

CENTRAL BANK OF IRAQ  
FINANCIAL STATEMENTS  
31 DECEMBER 2019



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

**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 2019, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

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

## **Emphasis of Matters**

- 1- As further explained in note (1) to the financial statements, on 13 October 2015, CBI Board of Directors and based on the Prime Minister's approval decided that both old Erbil branch and Sulaymania branch 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 are part of the administrative, technical and financial system of KRG's Ministry of Finance and Economy. Thus, the financial statements of CBI as of December 31, 2019 do not include the figures of the old Erbil branch and Sulaymania branch.

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 August 14, 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 new branch commenced its operations during 2018 as a branch of CBI.

- 2- As explained in Note (36) to the financial statements, various parties have filed lawsuits in different countries against the Central Bank of Iraq as representative of Iraq for the payment past due debts related to ministries and governmental entities in amount of 1,195,451 million Iraqi dinars (2018: 1,336,027 million Iraqi dinars). According to the Ministry of Finance letter no. 744 dated 12 May 2019, CBI will not bear the results of those lawsuits, rather the related governmental entities will bear the cost.

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Ernst & Young  
Baghdad – Iraq  
8 July 2020



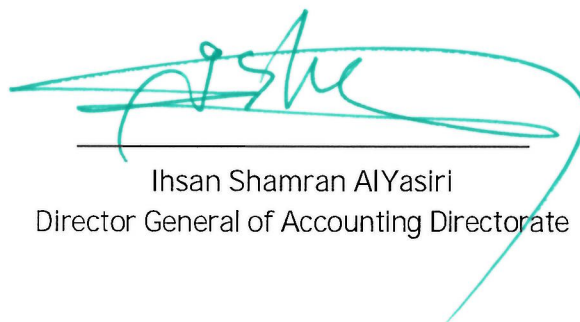
# CENTRAL BANK OF IRAQ

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

	Notes	2019 IQD million	2018 IQD million
<u>ASSETS</u>			
Gold reserve	3	5,573,899	4,690,603
Cash and balances with central banks	4	8,408,585	7,543,892
Due from banks and other financial institutions	5	18,022,353	15,959,306
Held to maturity investments	6	48,363,330	47,922,240
Loans to commercial and governmental banks	7	1,643,018	1,672,908
Due from Ministry of Finance	8	15,880,912	17,834,101
Foreign currencies investments at International Monetary Fund	9	2,245,565	2,258,491
Property and equipment, net	10	546,957	455,465
Intangible assets, net	11	10,075	9,142
Other assets	12	940,588	1,010,138
<b>TOTAL ASSETS</b>		<b>101,635,282</b>	<b>99,356,286</b>
<u>LIABILITIES AND EQUITY</u>			
<u>LIABILITIES</u>			
Currency issued	13	51,834,750	44,264,484
Treasury bills issued	14	362,891	261,082
Deposits of local banks and other financial institutions	15	27,594,195	24,019,109
Due to foreign governments and banks	16	32,092	38,207
Due to International Monetary Fund	17	2,271,703	2,337,252
Due to governmental institutions	18	8,312,359	20,273,138
Other liabilities	19	204,447	162,808
<b>TOTAL LIABILITIES</b>		<b>90,612,437</b>	<b>91,356,080</b>
<u>EQUITY</u>			
Capital	20	1,000,000	1,000,000
General reserve	21	4,598,391	3,304,037
Emergency reserve	21	2,119,931	1,796,342
Gold revaluation reserve	22	953,124	69,828
Lands and buildings revaluation reserve	23	212,056	212,056
Retained earnings	24	2,139,343	1,617,943
<b>TOTAL EQUITY</b>		<b>11,022,845</b>	<b>8,000,206</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>101,635,282</b>	<b>99,356,286</b>



Ali M. Ismaiel  
Governor of the Central Bank of Iraq



Ihsan Shamran AlYasiri  
Director General of Accounting Directorate

The accompanying notes from 1 to 38 are integral part of these financial statements

# CENTRAL BANK OF IRAQ

## STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2019

	<u>Notes</u>	<u>2019</u> IQD million	<u>2018</u> IQD million
REVENUES			
Interest income	25	2,185,404	2,046,740
Interest expense	26	<u>(244,615)</u>	<u>(144,251)</u>
Net interest income		1,940,789	1,902,489
Net fees and commissions income	27	462,912	427,849
Gold revaluation gain (loss)	22	883,296	(39,217)
Foreign currency exchange loss		(120,419)	(580,035)
Other income		10,847	34,301
Gross profit		<u>3,177,425</u>	<u>1,745,387</u>
EXPENSES			
Employees' expenses		(55,672)	(49,914)
General and administrative expenses	28	(81,155)	(103,582)
Depreciation and amortization	10,11	(9,474)	(12,076)
Allowance for credit losses		<u>(8,485)</u>	<u>(1,089)</u>
PROFIT FOR THE YEAR		<u><u>3,022,639</u></u>	<u><u>1,578,726</u></u>

The accompanying notes from 1 to 38 are integral part of these financial statements

# CENTRAL BANK OF IRAQ

## STATEMENT OF CHANGE IN EQUITY YEAR ENDED 31 DECEMBER 2019

	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 IQD million	Total IQD million
Balance at 1 January 2019		1,000,000	3,304,037	1,796,342	69,828	212,056	1,617,943	8,000,206
Total comprehensive income for the year		-	-	-	-	-	3,022,639	3,022,639
Transfers to reserves	24	-	1,294,354	323,589	-	-	(1,617,943)	-
Gold revaluation reserve for the year	23	-	-	-	883,296	-	(883,296)	-
Balance at 31 December 2019		<u>1,000,000</u>	<u>4,598,391</u>	<u>2,119,931</u>	<u>953,124</u>	<u>212,056</u>	<u>2,139,343</u>	<u>11,022,845</u>
Balance at 1 January 2018		1,000,000	477,425	1,089,690	109,045	212,056	3,535,608	6,423,824
Effect of adopting IFRS 9		-	-	-	-	-	(2,344)	(2,344)
Balance at 1 January 2018 after IFRS 9		<u>1,000,000</u>	<u>477,425</u>	<u>1,089,690</u>	<u>109,045</u>	<u>212,056</u>	<u>3,533,264</u>	<u>6,421,480</u>
Total comprehensive income for the year		-	-	-	-	-	1,578,726	1,578,726
Transfers to reserves	24	-	2,826,612	706,652	-	-	(3,533,264)	-
Gold revaluation reserve for the year	23	-	-	-	(39,217)	-	39,217	-
Balance at 31 December 2018		<u>1,000,000</u>	<u>3,304,037</u>	<u>1,796,342</u>	<u>69,828</u>	<u>212,056</u>	<u>1,617,943</u>	<u>8,000,206</u>

The accompanying notes from 1 to 38 are integral part of these financial statements



