Central Bank of Iraq

Financial Statements

31 December 2020

EY
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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 2020, 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 2020, 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.

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.

شركة مصطفى فؤاد عباس وشريكه
عضو في مؤسسة
ارنست ويونغ العالمية المحدودة
A Member Firm of Ernst & Young Global Limited
Mustafa Fouad Abbas & Co.

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Baghdad – Iraq
31 March 2021

CENTRAL BANK OF IRAQ

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020

	Notes	2020 IQD million	2019 IQD million
ASSETS			
Gold reserve	3	8,490,323	5,573,899
Cash and balances with central banks	4	13,874,631	8,408,585
Due from banks and other financial institutions	5	23,343,064	18,022,353
Financial assets at fair value through profit or loss	6	673,198	-
Financial investments at amortized cost	7	31,938,174	48,363,330
Loans to governmental and commercial banks	8	1,970,996	1,643,018
Due from Ministry of Finance	9	42,007,912	15,880,912
Foreign currencies investments at International Monetary Fund	10	2,869,137	2,245,565
Investment in associate	11	50,000	-
Property and equipment, net	12	625,497	546,957
Intangible assets, net	13	8,361	10,075
Other assets	14	1,120,010	940,588
TOTAL ASSETS		126,971,303	101,635,282
LIABILITIES AND EQUITY			
LIABILITIES			
Currency issued	15	66,031,234	51,834,750
Treasury bills issued	16	31,720	362,891
Deposits of local banks and other financial institutions	17	23,401,357	27,594,195
Due to foreign governments and banks	18	38,855	32,092
Due to International Monetary Fund	19	2,233,927	2,271,703
Due to governmental institutions	20	7,330,430	8,312,359
Other liabilities	21	206,918	204,447
TOTAL LIABILITIES		99,274,441	90,612,437
EQUITY			
Capital	22	3,000,000	1,000,000
General reserve	23	4,309,866	4,598,391
Emergency reserve	23	2,547,799	2,119,931
Gold revaluation reserve	24	3,869,548	953,124
Lands and buildings revaluation reserve	25	212,056	212,056
Retained earnings	26	13,757,593	2,139,343
TOTAL EQUITY		27,696,862	11,022,845
TOTAL LIABILITIES AND EQUITY		126,971,303	101,635,282

Mustafa Ghalib Mukheef
The Governor of the Central Bank of Iraq

Ihsan Shamran AlYasiri
Director General of Accounting Directorate

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2020

	Notes	2020 IQD million	2019 IQD million
REVENUES			
Interest income	27	1,677,150	2,185,404
Interest expense	28	(39,475)	(244,615)
Net interest income		1,637,675	1,940,789
Net fees and commissions income	29	384,976	462,912
Gold revaluation gain	24	2,916,424	883,296
Gains from financial assets at fair value through profit or loss	30	124,999	-
Foreign currency exchange gains (losses)	31	11,786,094	(120,419)
Other income		36,000	10,847
Gross profit		16,886,168	3,177,425
EXPENSES			
Employees' expenses		(54,169)	(55,672)
General and administrative expenses	32	(143,821)	(81,155)
Depreciation and amortization	13 , 12	(8,824)	(9,474)
Allowance for credit losses		(5,337)	(8,485)
PROFIT FOR THE YEAR		16,674,017	3,022,639
Add: other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		16,674,017	3,022,639

STATEMENT OF CHANGE IN EQUITY
YEAR ENDED 31 DECEMBER 2020

	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 2020		**1,000,000**	**4,598,391**	**2,119,931**	**953,124**	**212,056**	**2,139,343**	**11,022,845**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**16,674,017**	**16,674,017**
Transfers to reserves	26	**-**	**1,711,475**	**427,868**	**-**	**-**	**(2,139,343)**	**-**
Gold revaluation reserve for the year	24	**-**	**-**	**-**	**2,916,424**	**-**	**(2,916,424)**	**-**
Capital increase	22	**2,000,000**	**(2,000,000)**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2020		**3,000,000**	**4,309,866**	**2,547,799**	**3,869,548**	**212,056**	**13,757,593**	**27,696,862**
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	26	-	1,294,354	323,589	-	-	(1,617,943)	-
Gold revaluation reserve for the year	24	-	-	-	883,296	-	(883,296)	-
Balance at 31 December 2019		1,000,000	4,598,391	2,119,931	953,124	212,056	2,139,343	11,022,845

The accompanying notes from 1 to 43 are integral part of these financial statements

