepts are subject to a high level of judgment, will have a significant impact on the level of ECL allowances and will be the cause of increased volatility of allowances:

1- Determining when a SICR of a financial asset has occurred.
2- Measuring both 12-month and lifetime credit losses.
3- Incorporating forward-looking information using multiple probability-weighted scenarios, and
4- Collateral and quality.

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.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Standards issued but not effective (continued)

Amendments to IFRS 10 and IAS 28:Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

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 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.

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 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.
The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Standards issued but not effective (continued)

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.

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.

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 derecognition 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 recognises 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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1January 2019, but certain transition reliefs are available.

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 does not have access to the accounting records of its branch in Sulaymania. Therefore, the accompanying financial statements do not include the financial statements of Sulaymania branch. CBI does not have any information to quantify the significance of the branch's financial statements and its impact on CBI's financial statements as of 31 December 2017.

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.

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates (continued)

2.2.4 Separation of Erbil and Sulaymania branches (continued)

On 23 October 2016, the CBI's Board of Directors decided to open two new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system.
On 14 August 2017, based on the administrative order signed by the Governor, CBI announced the opening of CBI's branch in Erbil with the authorities given to the branch in accordance with CBI law No. 56 of 2004 as amended. The financial statements as of 31 December 2017 do not include the financial information of CBI's old branch in Erbil as CBI considers that the accounting records of the old branch before this date is the responsibility of KRG Ministry of Finance and Economy. There were no activities performed by the new branch until 31 December 2017 (except for the land that was provided as grant by KRG for the construction of a new administrative building for the new branch and salaries of CBI's employees in Erbil branch which were recorded in CBI's financial statements as at 31 December 2017). CBI is still in the interconnecting phase of the accounting records of the new branch in Erbil.

2.3 Summary of significant accounting policies

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

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 are exchange rates for foreign currencies per IQD as at 31 December 2017:

Currency	*Exchange rate for foreign currencies per IQD as at 31 December 2017*	*Exchange rate for foreign currencies per IQD as at 31 December 2016*
USD	**1,184.000**	1,182.000
EUR	**1,412.986**	1,235.545
GBP	**1,590.586**	1,448.541
AUD	**922.454**	851.631
SDR	**1,682.109**	1,583.986

2.3.2 Gold Reserve

Gold is stated on the basis of the closing price in London gold market as of 30 December 2017. 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. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

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-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. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

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.

2.3.8 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. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.10 Loans and due from Ministry of Finance

Loans and due from Ministry of Finance are carried at amortized cost.

2.3.11 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.

- **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.

2.3.12 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.

2.3.13 Property and equipment

Property and equipment except for lands and buildings is stated at cost 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.
Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.
Unrealized gain from revaluation of lands and buildings is recorded in other comprehensive income and credited to "lands and buildings revaluation reserve" in equity.
However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the lands and buildings revaluation reserve.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.13 Property and equipment (Continued)

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	10 to 30 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.

2.3.14 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.

2.3.15 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. The impairment loss recognized in the statement of income unless the assets is recorded in accordance with revaluation model set by another standard (For example, according to revaluation model of IAS 16). Any impairment for revalued assets should be treated according to that standard.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.16 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.

2.3.17 Fiduciary Assets

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

2.3.18 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.

2.3.19 Local banks reserves and deposits

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

2.3.20 Due to foreign governments and bank

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

2.3.21 Governments grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.
When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on a pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3. GOLD RESERVE

	2017 IQD million	*2016 IQD million*
Gold reserve at CBI vault	**210,917**	188,246
Gold reserve abroad	**4,222,088**	3,768,265
Gold coins at CBI vault	**1,622**	1,448
	4,434,627	3,957,959