# CENTRAL BANK OF IRAQ

## STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2019

	Notes	2019 IQD million	2018 IQD million
<b>OPERATING ACTIVITIES</b>			
Profit for the year		3,022,639	1,578,726
Adjustments for:			
Depreciation of property and equipment		7,916	10,675
Amortization of intangible assets		1,558	1,401
Revaluation of Gold Reserve		(883,296)	39,217
Foreign currency translation loss (gain)		120,419	580,035
Allowance for credit losses		8,485	1,089
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>2,277,721</b>	<b>2,211,143</b>
<b>CHANGES IN ASSETS AND LIABILITIES</b>			
Deposits with maturities more than 3 months		(15,828,714)	(2,501,405)
Loans to commercial and governmental banks		17,528	(222,507)
Due from Ministry of Finance		1,953,189	1,500,000
Other assets		68,777	(66,767)
Currency issued		7,570,266	27,830
Deposits of local banks and other financial institutions		3,575,804	2,523,252
Due to foreign governments and banks		(6,049)	(957)
Due to governmental institutions		(11,952,627)	13,193,953
Other liabilities		41,639	57,614
<b>NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		<b>(12,282,466)</b>	<b>16,722,156</b>
<b>INVESTING ACTIVITIES</b>			
Held to maturity investments		(582,198)	(16,477,656)
Purchase of gold		-	(295,193)
Purchase of property and equipment		(99,408)	(84,142)
Purchase of intangible assets		(2,491)	(3,582)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(684,097)</b>	<b>(16,860,573)</b>
<b>FINANCING ACTIVITIES</b>			
Treasury bills		101,809	(484,240)
<b>NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>		<b>101,809</b>	<b>(484,240)</b>
Net decrease in cash and cash equivalents		(12,864,754)	(622,657)
Effect of foreign currency translation on cash and cash equivalents		(39,847)	(34,428)
Cash and cash equivalents beginning of the year		18,104,163	18,761,248
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>29</b>	<b>5,199,562</b>	<b>18,104,163</b>

The accompanying notes from 1 to 38 are integral part of these financial statements

## 1. ACTIVITIES

The Central Bank of Iraq 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 Basra, Mosul, Erbil and Sulaymania.

On 13 October 2015, CBI Board of Directors and upon the approval of the Prime Minister decided that both old Erbil branch and Sulaymania branch are not subject to the administration and supervision of the CBI and are not considered as part of the CBI's financial system as the CBI does not currently control the administrative and financial operations of these two branches, and the CBI does not have any obligations in return for their obligations, since both are part of the administrative, technical and financial system of the Ministry of Finance and Economy of the Kurdistan Regional Government. Consequently, the financial statements of the CBI as of 31 December 2019 do not include the figures of the old Erbil branch and Sulaymania branch.

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 August 14, 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 new branch commenced its operations during 2018 as a branch of CBI.

The Financial Statements were authorized for issue by the Governor of Central Bank of Iraq on 8 July 2020.

## 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 of Iraq 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.

### 2.2 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 2018, except that the bank applied the following changes from 1 January 2019:

#### IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

There has been no material impact from the application of IFRS 16 on the bank's financial statements.

#### Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

2. ACCOUNTING POLICIES (continued)  
2.3 Standards issued but not effective

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of "Material"

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project. The Bank has not early adopted the amendments and has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued.

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2. ACCOUNTING POLICIES (continued)  
2.4 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:

2.4.1 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 income.

2.4.2 Legal provision

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

2.4.3 Separation of Erbil and Sulaymania branches

As explained in note (1), on 13 October 2015, CBI Board of Directors and upon the approval of the Prime Minister decided that both old Erbil branch and Sulaymania branch are not subject to the administration and supervision of the CBI and are not considered as part of the CBI's financial system as the CBI does not currently control the administrative and financial operations of these two branches, and the CBI does not have any obligations in return for their obligations, since both are part of the administrative, technical and financial system of the Ministry of Finance and Economy of the Kurdistan Regional Government. Consequently, the financial statements of the CBI as of 31 December 2019 do not include the figures of the old Erbil branch and Sulaymania branch.



2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.4 Allowance for expected credit losses

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

The Bank computes the provision for impairment of financial assets according to the International Financial Reporting Standards (IFRSs).

The bank's policy in determining the shared characteristics (specifications) that credit risks and credit losses have been measured on collective basis or individual basis as follows:

- Balances with central banks: individually at bank level
- Due from banks and other financial institutions: individually at bank level
- Held to maturity investments: individually at debt instrument level
- Due from Ministry of Finance: individually at debt instrument level
- Loans to commercial and governmental banks: individually at bank level
- Loans to employees: collectively at loan type level (housing loans, loans with maturity of seven years and loans for medical purposes)

IFRS 9 Methodology: Inputs, assumptions and techniques used for ECL calculation

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- Assessment of Significant Increase in Credit Risk (SICR)

To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The assessment of significant increases in credit risk will be performed periodically for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.4 Allowance for expected credit losses (starting from 1 January 2018) (continued)

1. We have established thresholds for significant increases in credit risk based on movement in the financial instruments' PDs relative to initial recognition.
2. Restructuring and/or Rescheduling on the financial asset during the assessment period is considered as indicator for SICR.
3. Instruments which are 30 days past due have experienced a significant increase in credit risk as per the IFRS 9. According to the methodology issued by the Bank, it is presumed the occurrence of significant increase in credit risk of financial asset with 30 days past due.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39, as mentioned in the "Definition of default" below.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment in cooperation with international expert in this area.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers the future macroeconomic scenarios information for the next five years.

The base case scenario will be based on macroeconomic forecasts (e.g.: GDP, inflation, interest rate). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.4 Allowance for expected credit losses (continued)

- Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used by IFRS 9 steering committee. IFRS 9 does not define default but contains a rebuttable presumptions that default has occurred when an exposure is greater than 90 days past due or the obligor is considered unlikely to pay its credit obligations in full.

- Expected Life

When measuring ECL, the Bank must consider the maximum period of expected cash flow over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governing the implementation requirements of IFRS 9:

To ensure proper compliance of the IFRS 9 implementation, a steering committee was formed consisting of the Director General of Accounting directorate, the Director General of Public Debt directorate and Director General of Investment directorate in addition to the Head of Risk management department with the responsibilities to provide decisions on the work plan regarding implementation and adoption of IFRS 9 to ensure all relevant policies and procedures are updated in line with the new requirements, in addition to present the ECL results to the key management and related Committees of the Board of Directors.

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 2. ACCOUNTING POLICIES (continued) 2.5 Summary of significant accounting policies

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

#### 2.5.1 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 2019:

<u>Currency</u>	<u>Exchange rate for foreign currencies per IQD as at 31 December 2019</u>	<u>Exchange rate for foreign currencies per IQD as at 31 December 2018</u>
USD	1,182.000	1,182.000
EUR	1,325.022	1,355.636
GBP	1,567.214	1,507.877
AUD	829.882	833.192
CNY	169.784	171.915
SDR	1,634.505	1,643.914

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Financial Assets and Liabilities

Balances with central banks, Due from banks and other financial institutions, Held to maturity investments, Loans to commercial and governmental banks, Due from Ministry of Finance and Loans to employees

The Bank measures Balances with central banks, Due from banks and other financial institutions, Held to maturity investments, Loans to commercial and governmental banks, Due from Ministry of Finance and Loans to employees at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business model assessment

The Bank determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.



2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Financial Assets and Liabilities (continued)

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Gold reserve

Gold reserve initially stated at fair value at acquisition date (purchase costs are recorded in the statement of income upon acquisition) and subsequently measured in fair value. Gold is stated on the basis of the closing price in London gold market as of 31 December 2019. CBI maintains the gold as part of its foreign reserve management and does not have a present intent to dispose of. The gains or losses on the revaluation of gold at market price including the change in fair value resulting from translation of non-monetary assets stated at foreign currency 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.

Gains or losses resulting from the sale of these financial assets or part of them are taken to the statement of income.

Interests from these financial assets are recorded in the statement of income.