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2020

	Notes	2020 IQD million	2019 IQD million
OPERATING ACTIVITIES			
Profit for the year		16,674,017	3,022,639
Adjustments for:			
Depreciation of property and equipment		6,923	7,916
Amortization of intangible assets		1,901	1,558
Revaluation of Gold Reserve		(2,916,424)	(883,296)
Foreign currency translation (gains) losses		(11,786,094)	120,419
Unrealized gains from financial assets at fair value through profit or loss		(123,040)	-
Allowance for credit losses		5,337	8,485
Other income		(14,782)	-
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		1,847,838	2,277,721
CHANGES IN ASSETS AND LIABILITIES			
Deposits with maturities more than 3 months		(1,260,123)	(15,828,714)
Due from governmental banks		933	-
Financial assets at fair value through profit or loss		(430,176)	
Loans to governmental and commercial banks		(334,155)	17,528
Due from Ministry of Finance		(26,127,000)	1,953,189
Other assets		(184,596)	68,777
Currency issued		14,196,484	7,570,266
Deposits of local banks and other financial institutions		(5,300,106)	3,575,804
Due to foreign governments and banks		(922)	(6,049)
Due to governmental institutions		(1,937,657)	(11,952,627)
Other liabilities		15,468	41,639
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(19,514,012)	(12,282,466)
INVESTING ACTIVITIES			
Financial investments at amortized cost		22,930,152	(582,198)
Purchase of property and equipment		(85,463)	(99,408)
Purchase of intangible assets		(187)	(2,491)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		22,844,502	(684,097)
FINANCING ACTIVITIES			
Treasury bills		(331,362)	101,809
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		(331,362)	101,809
Net increase (decrease) in cash and cash equivalents		2,999,128	(12,864,754)
Effect of foreign currency translation on cash and cash equivalents		1,434,091	(39,847)
Cash and cash equivalents beginning of the year		5,199,562	18,104,163
CASH AND CASH EQUIVALENTS, END OF THE YEAR	33	9,632,781	5,199,562

The accompanying notes from 1 to 43 are integral part of these financial statements

1. ACTIVITIES

The Central Bank of Iraq ("The Bank") is a governmental entity that was established under the Central Bank of Iraq Law Number (43) of 1947 as amended and carrying out its activities under the Central Bank Law Number 56 of 2004 as amended.

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

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

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

The CBI's head office is located in Baghdad with four branches in Basra, Mosul, Erbil and Sulaymania.

On 13 October 2015, CBI Board of Directors and upon the approval of the Prime Minister decided that Sulaymaniyah branch is not subject to the administration and supervision of the CBI and is not considered as part of the CBI's financial system as the CBI does not currently control the administrative and financial operations of this branch, and the CBI does not have any obligations in return for its obligations, since it is 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 2020 do not include the figures of Sulaymaniyah branch.

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

The financial statements were authorized for issue by the Governor of Central Bank of Iraq on 31 March 2021.

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 and financial asset at fair value through profit or loss which have 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 2019 except for the adoption of new standards effective as of 1 January 2020 shown below:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank.

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. These amendments had no impact on the financial statements of the Bank.

2. ACCOUNTING POLICIES (continued)
2.2 Changes in accounting policies (continued)

Amendments to IFRS 7 and IFRS 9 Interest Rate Benchmark Reform

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. These amendments have no impact on the financial statements of the Bank.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This relates to any reduction in lease payments which are originally due on or before 30 June 2021. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

The Bank did not have any leases impacted by the amendment.

2.3 Standards issued but not yet 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: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement,
- the right to defer must exist at the end of the reporting period,
- that classification is unaffected by the likelihood,
- that an entity will exercise its deferral right,
- and that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

2. ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.
General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Bank.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

2. ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

IBOR reform Phase 2

IBOR reform Phase 2, which will be effective on 1 January 2021, includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

The amendments are not expected to have a material impact on the Bank

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 Sulaymania branch

As explained in note (1), on 13 October 2015, CBI Board of Directors and upon the approval of the Prime Minister decided that Sulaymania branch is not subject to the administration and supervision of the CBI and is not considered as part of the CBI's financial system as the CBI does not currently control the administrative and financial operations of this branch, and CBI does not have any obligations in return for its obligations, since it's 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 2020 do not include the figures of Sulaymania branch.

2.4.4 Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Bank considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.5 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
- Balances at banks and other financial institutions: individually at bank level
- Financial investments at amortized cost: individually at debt instrument level
- Due from Ministry of Finance: individually at debt instrument level
- Loans to governmental and commercial 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)

2.4.5 Allowance for expected credit losses (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)

2.4.5 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.

<u>Governing the implementation requirements of IFRS 9:</u>

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.

2.4.6 Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such estimates.

2. . ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.7 COVID-19 Impact

COVID-19 pandemic has severely impacted various economies globally, causing disruption to business and economic activities and resulting in significant uncertainties in the operating environment. Global financial markets have also experienced enhanced levels of volatility. The governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

Meanwhile, during the year, oil prices have witnessed unprecedented volatility and the overall decline in average oil prices is expected to have medium to long-term impact on economies.

The level of estimation uncertainty has increased since the first quarter of 2020 as a result of the economic disruption and consequential impact of the COVID-19 pandemic as explained in note 42.

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 2020:

Currency	Exchange rate for foreign currencies per IQD as at 31 December 2020	Exchange rate for foreign currencies per IQD as at 31 December 2019
USD	**1,450.000**	1,182.000
EUR	**1,770.885**	1,325.022
GBP	**1,982.585**	1,567.214
AUD	**1,115.630**	829.882
CNY	**222.222**	169.784
SDR	**2,088.392**	1,634.505

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Financial Assets and Liabilities

Balances with central banks, Balances at banks and other financial institutions, Financial investments at amortized cost, Loans to governmental and commercial banks, Due from Ministry of Finance and Loans to employees

The Bank measures Balances with central banks, Balances at banks and other financial institutions, Financial investments at amortized cost, Loans to governmental and commercial 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 2020. 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. The cumulative gain revaluation reserve is disclosed in "Gold revaluation reserve within the statement of changes in equity. Gains or losses resulting from the sale of these financial assets or part of them are taken to the statement of income.

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Financial Assets and Liabilities (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned on instruments designated at fair value through profit or loss is accrued in interest income using the effective interest rate, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at fair value through profit or loss is recorded using contractual interest rate.