4. CASH AND BALANCES WITH CENTRAL BANKS

	2017 IQD million	*2016 IQD million*
Cash on hand	**1,833,953**	2,425,889
Allowance for cash on hand losses of Mosul branch	**(98,418)**	(98,418)
Overnight deposits with Federal Reserve Bank of New York	**3,983,101**	3,725,075
Current account with Federal Reserve Bank of New York	**2,484**	2,520
Current account with Central Bank of United Arab Emirates	**1,202**	1,197
Current account with Banque de France	**985**	355
Current account with Bank of England	**195**	11
Current account with Reserve Bank of Australia	**145**	136
Current account with De Nederlandsche Bank N.V.	**487**	211
Time deposit with Banque de France	**605,367**	597,661
Time deposit with Reserve Bank of Australia	**1,289,001**	1,172,795
Cash seized by Banca D'Italia *	**42,393**	37,070
Allowance for Cash seized by Banca D'Italia **	**(42,393)**	-
	7,618,502	7,864,502

* During 2014, Court of Rome ordered CBI to pay EUR 30 million (equivalent to IQD 42,393 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.

** During 2017, CBI has fully provided for the amount of cash seized by Banca D'Italia.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 ***IQD million***	*2016* *IQD million*
Current accounts with local banks	**1,579**	3,543
Due from governmental banks	**5,948**	5,201
Current accounts with foreign banks	**13,671**	13,531
Time deposits with foreign banks	**14,028,932**	14,118,487
Frozen and old outstanding deposits with foreign banks*	**507,502**	481,042
	14,557,632	14,621,804
Allowance for impairment losses of due from governmental banks	**(5,948)**	(5,201)
Allowance for impairment losses of deposits with foreign banks*	**(507,502)**	(481,042)
	14,044,182	14,135,561

* 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.

The provided for and the written off accounts include balances for an amount of IQD 401,310 million as at 31 December 2017 (2016: 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 balances at foreign banks as at 31 December 2017. A full provision had been booked for these balances.

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

The movement on allowance for impairment losses of due from governmental banks during 2017 was as the following:

	2017 ***IQD million***	*2016* *IQD million*
Balance at 1 January	**5,201**	5,436
Adjustments for foreign currency translation	**747**	(235)
Balance at 31 December	**5,948**	5,201

The movement on allowance for impairment losses of deposits with foreign banks during 2017 was as the following:

	2017 ***IQD million***	*2016* *IQD million*
Balance at 1 January	**481,042**	489,999
Written off balances during the year	**-**	(786)
Adjustments for foreign currency translation	**26,460**	(8,171)
Balance at 31 December	**507,502**	481,042

6. HELD TO MATURITY INVESTMENTS

	2017 ***IQD million***	*2016* *IQD million*
Federal Reserve Bank of New York - Bonds and bills (net)	**21,413,363**	13,408,246
Islamic Development Bank - Islamic Sukuk (net)	**1,776,000**	1,182,000
Banque De France – Bonds (net)	**4,132,533**	5,647,145
De Nederlandsche Bank N.V. –Bonds (net)	**2,199,429**	3,465,169
Bank of England – Bonds (net)	**2,154,960**	3,359,537
European Investment Bank (net)	**176,825**	-
	31,853,110	27,062,097

7. LOANS TO COMMERCIAL AND GOVERNMENTAL BANKS

	2017 ***IQD million***	*2016* *IQD million*
Loans to commercial banks *	**32,983**	20,165
Loans to governmental banks **	**1,417,499**	600,715
	1,450,482	620,880

7. LOANS TO COMMERCIAL AND GOVERNMENTAL BANKS (continued)

* CBI granted loans to commercial banks amounted to IQD 32,983 million (2016: IQD 20,165 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.

** CBI granted loans to specialized governmental banks amounted to IQD 1,417,499 million (2016: 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

	2017 ***IQD million***	*2016* *IQD million*
Due from Ministry of Finance*	**2,155,519**	2,355,519
Government of Iraq treasury bills**	**15,225,393**	15,225,393
MOF treasury bills to pay amounts due to farmers***	**1,000,000**	1,000,000
MOF bonds to pay amounts due to farmers****	**953,189**	953,189
	19,334,101	19,534,101

* 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 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. CBI and the MOF agreed in 24 December 2009 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 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 with an annual interest rate of 0.5% will be charged on the outstanding balance.