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Financial Assets and Liabilities (continued)

Treasury bills issued, Deposits of local banks and other financial institutions, Due to foreign governments and banks, Due to governmental institutions and Employees' accounts

The Bank measures Treasury bills issued, Deposits of local banks and other financial institutions, Due to foreign governments and banks, Due to governmental institutions and Employees' accounts at amortized cost.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

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 statement of income.

2.5.3 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.

## 2. ACCOUNTING POLICIES (continued)

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

#### 2.5.3 Fair value (continued)

- 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.

#### 2.5.4 Impairment of financial assets

##### Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financial assets impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018.

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'.

Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment periodically, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

2. ACCOUNTING POLICIES (continued)  
2.5 Summary of significant accounting policies (continued)  
2.5.4 Impairment of financial assets (continued)

Based on the above process, the Bank groups its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1: When financial assets are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 also include financial assets where the credit risk has improved and have been reclassified from Stage 2.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 also include financial assets where the credit risk has improved and have been reclassified from Stage 3.

Stage 3: Financial assets considered credit-impaired. The Bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The machinery of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

2. ACCOUNTING POLICIES (continued)  
2.5 Summary of significant accounting policies (continued)  
2.5.4 Impairment of financial assets (continued)

LGD            The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanism of the ECL method are summarized below:

Stage 1:            The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2:            When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3:            For financial assets which are considered credit-impaired, the Bank recognizes the lifetime expected credit losses for that credit exposure. The method is similar to that for Stage 2 assets, with the PD set at 100% and with higher LGD than Stage 1 and Stage 2.



2. ACCOUNTING POLICIES (continued)  
2.5 Summary of significant accounting policies (continued)  
2.5.4 Impairment of financial assets (continued)

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- Oil price indices
- Financial market performance indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, governmental guarantees, other non-financial assets and credit enhancements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39.

Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed periodically. However, some collaterals, for example, cash or securities, are valued daily.

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2. ACCOUNTING POLICIES (continued)  
2.5 Summary of significant accounting policies (continued)  
2.5.4 Impairment of financial assets (continued)

Modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, (rather than taking possession or to otherwise enforce collection of collateral). The Bank considers a loan forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. It is the Bank's policy to monitor forbore loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forbore asset until it is collected or written off.

2.5.5 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 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.

2.5.6 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. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 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 statement of income, the increase is recognized in statement of income. 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.

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.

2.5.8 Intangible assets

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 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.

2.5.10 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.

2.5.11 Fiduciary Assets

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

2.5.12 Issued currency

The liability of the CBI towards banknotes 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 that are returned to the CBI are reduced from the issued currency balance. Any un-issued and returned banknotes 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 income when incurred.

2. ACCOUNTING POLICIES (continued)  
2.5 Summary of significant accounting policies (continued)

## 2.5.13 Governments grants

Government grants are recognized 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 recognized 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 recognized 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 statement of income 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

	2019 IQD million	2018 IQD million
Gold reserve at CBI vault	247,346	208,149
Gold reserve abroad *	5,324,651	4,480,853
Gold coins at CBI vault	1,902	1,601
	<u>5,573,899</u>	<u>4,690,603</u>

The movement on the gold reserve during 2019 was as follows:

	2019 IQD million	2018 IQD million
Balance at 1 January	4,690,603	4,434,627
Gold purchased during the year	-	295,193
Change in fair value	883,296	(39,217)
Balance at 1 31 December	<u>5,573,899</u>	<u>4,690,603</u>



# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
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## 4. CASH AND BALANCES WITH CENTRAL BANKS

	2019 IQD million	2018 IQD million
Cash on hand	1,162,482	2,452,932
Time deposit with Banque de France	3,155,889	656,048
Overnight deposits with Federal Reserve Bank of New York	2,732,193	3,249,388
Time deposit Bank of England	745,371	-
Time deposit with Reserve Bank of Australia	600,233	1,181,996
Current account with Federal Reserve Bank of New York	9,797	1,308
Current account with Central Bank of United Arab Emirates	1,239	1,216
Current account with De Nederlandsche Bank N.V.	434	345
Current account with Banque de France	282	86
Current account with Reserve Bank of Australia	274	130
Current account with Bank of England	269	36
Current account with People Bank of China	122	407
Cash seized by Banca D'Italia *	39,754	40,673
Allowance for credit losses **	(39,754)	(40,673)
	<u>8,408,585</u>	<u>7,543,892</u>

	31 December 2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	8,408,585	-	-	8,408,585
High standard grade	8,408,585	-	-	8,408,585
Standard grade	-	-	-	-
Impaired	-	-	39,754	39,754
	<u>8,408,585</u>	<u>-</u>	<u>39,754</u>	<u>8,448,339</u>
Less: allowance for credit losses	-	-	(39,754)	(39,754)
	<u>8,408,585</u>	<u>-</u>	<u>-</u>	<u>8,408,585</u>

	31 December 2018 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	7,543,892	-	-	7,543,892
High standard grade	7,543,892	-	-	7,543,892
Standard grade	-	-	-	-
Impaired	-	-	40,673	40,673
	<u>7,543,892</u>	<u>-</u>	<u>40,673</u>	<u>7,584,565</u>
Less: allowance for credit losses	-	-	(40,673)	(40,673)
	<u>7,543,892</u>	<u>-</u>	<u>-</u>	<u>7,543,892</u>

\* During 2014, Court of Rome ordered CBI to pay EUR 30 million (equivalent to IQD 39,754 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. CBI has fully provided for the amount of cash seized by Banca D'Italia.

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

## 4. CASH AND BALANCES WITH CENTRAL BANKS (continued)

\*\* The movement of the allowance for credit losses during 2019 was as follows:

	2019			Total
	IQD million			
	Stage 1	Stage 2	Stage 3	
At 1 January	-	-	40,673	40,673
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	-	-	-	-
Adjustments for foreign currency translation	-	-	(919)	(919)
At Year end	-	-	39,754	39,754

The movement of the allowance for credit losses during 2018 was as follows:

	2018			Total
	IQD million			
	Stage 1	Stage 2	Stage 3	
At 1 January	-	-	42,393	42,393
Transition adjustment on adoption of IFRS 9	-	-	-	-
At 1 January - restated	-	-	42,393	42,393
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	-	-	-	-
Adjustments for foreign currency translation	-	-	(1,720)	(1,720)
At Year end	-	-	40,673	40,673

## 5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019	2018
	IQD million	IQD million
Current accounts with local banks	214,197	40,713
Due from governmental banks	5,026	5,142
Current accounts with foreign banks	1,055	726
Time deposits with foreign banks	17,807,280	15,921,673
Frozen and old outstanding deposits with foreign banks*	494,107	498,638
	18,521,665	16,466,892
Allowance for credit losses **	(499,312)	(507,586)
	18,022,353	15,959,306

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

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

	31 December 2019			Total
	IQD million			
Due from banks and other financial institutions	Stage 1	Stage 2	Stage 3	
High standard grade	18,021,711	-	-	18,021,711
Standard grade	759	-	-	759
Impaired	-	-	499,195	499,195
	<u>18,022,470</u>	<u>-</u>	<u>499,195</u>	<u>18,521,665</u>
Less: allowance for credit Losses**	(117)	-	(499,195)	(499,312)
	<u>18,022,353</u>	<u>-</u>	<u>-</u>	<u>18,022,353</u>

	31 December 2018			Total
	IQD million			
Due from banks and other financial institutions	Stage 1	Stage 2	Stage 3	
High standard grade	15,962,614	-	-	15,962,614
Standard grade	436	-	-	436
Impaired	-	-	503,842	503,842
	<u>15,963,050</u>	<u>-</u>	<u>503,842</u>	<u>16,466,892</u>
Less: allowance for credit losses**	(3,744)	-	(503,842)	(507,586)
	<u>15,959,306</u>	<u>-</u>	<u>-</u>	<u>15,959,306</u>

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

The provided for and the written off accounts include balances for an amount of IQD 401,310 million as at 31 December 2019 (2018: 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 2019. A full provision had been booked for these balances.