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. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Fair value

The Bank measures financial instruments is at fair value at each financial statements' date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 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.
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

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 forborne 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 forborne 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 forborne 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 Balances at 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, if any. 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. Work in progress is stated at cost less accumulated impairment, if any.
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 statement of financial position 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 Investment in associate

The Bank's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of net assets of the associate Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income and the statement of comprehensive income reflect the share of the results of the associate. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, impairment is measured as the difference between the recoverable amount of the associate and its carrying value, and is recognized in the statement of income.

3. GOLD RESERVE

	2020 IQD million	2019 IQD million
Gold reserve at CBI vault	**376,765**	247,346
Gold reserve abroad	**8,110,661**	5,324,651
Gold coins at CBI vault	**2,897**	1,902
	8,490,323	5,573,899

The movement on the gold reserve during 2020 was as follows:

	2020 IQD million	2019 IQD million
Balance at 1 January	**5,573,899**	4,690,603
Change in fair value	**2,916,424**	883,296
	8,490,323	5,573,899

4. CASH AND BALANCES WITH CENTRAL BANKS

	2020 IQD million	2019 IQD million
Cash on hand	**4,887,469**	1,162,482
Time deposit with Banque de France	**6,119,440**	3,155,889
Overnight deposits with Federal Reserve Bank of New York	**1,763,724**	2,732,193
Time deposit Bank of England	**199,269**	745,371
Time deposit with Reserve Bank of Australia	**809,542**	600,233
Current account with Federal Reserve Bank of New York	**90,632**	9,797
Current account with Central Bank of United Arab Emirates	**1,526**	1,239
Current account with De Nederlandsche Bank N.V.	**631**	434
Current account with Banque de France	**426**	282
Current account with Reserve Bank of Australia	**367**	274
Current account with Bank of England	**1,068**	269
Current account with People Bank of China	**537**	122
Cash seized by Banca D'Italia *	**53,131**	39,754
Allowance for credit losses **	**(53,131)**	(39,754)
	13,874,631	8,408,585

* During 2014, Court of Rome ordered CBI to pay EUR 30 million (equivalent to IQD 53,131 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.

Non-interest bearing unrestricted and non-impaired deposits are amounted to IQD 95,187 million (2019: IQD 12,417 million).

Interest bearing unrestricted and non-impaired deposits are amounted to IQD 8,891,975 million (2019: IQD 7,233,686 million).

Unrestricted and non-impaired deposits with maturity more than 3 months are amounted to IQD 6,318,708 million (2019: IQD 3,780,696 million).

Cash and balances with central banks	2020 IQD million			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High standard grade	13,874,631	-	-	13,874,631
Standard grade	-	-	-	-
Impaired	-	-	53,131	53,131
	13,874,631	-	53,131	13,927,762
Less: allowance for credit losses	-	-	(53,131)	(53,131)
	13,874,631	-	-	13,874,631

4. CASH AND BALANCES WITH CENTRAL BANKS (continued)

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

** The movement of the allowance for expected credit losses during 2020 was as follows:

	2020 IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	-	-	39,754	39,754
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	-	-	-	-
Adjustments for foreign currency translation	-	-	13,377	13,377
At Year end	-	-	53,131	53,131

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

	2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
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

5. BALANCES AT BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 IQD million	2019 IQD million
Current accounts with local banks	**190,020**	214,197
Due from governmental banks	**5,784**	5,026
Current accounts with foreign banks	**77,774**	1,055
Time deposits with foreign banks	**21,780,277**	17,450,904
Overnight investment accounts with foreign banks	**1,295,121**	356,376
Frozen and old outstanding deposits with foreign banks *	**628,694**	494,107
	23,977,670	18,521,665
Allowance for credit losses **	**(634,606)**	(499,312)
	23,343,064	18,022,353

Non-interest bearing unrestricted and non-impaired deposits are amounted to IQD 267,794 million (2019: IQD 215,252 million).

Interest bearing unrestricted and non-impaired deposits are amounted to IQD 23,075,398 million (2019: IQD 17,807,280 million).

Unrestricted and non-impaired deposits with maturity more than 3 months are amounted to IQD 21,266,334 million (2019: IQD 17,450,859 million).

Restricted and impaired deposits are amounted to IQD 634,478 million (2019: IQD 499,195 million).

* 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 2020 (2019: 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 2020. A full provision had been booked for these balances.

5. BALANCES AT BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Balances at banks and other financial institutions	**2020 IQD million**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High standard grade	23,342,786	-	-	23,342,786
Standard grade	406	-	-	406
Impaired	-	-	634,478	634,478
	23,343,192	-	634,478	23,977,670
Less: allowance for credit losses**	(128)	-	(634,478)	(634,606)
	23,343,064	-	-	23,343,064

Balances at banks and other financial institutions	**2019 IQD million**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High standard grade	18,021,711	-	-	18,021,711
Standard grade	759	-	-	759
Impaired	-	-	499,195	499,195
	18,022,470	-	499,195	18,521,665
Less: allowance for credit losses**	(117)	-	(499,195)	(499,312)
	18,022,353	-	-	18,022,353

** The movement of the allowance for expected credit losses during 2020 was as follows:

	2020 IQD million			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January	117	–	499,195	499,312
Transfer from stage 1	-	–	–	-
Transfer from stage 2	-	–	–	-
Transfer from stage 3	-	–	–	-
Net remeasurement of ECL	11	–	(933)	(922)
Adjustments for foreign currency translation	-	–	136,216	136,216
At Year end	128	-	634,478	634,606