8. DUE FROM MINISTRY OF FINANCE (continued)

During 2017, the MOF had repaid the first installment amounted IQD 200,000 million along with interest according to the rescheduling agreement signed between the two parties.

** 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 Government of Iraq treasury bills based on 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 2017, the CBI renewed Government of Iraq treasury bills based on the request of MOF with the same terms.

*** 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 2017, the CBI renewed the MOF treasury bills to pay amounts due to farmers based on the request of MOF with the same terms.

**** 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

	2017		*2016*	
	SDR	***IQD million***	*SDR*	*IQD million*
International Monetary Fund Quota Subscription	**1,373,850,000**	**2,310,965**	1,373,850,000	2,176,159
	1,373,850,000	**2,310,965**	1,373,850,000	2,176,159

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.

10. PROPERTY AND EQUIPMENT

2017	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	81,779	41,292	5,473	225,430
Additions *	11,375	-	1,444	2,162	14	14,995
Disposal	-	-	(6,100)	(198)	(339)	(6,637)
Transfer from project under construction	-	34,946	(34,946)	-	-	-
Revaluation **	167,732	44,324	-	-	-	212,056
Transfers **	-	(7,010)	-	-	-	(7,010)
Impairment ***	(20,104)	-	-	-	-	(20,104)
Cost at 31 December 2017	234,996	93,153	42,177	43,256	5,148	418,730
Accumulated Depreciation:						
At 1 January	-	3,946	-	23,535	3,840	31,321
Depreciation charge for the year	-	3,064	-	9,792	102	12,958
Disposal	-	-	-	(198)	(339)	(537)
Transfers	-	(7,010)	-	-	-	(7,010)
At 31 December 2017	-	-	-	33,129	3,603	36,732
Net book value	234,996	93,153	42,177	10,127	1,545	381,998

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	75,993	20,893	81,779	41,292	5,473	225,430
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	-	3,946	-	23,535	3,840	31,321
Net book value	75,993	16,947	81,779	17,757	1,633	194,109

10. PROPERTY AND EQUIPMENT (Continued)

* Additions include a land given as an unconditional grant by KRG in Erbil in order to build a branch for CBI on it, the fair value of the land amounted to IQD 11,375 million.

** On 25 December 2017, CBI's Board of Directors decided to change the measurement of lands and buildings using revaluation model instead of cost model. An amount of IQD 212,056 million has been added as result to the revaluation that recorded as a reserve in equity.

*** The CBI owns lands out of his control in Baghdad and Basra, the cost of these lands amounted to IQD 20,104 million as of 31 December 2017. As CBI does not have any control on these lands, an impairment loss which amounted to IQD 20,104 million was recorded in statement of income as impairment losses.

Whether lands and buildings were measured using cost model, the book value for these lands and buildings as of 31 December 2017 would be as follows:

	Lands *IQD million*	*Buildings* *IQD million*
Cost at 1 January 2017	**87,368**	**55,839**
Accumulated Depreciation	**-**	**(7,010)**
	87,368	**48,829**

11. INTANGIBLE ASSETS

	2017 *IQD million*	*2016* *IQD million*
Balance at 1 January	**8,606**	10,787
Additions	**3,327**	2,757
Amortization for the year	**(4,972)**	(4,938)
Balance at 31 December	**6,961**	8,606

12. OTHER ASSETS

	2017 *IQD million*	*2016* *IQD million*
Interest receivable	**845,899**	869,689
Loans to employees	**93,493**	99,274
Allowance for impairment losses of loans to employees	**(1,000)**	(1,000)
Interbranch balances with Basrah and Musol branches	**2,962**	19,655
Golden coins for sale	**4,717**	2,369
Others	**200**	252
	946,271	990,239

13. CURRENCY ISSUED

	2017 *IQD million*	*2016* *IQD million*
Banknotes	**44,236,654**	45,231,515
	44,236,654	45,231,515