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

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

\*\* The movement of the allowance for credit losses during 2019 was as follows:

	2019			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	3,744	-	503,842	507,586
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	(3,627)	-	-	(3,627)
Adjustments for foreign currency translation	-	-	(4,647)	(4,647)
At Year end	117	-	499,195	499,312

The movement on allowance for credit losses during 2018 was as the following:

	2018			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	-	-	513,450	513,450
Transition adjustment on adoption of IFRS 9	2,508	-	62	2,570
At 1 January - restated	2,508	-	513,512	516,020
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	1,236	-	-	1,236
Adjustments for foreign currency translation	-	-	(9,670)	(9,670)
At Year end	3,744	-	503,842	507,586

## 6. HELD TO MATURITY INVESTMENTS

	2019	2018
	IQD million	IQD million
Federal Reserve Bank of New York - Bonds and bills (net)	38,271,276	37,806,622
Banque De France - Bonds (net)	3,722,938	3,887,896
Islamic Development Bank - Islamic Sukuk (net)	2,955,000	2,364,000
De Nederlandsche Bank N.V. - Bonds (net)	1,376,623	2,077,537
European Investment Bank (net)	1,116,512	748,656
Bank of England - Bonds (net)	513,475	639,315
People Bank of China - Bonds (net)	407,754	398,214
Allowance for credit losses	(248)	-
	<u>48,363,330</u>	<u>47,922,240</u>

CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

6. HELD TO MATURITY INVESTMENTS (continued)

	31 December 2019			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
Held to maturity investments				
High standard grade	48,363,578	-	-	48,363,578
Standard grade	-	-	-	-
Impaired	-	-	-	-
	<u>48,363,578</u>	<u>-</u>	<u>-</u>	<u>48,363,578</u>
Less: allowance for credit losses	(248)	-	-	(248)
	<u>48,363,330</u>	<u>-</u>	<u>-</u>	<u>48,363,330</u>

	31 December 2018			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
Held to maturity investments				
High standard grade	47,922,240	-	-	47,922,240
Standard grade	-	-	-	-
Impaired	-	-	-	-
	<u>47,922,240</u>	<u>-</u>	<u>-</u>	<u>47,922,240</u>
Less: allowance for credit losses	-	-	-	-
	<u>47,922,240</u>	<u>-</u>	<u>-</u>	<u>47,922,240</u>

7. LOANS TO COMMERCIAL AND GOVERNMENTAL BANKS

	2019	2018
	IQD million	IQD million
Loans to governmental banks **	1,539,526	1,617,278
Loans to commercial banks *	115,935	55,711
Allowance for credit losses ***	(12,443)	(81)
	<u>1,643,018</u>	<u>1,672,908</u>

	2019			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
Loans to commercial and governmental banks				
High standard grade	1,539,526	-	-	1,539,526
Standard grade	115,935	-	-	115,935
Impaired	-	-	-	-
	<u>1,655,461</u>	<u>-</u>	<u>-</u>	<u>1,655,461</u>
Less: allowance for credit losses ***	(12,443)	-	-	(12,443)
	<u>1,643,018</u>	<u>-</u>	<u>-</u>	<u>1,643,018</u>

	2018			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
Loans to commercial and governmental banks				
High standard grade	1,617,278	-	-	1,617,278
Standard grade	55,711	-	-	55,711
Impaired	-	-	-	-
	<u>1,672,989</u>	<u>-</u>	<u>-</u>	<u>1,672,989</u>
Less: allowance for credit losses ***	(81)	-	-	(81)
	<u>1,672,908</u>	<u>-</u>	<u>-</u>	<u>1,672,908</u>

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

\* CBI granted loans to specialized governmental banks amounted to IQD 1,539,526 million (2018: IQD 1,617,278 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.

\*\* CBI granted loans to commercial banks amounted to IQD 115,935 million (2018: IQD 55,711 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.

\*\*\* The movement of the allowance for credit losses during 2019 was as follows:

	31 December 2019			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	81	-	-	81
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	12,362	-	-	12,362
At Year end	12,443	-	-	12,443

	31 December 2018			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	-	-	-	-
Transition adjustment on adoption of IFRS 9	53	-	-	53
At 1 January - restated	53	-	-	53
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	28	-	-	28
At Year end	81	-	-	81

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## 8. DUE FROM MINISTRY OF FINANCE

	2019 IQD million	2018 IQD million
Due from Ministry of Finance *	1,755,519	1,955,519
Government of Iraq treasury bills **	13,125,393	13,925,393
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
	<u>15,880,912</u>	<u>17,834,101</u>

	31 December 2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Due from Ministry of Finance				
High standard grade	15,880,912	-	-	15,880,912
Standard grade	-	-	-	-
Impaired	-	-	-	-
	<u>15,880,912</u>	<u>-</u>	<u>-</u>	<u>15,880,912</u>
Less: allowance for credit losses	-	-	-	-
	<u>15,880,912</u>	<u>-</u>	<u>-</u>	<u>15,880,912</u>

	31 December 2018 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Due from Ministry of Finance				
High standard grade	17,834,101	-	-	17,834,101
Standard grade	-	-	-	-
Impaired	-	-	-	-
	<u>17,834,101</u>	<u>-</u>	<u>-</u>	<u>17,834,101</u>
Less: allowance for credit losses	-	-	-	-
	<u>17,834,101</u>	<u>-</u>	<u>-</u>	<u>17,834,101</u>

\* On 21 February 2006, a restructuring agreement was signed between CBI and MOF for the settlement of the total balance of IQD 5,393,890 million due to the CBI as of 31 December 2005 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.

8. DUE FROM MINISTRY OF FINANCE (continued)

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.

MOF had repaid the installment amounted IQD 200,000 million along with interest during the years 2017, 2018 and 2019 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 2018, MOF had repaid an amount of IQD 1,300,000 million of Government of Iraq treasury bills to CBI through the secondary market (Al-Rasheed and Al-Rafidain Banks). The remaining Government of Iraq treasury bills had been renewed based on the request of MOF with the same terms.

During 2019, MOF had repaid an amount of IQD 800,000 million of Government of Iraq treasury bills to CBI through the secondary market (Al-Rasheed and Al-Rafidain Banks). The remaining Government of Iraq treasury bills had been renewed based on the request of MOF with the same terms.

During 2019 an agreement was signed between the MOF and CBI to decrease the interest rates for the Treasury bills of Iraq through the secondary market (Al-Rasheed and Al-Rafidain Banks) with 364 days maturities to 4.99% instead of 7.48% starting from February 1st, 2019.

\*\*\* 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 2018, the CBI renewed the MOF treasury bills to pay amounts due to farmers based on the request of MOF with the same terms.

During 2019 an agreement was signed between the MOF and CBI to decrease the interest rates for the MOF treasury bills to pay amounts due to farmers through the secondary market (Al-Rasheed and Al-Rafidain Banks) with 364 days maturities to 4.99% instead of 7.48% starting from February 1st, 2019. In addition, the CBI renewed the MOF treasury bills to pay amounts due to farmers based on the request of MOF with the same terms.