The movement on allowance for expected credit losses during 2019 was as the 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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 IQD million	2019 IQD million
Bonds and treasury bills held for trading	673,198	-
	673,198	-

7. FINANCIAL INVESTMENTS AT AMORTIZED COST

	2020 IQD million	2019 IQD million
Federal Reserve Bank of New York - Bonds and bills (net)	19,789,975	38,271,276
Islamic Development Bank - Islamic Sukuk (net)	4,205,000	2,955,000
Banque De France – Bonds (net)	3,042,290	3,722,938
European Investment Bank (net)	1,129,859	1,116,512
Citi Bank– Bonds (net)	989,201	-
JP Morgan- Bonds and bills (net)	783,675	
De Nederlandsche Bank N.V. – Bonds (net)	634,635	1,376,623
People Bank of China – Bonds (net)	578,830	407,754
Bank of England – Bonds (net)	422,547	513,475
Euroclear- Bonds (net)	362,500	-
Allowance for expected credit losses*	(338)	(248)
	31,938,174	48,363,330

The average interest rates on financial investments at amortized cost are between 0.25% and 3.6% (2019: 0.5% to 3.6%) maturing between 2021 and 2025 (2019: 2020 to 2025).

Financial investments at amortized cost	**2020 IQD million**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High standard grade	31,938,512	-	-	31,938,512
Standard grade	-	-	-	-
Impaired	-	-	-	-
	31,938,512	-	-	31,938,512
Less: allowance for credit losses	(338)	-	-	(338)
	31,938,174	-	-	31,938,174

Financial investments at amortized cost	2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
High standard grade	48,363,578	-	-	48,363,578
Standard grade	-	-	-	-
Impaired	-	-	-	-
	48,363,578	-	-	48,363,578
Less: allowance for credit losses*	(248)	-	-	(248)
	48,363,330	-	-	48,363,330

7. FINANCIAL INVESTMENTS AT AMORTIZED COST (continued)

* The movement of the allowance for expected credit losses during 2020 was as follows:

	2020 IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	248	-	-	248
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	90	-	-	90
Currency valuation differences	-	-	-	-
At Year end	338	-	-	338

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

	2019 IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	-	-	-	-
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	248	-	-	248
Currency valuation differences	-	-	-	-
At Year end	248	-	-	248

8. LOANS TO GOVERNMENTAL AND COMMERCIAL BANKS

	2020 IQD million	2019 IQD million
Loans to governmental banks *	1,722,064	1,539,526
Loans to commercial banks **	267,552	115,935
Allowance for expected credit losses ***	(18,620)	(12,443)
	1,970,996	1,643,018

Loans to governmental and commercial banks	2020 IQD million			
	Stage 1	Stage 2	Stage 3	Total
High standard grade	1,722,064	-	-	1,722,064
Standard grade	267,552	-	-	267,552
Impaired	-	-	-	-
	1,989,616	-	-	1,989,616
Less: allowance for credit losses ***	(18,620)	-	-	(18,620)
	1,970,996	-	-	1,970,996

8. LOANS TO GOVERNMENTAL AND COMMERCIALBANKS (continued)

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

* CBI granted loans to specialized governmental banks amounted to IQD 1,722,064 million (2019: IQD 1,539,526 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 1% with maturities of 7 to 15 years in order to achieve economic and social development.

** CBI granted loans to commercial banks amounted to IQD 267,552 million (2019: IQD 115,935 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 2% with maturities between 3 to 5 years in order to achieve economic and social development.

*** The movement of the allowance for expected credit losses during 2020 was as follows:

	2020 IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	**12,443**	**-**	**-**	**12,443**
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	6,177	-	-	6,177
At Year end	**18,620**	**-**	**-**	**18,620**

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

	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

9. DUE FROM MINISTRY OF FINANCE

	2020 IQD million	2019 IQD million
Due from Ministry of Finance *	**1,555,519**	1,755,519
Government of Iraq treasury bills **	**40,452,393**	14,125,393
	42,007,912	15,880,912

	2020 IQD million			
Due from Ministry of Finance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High standard grade	**42,007,912**	**-**	**-**	**42,007,912**
Standard grade	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
	42,007,912	**-**	**-**	**42,007,912**
Less: allowance for expected credit losses	**-**	**-**	**-**	**-**
	42,007,912	**-**	**-**	**42,007,912**

	2019 IQD million			
Due from Ministry of Finance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High standard grade	15,880,912	-	-	15,880,912
Standard grade	-	-	-	-
Impaired	-	-	-	-
	15,880,912	-	-	15,880,912
Less: allowance for expected credit losses	-	-	-	-
	15,880,912	-	-	15,880,912

* This amount represents a balance due from Ministry of Finance related to the period before 9 April 2003 and this amount had been rescheduled multiple times. The last reschedule was on 18 July 2016, where a rescheduling agreement was 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, 2019 and 2020 according to the rescheduling agreement signed between the two parties.

9. DUE FROM MINISTRY OF FINANCE (continued)

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

During 2016, the CBI renewed 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 1 February 2019.