14. TREASURY BILLS ISSUED

	2017 *IQD million*	*2016* *IQD million*
Face value	**750,020**	**65,000**
Unamortized discount	**(4,698)**	**(323)**
	745,322	**64,677**

The discounted treasury bills are auctioned off to local banks with interest rate between 1.5% to 2.5% (2016: interest rates 2.5%) in accordance with the instructions issued by CBI. Treasury bills are issued with original maturity between three to six months. Total treasury bills issued during the year 2017 amounted to IQD 838,150 million (2016: 65,000 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

	2017 *IQD million*	*2016* *IQD million*
Current accounts *	**20,074,798**	19,890,498
Time deposits	**1,057,650**	2,587,500
Due to Sulaymania and Erbil branches **	**5,517**	1,919
Others	**363,809**	176,057
	21,501,774	22,655,974

* According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at CBI equivalent to 10% (2016: 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 1,789,789 million as of 31 December 2017 (2016: IQD 3,655,403 million) and a balance in USD amounted to USD 450,917,230 equivalent to IQD 533,886 million (2016: balance in USD 635,276,868 equivalent to IQD 750,897 million). Compulsory reserve represents a non-interest bearing liability.

15. DEPOSITS OF LOCAL BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

** 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 two new branches in Erbil and Sulaymania and to be part of CBI's financial, administrative and technical system. On 14 August 2017, based on the administrative order signed by the Governor, CBI announced the opening of CBI's branch in Erbil with the authorities given to the branch in accordance with CBI law No. 56 of 2004 as amended. The financial statements as of 31 December 2017 do not include the financial information of CBI's old branch in Erbil as CBI considers that the accounting records of the old branch before this date is the responsibility of KRG Ministry of Finance and Economy. There were no activities performed by the new branch until 31 December 2017 (except for the land that was provided as grant by KRG for the construction of a new administrative building for the new branch and salaries of CBI's employees in Erbil branch which were recorded in CBI's financial statements as at 31 December 2017). CBI is still in the interconnecting phase of the accounting records of the new branch in Erbil.

16. DUE TO FOREIGN GOVERNMENTS AND BANKS

	2017 ***IQD million***	*2016* *IQD million*
Due to foreign governments and financial institutions	**9**	9
Overdraft accounts	**35,367**	35,549
Others	**3,820**	4,061
	39,196	39,619

17. DUE TO INTERNATIONAL MONETARY FUND

	2017 ***SDR***	***2017*** ***IQD million***	*2016* *SDR*	*2016* *IQD million*
IMF securities	**1,369,690,500**	**2,221,529**	1,370,879,000	2,294,669
Currency Holdings:				
IMF No. 1 Account including Currency Valuation Adjustments	**4,159,500**	**6,746**	2,971,000	4,973
IMF No. 2 Account including Currency Valuation Adjustments	**12,580**	**21**	12,580	21
	1,373,862,580	**2,228,296**	1,373,862,580	2,299,663

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.

17. DUE TO INTERNATIONAL MONETARY FUND (Continued)

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.

During 2017, the CBI transferred an amount of SDR 1,188,500 from IMF securities to IMF No.1 account in order to meet the minimum level requirements of IMF and upon IMF request.

18. DUE TO GOVERNMENTAL INSTITUTIONS

	2017 ***IQD million***	*2016* *IQD million*
Due to Ministry of Finance	**6,223,156**	3,758,697
Due to other governmental institutions	**877,780**	194,923
	7,100,936	3,953,620

19. OTHER LIABILITIES

	2017 ***IQD million***	*2016* *IQD million*
Interest payable	**16,359**	13,546
Accounts payable	**10,206**	7,919
Others	**78,632**	78,188
	105,197	99,653

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 in accordance with Article 5 paragraph 3 which allows the CBI to increase its authorized capital based on amounts allowed and approved by Minister of Finance and based on CBI's Board of Directors recommendation.