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## 9. FOREIGN CURRENCIES INVESTMENTS AT IMF

	2019		2018	
	SDR	IQD million	SDR	IQD million
International Monetary Fund Quota Subscription	<u>1,373,850,000</u>	<u>2,245,565</u>	<u>1,373,850,000</u>	<u>2,258,491</u>
	<u>1,373,850,000</u>	<u>2,245,565</u>	<u>1,373,850,000</u>	<u>2,258,491</u>

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

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

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

## 10. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Projects under construction	Computers , Furniture & Fixtures	Vehicles	Total
	IQD million	IQD million	IQD million	IQD million	IQD million	IQD million
2019						
Cost or revaluation At 1 January	235,799	93,491	120,085	48,343	5,154	502,872
Additions	-	-	97,649	1,492	267	99,408
Disposals	-	-	-	(8)	-	(8)
At 31 December 2019	<u>235,799</u>	<u>93,491</u>	<u>217,734</u>	<u>49,827</u>	<u>5,421</u>	<u>602,272</u>
Accumulated Depreciation:						
At 1 January	-	4,580	-	39,147	3,680	47,407
Depreciation charged for the year	-	4,594	-	3,258	64	7,916
Disposals	-	-	-	(8)	-	(8)
At 31 December 2019	<u>-</u>	<u>9,174</u>	<u>-</u>	<u>42,397</u>	<u>3,744</u>	<u>55,315</u>
Net book value	<u>235,799</u>	<u>84,317</u>	<u>217,734</u>	<u>7,430</u>	<u>1,677</u>	<u>546,957</u>

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## 10. PROPERTY AND EQUIPMENT, NET (continued)

	Land	Buildings	Projects under construction	Computers , Furniture & Fixtures	Vehicles	Total
	IQD million	IQD million	IQD million	IQD million	IQD million	IQD million
2018						
Cost or revaluation						
At 1 January	234,996	93,153	42,177	43,256	5,148	418,730
Additions	803	338	77,908	5,087	6	84,142
At 31 December 2018	<u>235,799</u>	<u>93,491</u>	<u>120,085</u>	<u>48,343</u>	<u>5,154</u>	<u>502,872</u>
Accumulated Depreciation:						
At 1 January	-	-	-	33,129	3,603	36,732
Depreciation charged for the year	-	4,580	-	6,018	77	10,675
At 31 December 2018	<u>-</u>	<u>4,580</u>	<u>-</u>	<u>39,147</u>	<u>3,680</u>	<u>47,407</u>
Net book value	<u>235,799</u>	<u>88,911</u>	<u>120,085</u>	<u>9,196</u>	<u>1,474</u>	<u>455,465</u>

Whether lands and buildings were measured using cost model, the book value for these lands and buildings as of 31 December 2019 would be as follows:

	Lands IQD million	Buildings IQD million
Cost at 1 January 2019	88,171	56,177
Accumulated Depreciation	-	(13,094)
	<u>88,171</u>	<u>43,083</u>

## 11. INTANGIBLE ASSETS, NET

	2019 IQD million	2018 IQD million
Balance at 1 January	9,142	6,961
Additions	2,491	3,582
Amortization for the year	(1,558)	(1,401)
Balance at 31 December	<u>10,075</u>	<u>9,142</u>

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## 12. OTHER ASSETS

	2019 IQD million	2018 IQD million
Interest receivable	729,987	788,072
Loans to employees	80,163	82,932
Allowance for credit losses *	(48)	(546)
Advances on acquisition of property and equipment	74,764	84,384
Advances on investment	50,000	50,000
Golden coins for sale	4,533	4,708
Others	1,189	588
	<u>940,588</u>	<u>1,010,138</u>

	31 December 2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
High standard grade	729,987	-	-	729,987
Standard grade	80,163	-	-	80,163
Impaired	-	-	-	-
	<u>810,150</u>	<u>-</u>	<u>-</u>	<u>810,150</u>
Less: allowance for credit losses *	(48)	-	-	(48)
	<u>810,102</u>	<u>-</u>	<u>-</u>	<u>810,102</u>

	31 December 2018 IQD million			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
High standard grade	788,072	-	-	788,072
Standard grade	82,932	-	-	82,932
Impaired	-	-	-	-
	<u>871,004</u>	<u>-</u>	<u>-</u>	<u>871,004</u>
Less: allowance for credit losses *	(546)	-	-	(546)
	<u>870,458</u>	<u>-</u>	<u>-</u>	<u>870,458</u>

# CENTRAL BANK OF IRAQ

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## 12. OTHER ASSETS (continued)

\* The movement of the allowance for credit losses during 2019 was as follows:

	2019			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	546	-	-	546
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	(498)	-	-	(498)
At Year end	48	-	-	48

\* The movement of the allowance for credit losses during 2018 was as follows:

	2018			
	IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	1,000	-	-	1,000
Transition adjustment on adoption of IFRS 9	(279)	-	-	(279)
At 1 January - restated	721	-	-	721
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	(175)	-	-	(175)
At Year end	546	-	-	546

## 13. CURRENCY ISSUED

	2019	2018
	IQD million	IQD million
Banknotes	51,834,750	44,264,484
	51,834,750	44,264,484

## 14. TREASURY BILLS ISSUED

	2019	2018
	IQD million	IQD million
Face value	371,180	265,000
Unamortized discount	(8,289)	(3,918)
	362,891	261,082

## 14. TREASURY BILLS ISSUED (continued)

The discounted treasury bills are auctioned off to local banks with interest rate between 1.5% to 3% (2018: interest rates between 1.4% to 2.9%) in accordance with the instructions issued by CBI.

Treasury bills are issued with original maturity between three to 364 days. Total treasury bills issued during the year 2019 amounted to IQD 371,180 million (2018: 265,000 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

	2019 IQD million	2018 IQD million
Current accounts *	25,845,905	22,408,069
Time deposits	1,179,046	1,137,500
Due to Sulaymania and Erbil branches **	16,974	5,967
Others	552,270	467,573
	<u>27,594,195</u>	<u>24,019,109</u>

\* According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at CBI equivalent to 15% of the total of their customers' current accounts in Iraqi Dinar and foreign currencies (2018: equivalent to 15%) and equivalent to 10% of the total of their customers' saving and time deposits (2018: equivalent to 10%). The local banks current accounts at CBI include a compulsory reserve of IQD 3,985,988 million as of 31 December 2019 (2018: IQD 4,108,611 million) and a balance in USD amounted to USD 1,225,980,181 equivalent to IQD 1,449,109 million (2018: balance in USD 1,020,154,075 equivalent to IQD 1,205,822 million). Compulsory reserve represents a non-interest-bearing liability.

\*\* These balances are due to old Erbil branch and Sulaymania branch which are not subject to the management and supervision of CBI and are not considered as part of CBI's financial system.

## 16. DUE TO FOREIGN GOVERNMENTS AND BANKS

	2019 IQD million	2018 IQD million
Overdraft accounts	25,486	31,898
Due to foreign governments and financial institutions	9	9
Others	6,597	6,300
	<u>32,092</u>	<u>38,207</u>

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## 17. DUE TO INTERNATIONAL MONETARY FUND

	2019 SDR	2019 IQD million	2018 SDR	2018 IQD million
IMF securities	1,366,473,746	2,264,804	1,369,690,500	2,330,155
Currency Holdings: IMF No. 1 Account including Currency Valuation Adjustments	4,159,500	6,878	4,159,500	7,076
IMF No. 2 Account including Currency Valuation Adjustments	12,580	21	12,580	21
	<u>1,370,645,826</u>	<u>2,271,703</u>	<u>1,373,862,580</u>	<u>2,337,252</u>

As further explained in note (9) IMF accounts comprise of assets in the form of Quota account and liabilities in the form of securities account and IMF accounts number (1) and (2).