During 2020, MOF sent a request letter to CBI to reschedule the remaining outstanding balance as of 31 December 2019 starting from a July 2020. The rescheduling agreement hasn't been signed yet although MOF had paid all accrued interests for the period between the last renewal date and the rescheduling date mentioned above. Also, during 2020, CBI purchased new Government of Iraq treasury bills amounted to IQD 26,327,000 million through the secondary market (Al-Rasheed Bank, Al-Rafidain Bank, Trade Bank of Iraq, and National Board of Pension) with 364 days maturities and interest rates 1.99%. to 4.99%.

10. FOREIGN CURRENCIES INVESTMENTS AT IMF

	2020		2019	
	SDR	IQD million	SDR	IQD million
International Monetary Fund Quota Subscription	1,373,850,000	2,869,137	1,373,850,000	2,245,565
	1,373,850,000	2,869,137	1,373,850,000	2,245,565

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.

11. INVESTMENT IN ASSOCIATE

2020	Country of incorporation	Date of incorporation	Date of acquisition	Company's capital	Ownership rate	Carrying amount of the investment	Principle activity
				IQD million		IQD million	
Hammurabi Commercial Bank	Iraq	2020	2020	201,000	24.88%	50,000	Banking operations
				201,000		50,000	

12. PROPERTY AND EQUIPMENT, NET

2020	Land IQD million	Buildings IQD million	Projects under construction IQD million	Computers, Furniture & Fixtures IQD million	Vehicles IQD million	Total IQD million
Cost or revaluation						
At 1 January	235,799	93,491	217,734	49,827	5,421	602,272
Additions	765	-	83,706	992	-	85,463
At 31 December 2020	236,564	93,491	301,440	50,819	5,421	687,735
Accumulated Depreciation:						
At 1 January	-	9,174	-	42,397	3,744	55,315
Depreciation charged for the year	-	4,607	-	2,250	66	6,923
At 31 December 2020	-	13,781	-	44,647	3,810	62,238
Net book value	236,564	79,710	301,440	6,172	1,611	625,497

12. PROPERTY AND EQUIPMENT, NET (continued)

2019	Land IQD million	Buildings IQD million	Projects under construction IQD million	Computers, Furniture & Fixtures IQD million	Vehicles IQD million	Total IQD million
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	235,799	93,491	217,734	49,827	5,421	602,272
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	-	9,174	-	42,397	3,744	55,315
Net book value	235,799	84,317	217,734	7,430	1,677	546,957

Whether lands and buildings were measured using cost model, the book value for these lands and buildings as of 31 December 2020 would be as follows:

	Lands IQD million	Buildings IQD million
Cost	**88,171**	**55,839**
Accumulated Depreciation	**-**	**(14,828)**
Net book value	**88,171**	**41,011**

13. INTANGIBLE ASSETS, NET

	2020 IQD million	2019 IQD million
Balance at 1 January	**10,075**	9,142
Additions	**187**	2,491
Amortization for the year	**(1,901)**	(1,558)
Balance at 31 December	**8,361**	10,075

14. OTHER ASSETS

	2020 IQD million	2019 IQD million
Interest receivable	938,868	729,987
Loans to employees	70,309	80,163
Advances on acquisition of property and equipment	84,517	74,764
Advances on investment	-	50,000
Golden coins for sale	4,495	4,533
Mutual accounts with the branches of Basra, Mosul and Erbil	3,570	-
Others	18,291	1,189
Allowance for expected credit losses *	(40)	(48)
	1,120,010	940,588

	2020 IQD million			
Other financial assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High standard grade	938,868	-	-	938,868
Standard grade	70,309	-	-	70,309
Impaired	-	-	-	-
	1,009,177	-	-	1,009,177
Less: allowance for expected credit losses *	(40)	-	-	(40)
	1,009,137	-	-	1,009,137

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

14. OTHER ASSETS (continued)

* The movement of the allowance for expected credit losses during 2020 was as follows:

	2020 IQD million			
	Stage 1	Stage 2	Stage 3	Total
At 1 January	48	-	-	48
Transfer from stage 1	-	-	-	-
Transfer from stage 2	-	-	-	-
Transfer from stage 3	-	-	-	-
Net remeasurement of ECL	(8)	-	-	(8)
At Year end	40	-	-	40

* The movement of the allowance for expected 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

15. CURRENCY ISSUED

	2020 IQD million	2019 IQD million
Banknotes	66,031,234	51,834,750
	66,031,234	51,834,750

16. TREASURY BILLS ISSUED

	2020 IQD million	2019 IQD million
Face value	34,600	371,180
Unamortized discount	(2,880)	(8,289)
	31,720	362,891

16. TREASURY BILLS ISSUED (continued)

The treasury bills are auctioned off to local banks with interest rate between 1.5% to 3% (2019: interest rates between 1.5% to 3%) in accordance with the instructions issued by CBI. Treasury bills are issued with original maturity between 30 days to 364 days. Total treasury bills issued during the year 2020 amounted to IQD 284,370 million (2019: 371,180 million). The purpose of issuing these Treasury bills is to ensure that proper control over market liquidity is maintained.

17. DEPOSITS OF LOCAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 IQD million	2019 IQD million
Current accounts *	**23,346,882**	25,845,905
Time deposits	**-**	1,179,046
Due to Sulaymaniyah branch **	**5,009**	16,974
Others	**49,466**	552,270
	23,401,357	27,594,195

* According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at CBI equivalent to 13% of the total of their customers' current accounts in Iraqi Dinar and foreign currencies (2019: equivalent to 15%) and equivalent to 10% of the total of their customers' saving and time deposits (2019: equivalent to 10%). The local banks current accounts at CBI include a compulsory reserve of IQD 3,229,992 million as of 31 December 2020 (2019: IQD 3,985,988million) and a balance in USD amounted to USD 1,084,045,353 equivalent to IQD 1,571,866 million (2019: balance in USD 1,225,980,181 equivalent to IQD 1,449,109 million). Compulsory reserve represents a non-interest-bearing liability.