21. RESERVES

According to Article 5 paragraph 4 of the Central Bank of Iraq Law of 2004, CBI shall hold a general reserve account, an unrealized profit reserve account and any other reserves in line with International Financial Reporting Standards.

22. GOLD REVALUATION RESERVES

	2017 ***IQD million***	*2016* *IQD million*
Gold revaluation reserve, beginning of year	**(367,623)**	(698,335)
Gold revaluation gain for the year	**476,668**	330,712
Gold revaluation reserve, end of year	**109,045**	(367,623)

23. LANDS AND BUILDINGS REVALUATION RESERVE

Effective 31 December 2017, CBI made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being Lands and Buildings from cost to revaluation model. Unrealized gain from revaluation amounted to IQD 212,056 million was recorded in lands and buildings revaluation reserve within equity.

24. 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 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.

On 16 August 2017, CBI's Board of Directors decided to allocate an amount of IQD 367,807 million to the accumulated loss balance as at 31 December 2016 from the general reserve account.

25. INTEREST INCOME

	2017 *IQD million*	*2016* *IQD million*
Held to maturity	**241,211**	161,037
Due from banks	**166,757**	82,865
Due from Ministry of Finance	**1,029,774**	681,149
Overnight deposits	**35,121**	4,513
Others	**6,308**	358
	1,479,171	929,922

26. INTEREST EXPENSE

	2017 *IQD million*	*2016* *IQD million*
Local banks time deposits	**22,163**	21,745
Treasury bills	**5,217**	6,437
Others	**23,905**	11
	51,285	28,193

27. NET FEES AND COMMISSIONS INCOME

	2017 *IQD million*	*2016* *IQD million*
Fee and commission income	**365,461**	447,232
Fee and commission expense	**(1,043)**	(1,505)
	364,418	445,727

28. CASH AND CASH EQUIVALENTS

	2017 *IQD million*	*2016* *IQD million*
Cash and balances with central banks	**7,618,502**	7,864,502
Current accounts with foreign banks	**13,671**	13,531
Current accounts with local banks	**1,579**	3,543
Time deposits with foreign banks	**14,028,932**	14,118,487
Less: Deposit with maturities more than 3 months	**(2,901,436)**	-
	18,761,248	22,000,063

29. 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.

30. RISK MANAGEMENT

30.1 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.

30.2 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:

	Gross maximum exposure	
	2017	*2016*
	IQD million	*IQD million*
Balances with central banks	**5,882,967**	5,537,031
Due from banks	**14,044,182**	14,135,561
Held to maturity investments	**31,853,110**	27,062,097
Loans to commercial and governmental banks	**1,450,482**	620,880
Due from Ministry of Finance	**19,334,101**	19,534,101
Foreign currencies investments at International Monetary Fund	**2,310,965**	2,176,159
Other assets	**946,271**	990,239
Total	**75,822,078**	70,056,068
Total credit risk exposure	**75,822,078**	70,056,068

30. RISK MANAGEMENT (continued)
30.2 Credit risk (continued)

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:

	Credit rating As at 31 December 2017		
	Moody's	*S&P*	*Fitch*
Bank			
Federal Reserve Bank of New York	Aaa	AA+	AAA
Banque de France	AA2	AA	AA
De Netherlandshe Bank N.V.	Aaa	AAA	AAA
Bank of England	AA1	AA	AA
Reserve Bank of Australia	Aaa	AAA	AAA
Islamic Development Bank	Aaa	AAA	AAA
European investment Bank	Aaa	AAA	AAA
Central Bank of United Arab Emirates	AA2	AA	AA

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 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 2017 are as follows according to Moody's and S&P credit rating agency:

	Credit rating As at 31 December 2017		
	Moody's	*S&P*	*Fitch*
Bank			
Federal Reserve Bank of New York	Aaa	AA+	AAA
Banque de France	Aa2	AA	AA
De Netherlandshe Bank N.V.	Aaa	AAA+	AAA
Bank of England	Aa2	AA	AA
Islamic Development Bank	Aaa	AAA	AAA
European investment Bank	Aaa	AAA	AAA

30. RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

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:

	31 December 2017 IQD million	*31 December 2016 IQD million*
Bank		
Federal Reserve Bank of New York	**25,398,948**	17,135,841
Bank of England	**2,155,155**	3,359,548
De Nederlandsche Bank	**2,199,916**	3,465,380
Banque de France	**4,738,885**	6,245,161
Reserve Bank of Australia	**1,289,146**	1,172,931
Bank of International Settlement	**6,659,507**	6,828,735
Arab Monetary Fund	**7,382,533**	7,302,707
Islamic Development Bank	**1,776,000**	1,182,000
European investment Bank	**176,825**	-
Other banks	**1,765**	1,773
	51,778,680	46,694,076

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.

30. RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

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 556,843 million in 2017 (2016: IQD 487,243 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.

30.3 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 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.
- 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.

30.4 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 in fair value 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.

30.4.1 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 2017 the CBI kept the same interest rate of time deposit, whereas the interest rate of time deposit of local banks with CBI between 0.5% to 1% for the time deposit (2016: 1%).

30. RISK MANAGEMENT (continued)

30.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2017:

	Less than month IQD million	*1 month to 3 months IQD million*	*3 months to 6 months IQD million*	*6 months to 1 year IQD million*	*More than 1 year IQD million*	*Non interest items IQD million*	*Total IQD million*
ASSETS							
Gold reserve	-	-	-	-	-	4,434,627	4,434,627
Cash and balances with central banks	1,289,145	-	-	-	-	6,329,357	7,618,502
Due from banks	-	11,127,496	2,901,436	-	-	15,250	14,044,182
Held to maturity investments	-	-	11,767,841	-	20,085,269	-	31,853,110
Loans to commercial and governmental banks	-	-	-	-	1,450,482	-	1,450,482
Due from Ministry of Finance	-	-	-	16,225,393	3,108,708	-	19,334,101
Foreign currencies investments at IMF	-	-	-	-	-	2,310,965	2,310,965
Property and equipment	-	-	-	-	-	381,998	381,998
Intangible assets	-	-	-	-	-	6,961	6,961
Other assets	-	-	-	-	-	946,271	946,271
TOTAL ASSETS	1,289,145	11,127,496	14,669,277	16,225,393	24,644,459	14,425,429	82,381,199
LIABILITIES							
Currency issued	-	-	-	-	-	44,236,654	44,236,654
Treasury bills issued	-	-	745,322	-	-	-	745,322
Deposits of local banks	1,057,650	-	-	-	-	20,444,124	21,501,774
Due to foreign governments and banks	-	-	-	-	-	39,196	39,196
Due to International Monetary Fund	-	-	-	-	-	2,228,296	2,228,296
Due to governmental institutions	-	-	-	-	-	7,100,936	7,100,936
Other liabilities	-	-	-	-	-	105,197	105,197
TOTAL LIABILITIES	1,057,650	-	745,322	-	-	74,154,403	75,957,375
TOTAL EQUITY						6,423,824	6,423,824
TOTAL LIABILITIES AND EQUITY	1,057,650	-	745,322	-	-	80,578,227	82,381,199
ITEM GAP	231,495	11,127,496	13,923,955	16,225,393	24,644,459	(66,152,798)	-
ACCUMULATED GAP	231,495	11,358,991	25,282,946	41,508,339	66,152,798	-	-

30. RISK MANAGEMENT (continued)

30.4.1 Interest rate risk (continued)

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

	Less than month IQD million	*1 month to 3 months IQD million*	*3 months to 6 months IQD million*	*6 months to 1 year IQD million*	*More than 1 year IQD million*	*Non interest items IQD million*	*Total IQD million*
ASSETS							
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
TOTAL ASSETS	1,172,795	14,118,488	6,684,961	16,225,393	24,904,385	13,438,191	76,544,213
LIABILITIES							
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
TOTAL LIABILITIES	2,587,500	-	64,677	-	-	71,692,544	74,344,721
TOTAL EQUITY	-	-	-	-	-	2,199,492	2,199,492
TOTAL LIABILITIES AND EQUITY	2,587,500	-	64,677	-	-	73,892,036	76,544,213
ITEM GAP	(1,414,705)	14,118,488	6,620,284	16,225,393	24,904,385	(60,453,845)	-
ACCUMULATED GAP	(1,414,705)	12,703,783	19,324,067	35,549,460	60,453,845	-	-