During 2018, 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

	2019 IQD million	2018 IQD million
Due to Ministry of Finance	8,221,856	20,198,428
Due to other governmental institutions	90,503	74,710
	<u>8,312,359</u>	<u>20,273,138</u>

## 19. OTHER LIABILITIES

	2019 IQD million	2018 IQD million
Dormant accounts	101,235	70,866
Accounts payable	32,173	26,032
Interest payable	22,608	16,454
Interbranch balances with Basra and Mosul branches	162	185
Others	48,269	49,271
	<u>204,447</u>	<u>162,808</u>

## 20. CAPITAL

According to Article 5 of the Central Bank of Iraq Law of 2004 and its amendment issued in 2 January 2018, the authorized capital of CBI shall be IQD 1,000,000 million fully owned by the Republic of Iraq in exchange for 100% of CBI's capital stock. 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.

## 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

	2019 IQD million	2018 IQD million
Gold revaluation reserve, beginning of year	69,828	109,045
Gold revaluation (loss) gain for the year	883,296	(39,217)
Gold revaluation reserve, end of year	<u>953,124</u>	<u>69,828</u>

## 23. LANDS AND BUILDINGS REVALUATION RESERVE

Effective 31 December 2017, CBI made a voluntary change in its accounting policy for subsequent measurement of lands and buildings classes of property and equipment 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

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 26 May 2019, CBI's Board of Directors decided to transfer the retained earnings of the year of 2018 amounted to IQD 1,617,943 million to general reserve and emergency reserve.

On 29 March 2018, CBI's Board of Directors decided to transfer the retained earnings of the year of 2017 amounted to IQD 3,533,264 million to general reserve and emergency reserve after taking into consideration the effect of adopting IFRS 9 on opening balances of 2018 which amounted to IQD 2,344 million.

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## 25. INTEREST INCOME

	2019 IQD million	2018 IQD million
Held to maturity	981,776	623,232
Due from Ministry of Finance	655,208	982,150
Due from banks	434,199	333,858
Overnight deposits	82,730	74,262
Others	31,491	33,238
	<u>2,185,404</u>	<u>2,046,740</u>

## 26. INTEREST EXPENSE

	2019 IQD million	2018 IQD million
Interest expenses on overnight investment for MOF	228,577	124,577
Local banks time deposits	10,481	13,884
Treasury bills	5,272	5,788
Others	285	2
	<u>244,615</u>	<u>144,251</u>

## 27. NET FEES AND COMMISSIONS INCOME

	2019 IQD million	2018 IQD million
Fee and commission income	463,982	428,789
Fee and commission expense	(1,070)	(940)
	<u>462,912</u>	<u>427,849</u>

## 28. GENERAL AND ADMINISTRATIVE EXPENSES

	2019 IQD million	2018 IQD million
Printing and shipping expenses	46,948	59,267
Insurance	13,210	21,321
Maintenance	9,666	12,666
Contributions	2,739	850
Subscriptions	1,826	546
Traveling expenses	1,569	2,292
Professional fees	832	1,384
Training expenses	817	532
Fuel expense	560	548
Transportation	478	520
Communication and Postage	444	516
Others	2,066	3,140
	<u>81,155</u>	<u>103,582</u>



# CENTRAL BANK OF IRAQ

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## 29. CASH AND CASH EQUIVALENTS

	2019 IQD million	2018 IQD million
Cash and balances with central banks	8,408,585	7,543,892
Current accounts with foreign banks	1,055	726
Current accounts with local banks	214,197	40,713
Time deposits with foreign banks	17,807,280	15,921,673
Less: Deposit with maturities more than 3 months	<u>(21,231,555)</u>	<u>(5,402,841)</u>
	<u>5,199,562</u>	<u>18,104,163</u>

## 30. 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.

## 31. RISK MANAGEMENT

### 31.1 Introduction

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

# CENTRAL BANK OF IRAQ

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## 31. RISK MANAGEMENT (continued) 31.2 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	
	2019	2018
	IQD million	IQD million
Balances with central banks	7,285,857	5,131,633
Due from banks	18,521,665	16,466,892
Held to maturity investments	48,363,330	47,922,240
Loans to commercial and governmental banks	1,643,018	1,672,908
Due from Ministry of Finance	15,880,912	17,834,101
Foreign currencies investments at International Monetary Fund	2,245,565	2,258,491
Other assets	810,150	871,004
Total credit risk exposure	<u>94,750,497</u>	<u>92,157,269</u>

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

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

Bank	Credit rating		
	As at 31 December 2019		
	Moody's	S&P	Fitch
Federal Reserve Bank of New York	Aaa	AA+	AAA
Banque de France	AA2	AA	AA
De Nederlandsche Bank N.V.	Aaa	AAA	AAA
Bank of England	Aa2	AA	AA
Reserve Bank of Australia	Aaa	AAA	AAA
Islamic Development Bank	Aaa	AAA	AAA
People Bank of China	A1	A+	A+
European investment Bank	Aaa	AAA	AAA
Central Bank of United Arab Emirates	AA2	AA	AA

# CENTRAL BANK OF IRAQ

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## 31. RISK MANAGEMENT (continued) 31.2 Credit risk (continued)

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 2019 are as follows according to Moody's and S&P credit rating agency:

	Credit rating As at 31 December 2019		
	Moody's	S&P	Fitch
Bank			
Federal Reserve Bank of New York	Aaa	AAA	AAA
Banque de France	AA2	AA	AA
De Nederlandsche Bank N.V.	Aaa	AAA	AAA
Bank of England	Aa2	AA	AA
Islamic Development Bank	Aaa	AAA	AAA
People Bank of China	A1	A+	A+
European investment Bank	Aaa	AAA	AAA

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

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

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

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

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

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 31. RISK MANAGEMENT (continued) 31.2 Credit risk (continued)

	31 December 2019 IQD million	31 December 2018 IQD million
Bank		
Federal Reserve Bank of New York	41,013,267	41,057,318
Arab Monetary Fund	9,773,951	8,406,266
Bank of International Settlement	7,677,189	7,515,638
Banque de France	6,879,134	4,544,030
Islamic Development Bank	2,955,000	2,364,000
De Nederlandsche Bank	1,377,057	2,077,882
Bank of England	1,259,114	639,351
European investment Bank	1,116,487	748,656
Reserve Bank of Australia	600,507	1,182,126
People Bank of China	407,876	398,621
JP Morgan Chase	356,376	-
Other banks	1,812	1,649
	<u>73,417,770</u>	<u>68,935,537</u>

### 31.3 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.

### 31.4 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.

#### 31.4.1 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 2019 the CBI kept the same interest rate of time deposit, whereas the interest rate of time deposit of local banks with CBI between 1% to 1.5% for the time deposit and for the USD 1,25% (2018: 0.5% to 1%).