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

18. DUE TO FOREIGN GOVERNMENTS AND BANKS

	2020 IQD million	2019 IQD million
Due to foreign governments and financial institutions	**30,814**	9
Overdraft accounts	**3,117**	25,486
Others	**4,924**	6,597
	38,855	32,092

19. DUE TO INTERNATIONAL MONETARY FUND

	2020 SDR	2020 IQD million	2019 SDR	2019 IQD million
IMF securities	**1,369,690,500**	**2,227,143**	1,369,690,500	2,264,804
IMF No. 1 Account including Currency Valuation Adjustments	**4,159,500**	**6,763**	4,159,500	6,878
IMF No. 2 Account including Currency Valuation Adjustments	**12,580**	**21**	12,580	21
	1,373,862,580	**2,233,927**	1,373,862,580	2,271,703

As further explained in note (10) 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).

20. DUE TO GOVERNMENTAL INSTITUTIONS

	2020 IQD million	2019 IQD million
Due to Ministry of Finance	**7,208,483**	8,221,856
Due to other governmental institutions	**121,947**	90,503
	7,330,430	8,312,359

21. OTHER LIABILITIES

	2020 IQD million	2019 IQD million
Dormant accounts	**122,158**	101,235
Accounts payable	**43,538**	32,173
Interest payable	**2,386**	22,608
Interbranch balances with Basra and Mosul branches	-	162
Others	**38,836**	48,269
	206,918	204,447

22. 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.

On 21 June 2020, CBI's Board of Directors based on the approval of Minister of Finance decided to increase the capital of the Bank to be 3,000,000 million where increase was transferred from the general reserve.

23. GENERAL RESERVE AND EMERGENCY RESERVE

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.

24. GOLD REVALUATION RESERVES

	2020 IQD million	2019 IQD million
Gold revaluation reserve, beginning of year	**953,124**	69,828
Gold revaluation gain for the year	**2,916,424**	883,296
Gold revaluation reserve, end of year	**3,869,548**	953,124

25. 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.

26. 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% 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 21 June 2020, CBI's Board of Directors decided to transfer the retained earnings of the year of 2019 amounted to IQD 2,139,343 million to general reserve and 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.

27. INTEREST INCOME

	2020 IQD million	2019 IQD million
Held to maturity	**599,290**	981,776
Due from Ministry of Finance	**819,456**	655,208
Balances at banks	**219,696**	434,199
Overnight deposits	**11,500**	82,730
Others	**27,208**	31,491
	1,677,150	2,185,404

28. INTEREST EXPENSE

	2020 IQD million	2019 IQD million
Overnight investment for MOF	**16,344**	228,577
Local banks time deposits	**5,818**	10,481
Treasury bills	**10,455**	5,272
Others	**6,858**	285
	39,475	244,615

29. NET FEES AND COMMISSIONS INCOME

	2020 IQD million	2019 IQD million
Fee and commission income	**385,945**	463,982
Fee and commission expense	**(969)**	(1,070)
	384,976	462,912

30. GAINS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 IQD million	2019 IQD million
Realized gains	1,959	-
Unrealized gains (including the change in foreign exchange rate)	123,040	-
	124,999	-

31. FOREIGN CURRENCY EXCHANGE GAINS (LOSSES)

	2020 IQD million	2019 IQD million
Foreign currency exchange gains (losses) *	11,786,094	(120,419)
	11,786,094	(120,419)

* On 20 December 2020, CBI changed the base exchange rate for USD from 1,182 IQD/USD to 1,450 IQD/USD which resulted in a gain from change in foreign exchange rate amounted to IQD 12,167,697 million.

32. GENERAL AND ADMINISTRATIVE EXPENSES

	2020 IQD million	2019 IQD million
Currency printing and shipping expenses	77,255	46,948
Donations to Ministry of Health	31,700	-
Insurance	11,229	13,210
Maintenance	11,446	9,666
Contributions to others	2,299	2,739
Subscriptions	2,326	1,826
Traveling expenses	336	1,569
Professional and consultations fees	815	832
Training expenses	23	817
Fuel expense	294	560
Transportation	320	478
General communication and internet	616	444
Others	5,162	2,066
	143,821	81,155

33. CASH AND CASH EQUIVALENTS

	2020 IQD million	2019 IQD million
Cash and balances with central banks	**13,874,631**	8,408,585
Current accounts with foreign banks	**77,774**	1,055
Current accounts with local banks	**190,020**	214,197
Overnight investment accounts with foreign banks	**1,295,121**	356,376
Time deposits with foreign banks	**21,780,277**	17,450,904
Less: Deposit with maturities more than 3 months	**(27,585,042)**	(21,231,555)
	9,632,781	5,199,562

34. 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.

35. RISK MANAGEMENT

35.1 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.