30. RISK MANAGEMENT (continued)

30.4 Market risk (continued)

30.4.2 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:

	Weight	
	2017	2016
Iraqi Dinar	**26.67%**	27.66%
US Dollar	**58.12%**	48.39%
Euro	**8.20%**	12.13%
SDR	**2.81%**	2.84%
Others	**4.20%**	8.98%

30. RISK MANAGEMENT (continued)

30.4 Market risk (continued)

30.4.2 Currency risk (continued)

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

31 December 2017	*IQD* IQD million	*USD* IQD million	*EUR* IQD million	*SDR* IQD million	*Others* IQD million	*Total* IQD million
ASSETS						
Gold reserve	-	4,434,627	-	-	-	4,434,627
Cash and balances with central banks	-	5,966,831	362,329	-	1,289,342	7,618,502
Due from banks	-	14,043,786	164	-	232	14,044,182
Held to maturity investments	-	23,366,188	6,331,962	-	2,154,960	31,853,110
Loans to commercial and governmental banks	1,450,482	-	-	-	-	1,450,482
Due from Ministry of Finance	19,334,101	-	-	-	-	19,334,101
Foreign currencies investments at IMF	-	-	-	2,310,965	-	2,310,965
Property and equipment	381,998	-	-	-	-	381,998
Intangible assets	6,961	-	-	-	-	6,961
Other assets	803,152	68,039	58,248	-	16,832	946,271
TOTAL ASSETS	21,976,694	47,879,471	6,752,703	2,310,965	3,461,366	82,381,199
LIABILITIES AND EQUITY						
Currency issued	44,236,654	-	-	-	-	44,236,654
Treasury bills issued	745,322	-	-	-	-	745,322
Deposits of local banks	18,069,852	3,428,859	3,063	-	-	21,501,774
Due to foreign governments and banks	31,712	6,917	567	-	-	39,196
Due to International Monetary Fund	2,228,296	-	-	-	-	2,228,296
Due to governmental institutions	2,450,966	4,292,741	357,229	-	-	7,100,936
Other liabilities	103,898	1,299	-	-	-	105,197
Equity	6,423,824	-	-	-	-	6,423,824
TOTAL LIABILITIES AND EQUITY	74,290,524	7,729,816	360,859	-	-	82,381,199
NET	(52,313,830)	40,149,655	6,391,844	2,310,965	3,461,366	-

30. RISK MANAGEMENT (continued)

30.4 Market risk (continued)

30.4.2 Currency risk (continued)

31 December 2016	*IQD* *IQD million*	*USD* *IQD million*	*EUR* *IQD million*	*SDR* *IQD million*	*Others* *IQD million*	*Total* *IQD million*
ASSETS						
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
TOTAL ASSETS	21,170,210	37,037,839	9,287,584	2,176,159	6,872,421	76,544,213
LIABILITIES AND EQUITY						
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
TOTAL LIABILITIES AND EQUITY	69,983,723	6,537,771	17,668	-	5,051	76,544,213
NET	(48,813,513)	30,500,068	9,269,916	2,176,159	6,867,370	-

30.4.3 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.

30. RISK MANAGEMENT (continued)

30.4 Market risk (continued)

30.4.3 Fair value of financial instruments (continued)

A. Fair value of financial assets and liabilities of CBI measured in fair value continuously:

CBI is revaluing Gold reserve in fair value at the end of each reporting period and the table below shows information related to determining the fair value of Gold reserve (methods of valuation and observable inputs.