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 31. RISK MANAGEMENT (continued)

#### 31.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2019:

	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
<b>ASSETS</b>							
Gold reserve	-	-	-	-	-	5,573,899	5,573,899
Cash and balances with central banks	4,939,315	48,734	682,512	-	-	2,738,024	8,408,585
Due from banks	-	12,570,074	5,409,781	-	-	42,498	18,022,353
Held to maturity investments	-	-	20,359,904	-	28,003,426	-	48,363,330
Loans to commercial and governmental banks	-	-	-	-	1,643,018	-	1,643,018
Due from Ministry of Finance	-	-	-	13,290,765	2,590,147	-	15,880,912
Foreign currencies investments at IMF	-	-	-	-	-	2,245,565	2,245,565
Property and equipment, net	-	-	-	-	-	546,957	546,957
Intangible assets, net	-	-	-	-	-	10,075	10,075
Other assets	-	-	-	-	76,714	863,874	940,588
<b>TOTAL ASSETS</b>	<b>4,939,315</b>	<b>12,618,808</b>	<b>26,452,197</b>	<b>13,290,765</b>	<b>32,313,305</b>	<b>12,020,892</b>	<b>101,635,282</b>
<b>LIABILITIES</b>							
Currency issued	-	-	-	-	-	51,834,750	51,834,750
Treasury bills issued	-	-	169,667	193,224	-	-	362,891
Deposits of local banks	1,306,809	-	-	-	-	26,287,386	27,594,195
Due to foreign governments and banks	-	-	-	-	-	32,092	32,092
Due to International Monetary Fund	-	-	-	-	-	2,271,703	2,271,703
Due to governmental institutions	-	-	-	-	-	8,312,359	8,312,359
Other liabilities	-	-	-	-	-	204,447	204,447
<b>TOTAL LIABILITIES</b>	<b>1,306,809</b>	<b>-</b>	<b>169,667</b>	<b>193,224</b>	<b>-</b>	<b>88,942,737</b>	<b>90,612,437</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,022,845</b>	<b>11,022,845</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,306,809</b>	<b>-</b>	<b>169,667</b>	<b>193,224</b>	<b>-</b>	<b>99,965,582</b>	<b>101,635,282</b>
<b>ITEM GAP</b>	<b>3,632,506</b>	<b>12,618,808</b>	<b>26,282,530</b>	<b>13,097,541</b>	<b>32,313,305</b>	<b>(87,944,690)</b>	<b>-</b>
<b>ACCUMULATED GAP</b>	<b>3,632,506</b>	<b>16,251,314</b>	<b>42,533,844</b>	<b>55,631,385</b>	<b>87,944,690</b>	<b>-</b>	<b>-</b>

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 31. RISK MANAGEMENT (continued)

#### 31.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2018:

	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
<b>ASSETS</b>							
Gold reserve	-	-	-	-	-	4,690,603	4,690,603
Cash and balances with central banks	4,431,383	43,722	612,326	-	-	2,456,461	7,543,892
Due from banks	-	11,131,158	4,790,515	-	-	37,633	15,959,306
Held to maturity investments	-	-	20,174,215	-	27,748,025	-	47,922,240
Loans to commercial and governmental banks	-	-	-	-	1,672,908	-	1,672,908
Due from Ministry of Finance	-	-	-	14,925,393	2,908,708	-	17,834,101
Foreign currencies investments at IMF	-	-	-	-	-	2,258,491	2,258,491
Property and equipment, net	-	-	-	-	-	455,465	455,465
Intangible assets, net	-	-	-	-	-	9,142	9,142
Other assets	-	-	-	-	82,387	927,751	1,010,138
<b>TOTAL ASSETS</b>	<b>4,431,383</b>	<b>11,174,880</b>	<b>25,577,056</b>	<b>14,925,393</b>	<b>32,412,028</b>	<b>10,835,546</b>	<b>99,356,286</b>
<b>LIABILITIES</b>							
Currency issued	-	-	-	-	-	44,264,484	44,264,484
Treasury bills issued	-	-	122,067	139,015	-	-	261,082
Deposits of local banks	1,137,500	-	-	-	-	22,881,609	24,019,109
Due to foreign governments and banks	-	-	-	-	-	38,207	38,207
Due to International Monetary Fund	-	-	-	-	-	2,337,252	2,337,252
Due to governmental institutions	-	-	-	-	-	20,273,138	20,273,138
Other liabilities	-	-	-	-	-	162,808	162,808
<b>TOTAL LIABILITIES</b>	<b>1,137,500</b>	<b>-</b>	<b>122,067</b>	<b>139,015</b>	<b>-</b>	<b>89,957,498</b>	<b>91,356,080</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,000,206</b>	<b>8,000,206</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,137,500</b>	<b>-</b>	<b>122,067</b>	<b>139,015</b>	<b>-</b>	<b>97,957,704</b>	<b>99,356,286</b>
<b>ITEM GAP</b>	<b>3,293,883</b>	<b>11,174,880</b>	<b>25,454,989</b>	<b>14,786,378</b>	<b>32,412,028</b>	<b>(87,122,158)</b>	<b>-</b>
<b>ACCUMULATED GAP</b>	<b>3,293,883</b>	<b>14,468,763</b>	<b>39,923,752</b>	<b>54,710,130</b>	<b>87,122,158</b>	<b>-</b>	<b>-</b>

## 31. RISK MANAGEMENT (continued)

## 31.4 Market risk (continued)

## 31.4.2 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	
	2019	2018
Iraqi Dinar	18.49%	20.88%
US Dollar	71.67%	68.20%
Euro	5.39%	6.40%
SDR	2.21%	2.27%
Others	2.24%	2.25%

# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 31. RISK MANAGEMENT (continued) 31.4 Market risk (continued) 31.4.2 Currency risk (continued)

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

31 December 2019	IQD IQD million	USD IQD million	EUR IQD million	SDR IQD million	Others IQD million	Total IQD million
<b>ASSETS</b>						
Gold reserve	-	5,573,899	-	-	-	5,573,899
Cash and balances with central banks	-	6,732,202	330,113	-	1,346,270	8,408,585
Due from banks	-	18,022,045	35	-	273	18,022,353
Held to maturity investments	-	42,342,540	5,099,562	-	921,228	48,363,330
Loans to commercial and governmental banks	1,643,018	-	-	-	-	1,643,018
Due from Ministry of Finance	15,880,912	-	-	-	-	15,880,912
Foreign currencies investments at IMF	-	-	-	2,245,565	-	2,245,565
Property and equipment, net	546,957	-	-	-	-	546,957
Intangible assets, net	10,075	-	-	-	-	10,075
Other assets	716,045	168,347	47,659	-	8,537	940,588
<b>TOTAL ASSETS</b>	<b>18,797,007</b>	<b>72,839,033</b>	<b>5,477,369</b>	<b>2,245,565</b>	<b>2,276,308</b>	<b>101,635,282</b>
<b>LIABILITIES AND EQUITY</b>						
Currency issued	51,834,750	-	-	-	-	51,834,750
Treasury bills issued	339,299	23,592	-	-	-	362,891
Deposits of local banks	22,490,157	5,073,331	30,707	-	-	27,594,195
Due to foreign governments and banks	22,472	6,907	2,713	-	-	32,092
Due to International Monetary Fund	2,271,703	-	-	-	-	2,271,703
Due to governmental institutions	999,696	6,977,735	334,928	-	-	8,312,359
Other liabilities	201,119	3,297	31	-	-	204,447
Equity	11,022,845	-	-	-	-	11,022,845
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>89,182,041</b>	<b>12,084,862</b>	<b>368,379</b>	<b>-</b>	<b>-</b>	<b>101,635,282</b>
<b>NET</b>	<b>(70,385,034)</b>	<b>60,754,171</b>	<b>5,108,990</b>	<b>2,245,565</b>	<b>2,276,308</b>	<b>-</b>