35. RISK MANAGEMENT (continued)

35.2 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 after taking the expected credit losses into account but without taking any collateral and other credit enhancements into account are detailed below:

	Gross maximum exposure	
	2020 IQD million	2019 IQD million
Balances with central banks	8,987,162	7,246,103
Balances at banks and other financial institutions	23,343,064	18,022,353
Financial investments at amortized cost	31,938,174	48,363,330
Loans to governmental and commercial banks	1,970,996	1,643,018
Due from Ministry of Finance	42,007,912	15,880,912
Foreign currencies investments at International Monetary Fund	2,869,137	2,245,565
Other assets	1,009,137	810,102
Total credit risk exposure	112,125,582	94,211,383

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 of Fitch, Moody's, and Standard & Poor's (S&P) 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 A-. 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 Fitch, Moody's, and S&P credit rating agencies:

	Credit rating As at 31 December 2020		
	Fitch	Moody's	S&P
Federal Reserve Bank of New York	AAA	Aaa	AAA
Banque de France	AA	AA2	AA
De Netherlandshe Bank N.V.	AAA	Aaa	AAA
Bank of England	AA	AA2	AA
Reserve Bank of Australia	AA+	Aaa	AAA
Islamic Development Bank	AAA	Aaa	AAA
People Bank of China	A+	A1	A+
JP Morgan	AA	Aa1	A+
Citibank	A	A3	BBB+
Euroclear	-	AA+	AA
Central Bank of United Arab Emirates	AA	AA2	AA

35. RISK MANAGEMENT (continued)
35.2 Credit risk (continued)

Investment securities: the CBI relies on long term credit ratings from Fitch, Moody's, and S&P. According to risk management policy, the qualified party issuing securities to the CBI must fall above a credit rating of A- given by these three rating agencies. 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 2020 are as follows according to Fitch, Moody's, and S&P credit rating agencies:

	Credit rating As at 31 December 2020		
	Fitch	Moody's	S&P
Federal Reserve Bank of New York	AAA	Aaa	AAA
Banque de France	AA	AA2	AA
De Netherlandshe Bank N.V.	AAA	Aaa	AAA
Bank of England	AA	AA2	AA
Islamic Development Bank	AAA	Aaa	AAA
People Bank of China	A+	A1	A+
JP Morgan	AA	Aa1	A+
Citibank	A	A3	BBB+
Euroclear	AA+	AA	-
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:

35. RISK MANAGEMENT (continued)

35.2 Credit risk (continued)

	31 December 2020 IQD million	31 December 2019 IQD million
Bank		
Federal Reserve Bank of New York	21,644,331	41,013,267
Arab Monetary Fund	12,172,594	9,773,951
Bank of International Settlement	9,576,236	7,677,189
Banque de France	9,162,156	6,879,134
Islamic Development Bank	4,205,000	2,955,000
De Nederlandsche Bank	635,266	1,377,057
Bank of England	622,884	1,259,114
European investment Bank	1,129,859	1,116,487
Reserve Bank of Australia	809,909	600,507
People Bank of China	579,367	407,876
JP Morgan Chase	2,078,796	356,376
Citibank	1,033,001	-
Euroclear	375,605	-
IBRD	51,910	-
Other banks	1,932	1,812
	64,078,846	73,417,770

35.3 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 A- 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 a year.
- 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.

35.4 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.

35.4.1 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 2020, CBI has ceased the time deposits (2019: 1% to 1.5%).

35. RISK MANAGEMENT (continued)

35.4.1 Interest rate risk (continued)

Following are the interest rate gaps as of 31 December 2020:

	Less than one 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 bearing items IQD million	Total IQD million
ASSETS							
Gold reserve	-	-	-	-	–	8,490,323	8,490,323
Cash and balances with central banks	4,112,226	1,636,313	3,143,436	-	–	4,982,656	13,874,631
Balances at banks and other financial institutions	6,043,951	6,672,288	8,372,618	1,986,542	–	267,665	23,343,064
Financial assets at fair value through profit or loss	673,198	–	-	-	–	–	673,198
Financial investments at amortized cost	548,455	2,494,683	7,854,993	5,532,972	15,507,071	–	31,938,174
Loans to governmental and commercial banks	23,282	46,566	69,849	139,697	1,691,602	–	1,970,996
Due from Ministry of Finance	–	–	4,509,250	22,017,750	15,480,912	–	42,007,912
Foreign currencies investments at IMF	–	–	–	–	–	2,869,137	2,869,137
Investment in associate	–	–	–	–	–	50,000	50,000
Property and equipment, net	–	–	–	–	–	625,497	625,497
Intangible assets, net	–	–	–	–	–	8,361	8,361
Other assets	25,597	48,821	112,867	198,602	623,250	110,873	1,120,010
TOTAL ASSETS	11,426,709	10,898,671	24,063,013	29,875,563	33,302,835	17,404,512	126,971,303
LIABILITIES							
Currency issued	–	–	–	–	–	66,031,234	66,031,234
Treasury bills issued	–	31,720	–	–	–	-	31,720
Deposits of local banks	–	–	–	–	–	23,401,357	23,401,357
Due to foreign governments and banks	–	–	–	–	–	38,855	38,855
Due to International Monetary Fund	–	–	–	–	–	2,233,927	2,233,927
Due to governmental institutions	2,222,978	–	–	–	–	5,107,452	7,330,430
Other liabilities	-	–	–	–	–	206,918	206,918
TOTAL LIABILITIES	2,222,978	31,720	-	-	-	97,019,743	99,274,441
TOTAL EQUITY	-	-	-	-	-	27,696,862	27,696,862
TOTAL LIABILITIES AND EQUITY	2,222,978	31,720	-	-	-	124,716,605	126,971,303
ITEM GAP	9,203,731	10,866,951	24,063,013	29,875,563	33,302,835	(107,312,093)	-
ACCUMULATED GAP	9,203,731	20,070,682	44,133,695	74,009,258	107,312,093	-	-