	Fair value IQD million		Fair value level	Method of valuation and observable inputs
	2017	2016		
Gold reserve	**4,434,627**	3,957,959	First level	Based on price quotations in financial markets

B. Fair value of financial assets and liabilities of CBI that are not measured in Fair value:

Except for financial instruments in the table below, we believe that the carrying amount of financial assets and liabilities in CBI's financial statements do not differ from their fair value.

	31 December 2017		31 December 2016		
	Total carrying amount	***Total fair value***	*Total carrying amount*	*Total fair value*	**Fair value level**
	IQD million		*IQD million*		
Financial assets not measured in fair value					
Cash and balances with central banks	**7,618,502**	**7,618,502**	7,864,502	7,864,502	Level 2
Due from banks	**14,044,182**	**14,044,182**	14,135,561	14,135,561	Level 2
Held to maturity Investments	**31,853,110**	**30,543,387**	27,062,097	26,017,411	Level 1
Loans to commercial and governmental banks	**1,450,482**	**1,450,482**	620,880	620,880	Level 2
Due from Ministry of Finance	**19,334,101**	**19,334,101**	19,534,101	19,534,101	Level 2
	74,300,377	**72,990,654**	69,217,141	68,172,455	
Financial liabilities not measured in fair value					
Currency issued	**44,236,654**	**44,236,654**	45,231,515	45,231,515	Level 2
Treasury bills issued	**745,322**	**745,322**	64,677	64,677	Level 2
Due to banks	**21,501,774**	**21,501,774**	22,655,974	22,655,974	Level 2
Due to foreign governments and banks	**39,196**	**39,196**	39,619	39,619	Level 2
Due to governmental institutions	**7,100,936**	**7,100,936**	3,953,620	3,953,620	Level 2
	73,623,882	**73,623,882**	71,945,405	71,945,405	

31. 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:

	Iraq 2017 IQD million	*Foreign Countries 2017 IQD million*	*Total 2017 IQD million*
Revenues	3,794,330	443,089	4,237,419
Total Assets	23,901,254	58,479,945	82,381,199
Total Liabilities	73,676,308	2,281,067	75,957,375

	Iraq 2016 IQD million	*Foreign Countries 2016 IQD million*	*Total 2016 IQD million*
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

32. 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:

	2017 IQD million	*2016 IQD million*
ASSETS		
Loans to governmental banks	**1,417,499**	600,715
Due from Ministry of Finance	**2,155,519**	2,355,519
Government of Iraq treasury bills	**15,225,393**	15,225,393
Treasury bills to pay amounts due to farmers	**1,000,000**	1,000,000
Bonds to pay amounts due to farmers	**953,189**	953,189
Current accounts with local banks	**1,579**	3,543
Due from a governmental bank	**5,948**	5,201
Allowance for impairment losses of due from governmental banks	**(5,948)**	(5,201)
LIABILITIES		
Treasury bills issued	**493,250**	-
Deposits of governmental banks	**13,400,392**	14,593,683
Due to Ministry of Finance	**6,223,156**	3,758,697
Due to other governmental institutions	**877,780**	194,923
INCOME STATEMENT		
Interest income from Ministry of Finance	**1,029,774**	681,148
Interest expense on treasury bills issued	**1,897**	788
Interest expenses on governmental banks deposits	**12,944**	5,416

33. 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.

34. 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 1,332,795 million as of 31 December 2017 (2016: IQD 1,313,671 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 2017, 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 2017.

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.

35. 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 3,869,092 million (2016: IQD 3,015,137 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 2017, the IMF accounts related to MOF held off CBI's records comprise of Reserve tranche positions amounted to SDR 289,950,000 (2016: SDR 289,950,000), SDR Holdings amounted to SDR 4,601,933 (2016: SDR 13,511,684), IMF loans to MOF amounted to SDR 2,385,500,000 (2016: SDR 1,801,300,000) and SDR allocations amounted to SDR 1,134,495,508 (2016: SDR 1,134,495,508).