# CENTRAL BANK OF IRAQ

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019

### 31. RISK MANAGEMENT (continued)

#### 31.4 Market risk (continued)

##### 31.4.2 Currency risk (continued)

31 December 2018	IQD IQD million	USD IQD million	EUR IQD million	SDR IQD million	Others IQD million	Total IQD million
<b>ASSETS</b>						
Gold reserve	-	4,690,603	-	-	-	4,690,603
Cash and balances with central banks	-	6,025,062	336,261	-	1,182,569	7,543,892
Due from banks	-	15,958,930	111	-	265	15,959,306
Held to maturity investments	-	40,919,277	5,965,434	-	1,037,529	47,922,240
Loans to commercial and governmental banks	1,672,908	-	-	-	-	1,672,908
Due from Ministry of Finance	17,834,101	-	-	-	-	17,834,101
Foreign currencies investments at IMF	-	-	-	2,258,491	-	2,258,491
Property and equipment, net	455,465	-	-	-	-	455,465
Intangible assets, net	9,142	-	-	-	-	9,142
Other assets	774,022	167,141	53,741	-	15,234	1,010,138
<b>TOTAL ASSETS</b>	<b>20,745,638</b>	<b>67,761,013</b>	<b>6,355,547</b>	<b>2,258,491</b>	<b>2,235,597</b>	<b>99,356,286</b>
<b>LIABILITIES AND EQUITY</b>						
Currency issued	44,264,484	-	-	-	-	44,264,484
Treasury bills issued	261,082	-	-	-	-	261,082
Deposits of local banks	19,831,910	4,157,031	30,168	-	-	24,019,109
Due to foreign governments and banks	28,522	6,909	2,776	-	-	38,207
Due to International Monetary Fund	2,337,252	-	-	-	-	2,337,252
Due to governmental institutions	5,316,017	14,614,457	342,664	-	-	20,273,138
Other liabilities	161,184	1,618	6	-	-	162,808
Equity	8,000,206	-	-	-	-	8,000,206
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>80,200,657</b>	<b>18,780,015</b>	<b>375,614</b>	<b>-</b>	<b>-</b>	<b>99,356,286</b>
<b>NET</b>	<b>(59,455,019)</b>	<b>48,980,998</b>	<b>5,979,933</b>	<b>2,258,491</b>	<b>2,235,597</b>	<b>-</b>

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

## 32. 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
	2019	2018		
Gold reserve	5,573,899	4,690,603	Level 1	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 2019		31 December 2018		Fair value level
	Total carrying amount	Total fair value	Total carrying amount	Total fair value	
	IQD million		IQD million		
Financial assets not measured in fair value					
Cash and balances with central banks	8,408,585	8,408,585	7,543,892	7,543,892	Level 2
Due from banks	18,022,353	18,022,353	15,959,306	15,959,306	Level 2
Held to maturity Investments	48,363,330	48,145,756	47,922,240	47,352,569	Level 1
Loans to commercial and governmental banks	1,643,018	1,643,018	1,672,908	1,672,908	Level 2
Due from Ministry of Finance	15,880,912	15,880,912	17,834,101	17,834,101	Level 2
	<u>92,318,198</u>	<u>92,100,624</u>	<u>90,932,447</u>	<u>90,362,776</u>	
Financial liabilities not measured in fair value					
Currency issued	51,834,750	51,834,750	44,264,484	44,264,484	Level 2
Treasury bills issued	362,891	362,891	261,082	261,082	Level 2
Due to banks	27,594,195	27,594,195	24,019,109	24,019,109	Level 2
Due to foreign governments and banks	32,092	32,092	38,207	38,207	Level 2
Due to governmental institutions	8,312,359	8,312,359	20,273,138	20,273,138	Level 2
	<u>88,136,287</u>	<u>88,136,287</u>	<u>88,856,020</u>	<u>88,856,020</u>	

## 33. 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 2019 IQD million	Foreign Countries 2019 IQD million	Total 2019 IQD million
Revenues	1,222,593	2,320,936	3,543,529
Total Assets	25,709,098	75,926,184	101,635,282
Total Liabilities	88,311,137	2,301,300	90,612,437

	Iraq 2018 IQD million	Foreign Countries 2018 IQD million	Total 2018 IQD million
Revenues	1,478,479	1,031,351	2,509,830
Total Assets	27,951,403	71,404,883	99,356,286
Total Liabilities	88,980,618	2,375,462	91,356,080

# CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2019

## 34. 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:

	2019 IQD million	2018 IQD million
<b>ASSETS</b>		
Loans to governmental banks	1,539,526	1,617,278
Due from Ministry of Finance	1,755,519	1,955,519
Government of Iraq treasury bills	13,125,393	13,925,393
Treasury bills to pay amounts due to farmers	1,000,000	1,000,000
Bonds to pay amounts due to farmers	-	953,189
Current accounts with local banks	214,197	40,713
Due from a governmental bank	5,026	5,142
Allowance for impairment losses of due from governmental Banks	(5,026)	(5,142)
<b>LIABILITIES</b>		
Treasury bills issued	74,940	-
Deposits of governmental banks	18,022,641	14,306,469
Due to Ministry of Finance	8,221,856	20,198,428
Due to other governmental institutions	90,503	74,710
<b>INCOME STATEMENT</b>		
Interest income from Ministry of Finance	655,208	982,150
Interest expense on treasury bills issued	107	3,274
Interest expenses on governmental banks deposits	3,607	-
Interest expenses on overnight investment for MOF	228,577	124,577

## 35. 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) and included as part of CBI records.

To avoid immunity clearance over DFI due to expiry of American presidential executive order of protecting Iraqi funds, on 27 May 2014, all these balances were transferred to the 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 at this account, and at the same time a current account of Ministry of Finance was opened against this account.

## 36. COMMITMENTS AND CONTINGENT LIABILITIES

various parties have filed lawsuits in different countries against the Central Bank of Iraq as representative of Iraq for the payment of past due debts related to ministries and governmental entities in amount of 1,195,451 million Iraqi dinars (2018: 1,336,027 million Iraqi dinars). According to the Ministry of Finance letter no. 744 dated 12 May 2019, CBI will not bear the results of those lawsuits, rather the related governmental entities will bear the cost.

## 37. 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 2,923,991 million (2018: IQD 3,868,739 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 2019, the IMF accounts related to MOF held off CBI's records comprise of Reserve tranche positions amounted to SDR 289,950,000 (2018: SDR 289,950,000), SDR Holdings amounted to SDR 2,976,260 (2018: SDR 2,733,063), IMF loans to MOF amounted to SDR 1,768,347,746 (2018: SDR 2,274,087,500) and SDR allocations amounted to SDR 1,134,495,508 (2018: SDR 1,134,495,508).

## 38. SUBSEQUENT EVENTS

- The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The outbreak of Covid-19 may have an impact on the Bank's assets and its customers in the various economic sectors.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the COVID 19 and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorization of these consolidated financial statements. These developments could impact the Bank's assets, future financial results, cash flows and financial condition.

- The Board of Directors of CBI's decided in its meeting No. (1594) held on 21 June 2020, agree to increase the capital of the CBI from IQD 1 trillion to IQD 3 trillion, by using part of the general reserve balance of IQD 2 trillion.