35. RISK MANAGEMENT (continued)

35.4.1 Interest rate risk (continued)

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

	Less than one 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 bearing items IQD million	Total IQD million
ASSETS							
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
Balances at banks and other financial institutions	-	12,570,074	5,409,781	-	-	42,498	18,022,353
Financial investments at amortized cost	-	-	20,359,904	-	28,003,426	-	48,363,330
Loans to governmental and commercial 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
TOTAL ASSETS	4,939,315	12,618,808	26,452,197	13,290,765	32,313,305	12,020,892	101,635,282
LIABILITIES							
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
TOTAL LIABILITIES	1,306,809	-	169,667	193,224	-	88,942,737	90,612,437
TOTAL EQUITY	-	-	-	-	-	11,022,845	11,022,845
TOTAL LIABILITIES AND EQUITY	1,306,809	-	169,667	193,224	-	99,965,582	101,635,282
ITEM GAP	3,632,506	12,618,808	26,282,530	13,097,541	32,313,305	(87,944,690)	-
ACCUMULATED GAP	3,632,506	16,251,314	42,533,844	55,631,385	87,944,690	-	-

35. RISK MANAGEMENT (continued)

35.4.2 Currency risk

Currency risk is the risk of counter movement in foreign exchange rates that leads to reduction in the value of the Bank's reserve in foreign exchange.
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	
	2020	2019
Iraqi Dinar	**35.89%**	18.49%
US Dollar	**55.60%**	71.67%
Euro	**4.48%**	5.39%
SDR	**2.26%**	2.21%
Others	**1.77%**	2.24%

35. RISK MANAGEMENT (continued)
35.4 Market risk (continued)
35.4.2 Currency risk (continued)

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

31 December 2020	IQD IQD million	USD IQD million	EUR IQD million	SDR IQD million	Others IQD million	Total IQD million
ASSETS						
Gold reserve	–	8,490,323	–	–	-	8,490,323
Cash and balances with central banks	–	12,422,605	441,243	–	1,010,783	13,874,631
Balances at banks and other financial institutions	–	23,342,671	-	–	393	23,343,064
Financial assets at fair value through profit or loss	–	673,198	–	–	-	673,198
Financial investments at amortized cost	–	25,486,997	5,221,407	–	1,229,770	31,938,174
Loans to governmental and commercial banks	1,970,996	–	–	–	-	1,970,996
Due from Ministry of Finance	42,007,912	–	–	–	-	42,007,912
Foreign currencies investments at IMF	–	–	–	2,869,137	-	2,869,137
Investment in associate	50,000	–	–	–	-	50,000
Property and equipment, net	625,497	–	–	–	-	625,497
Intangible assets, net	8,361	–	–	–	-	8,361
Other assets	895,289	184,755	30,230	–	9,736	1,120,010
TOTAL ASSETS	45,558,055	70,600,549	5,692,880	2,869,137	2,250,682	126,971,303
LIABILITIES AND EQUITY						
Currency issued	66,031,234	–	–	–	–	66,031,234
Treasury bills issued	31,720	–	–	–	–	31,720
Deposits of local banks	17,435,726	5,925,818	39,813	–	–	23,401,357
Due to foreign governments and banks	4,933	5,466	28,456	–	–	38,855
Due to International Monetary Fund	2,233,927	–	–	–	–	2,233,927
Due to governmental institutions	2,336,689	4,993,399	342	–	–	7,330,430
Other liabilities	197,058	9,818	42	–	–	206,918
Equity	27,696,862	-	-	–	–	27,696,862
TOTAL LIABILITIES AND EQUITY	115,968,149	10,934,501	68,653	–	–	126,971,303
NET	(70,410,094)	59,666,048	5,624,227	2,869,137	2,250,682	–

35. RISK MANAGEMENT (continued)
35.4 Market risk (continued)
35.4.2 Currency risk (continued)

31 December 2019	IQD IQD million	USD IQD million	EUR IQD million	SDR IQD million	Others IQD million	Total IQD million
ASSETS						
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
Balances at banks and other financial institutions	-	18,022,045	35	-	273	18,022,353
Financial investments at amortized cost	-	42,342,540	5,099,562	-	921,228	48,363,330
Loans to governmental and commercial 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
TOTAL ASSETS	18,797,007	72,839,033	5,477,369	2,245,565	2,276,308	101,635,282
LIABILITIES AND EQUITY						
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
TOTAL LIABILITIES AND EQUITY	89,182,041	12,084,862	368,379	-	-	101,635,282
NET	(70,385,034)	60,754,171	5,108,990	2,245,565	2,276,308	-

36. FAIR VALUE OF FINANCIAL INSTURMENTS

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;

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

36. FAIR VALUE OF FINANCIAL INSTURMENTS (continued)

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

CBI revalues Gold reserve and Financial assets at fair value through profit or loss at fair value at the end of each reporting period and the table below shows information related to determining the fair value of Gold reserve and Financial assets at fair value through profit or loss (methods of valuation and observable inputs.

	Fair value IQD million 2020	Fair value IQD million 2019	Fair value level	Method of valuation and observable inputs
Gold reserve	**8,490,323**	5,573,899	Level 1	Based on price quotations in financial markets
Financial assets at fair value through profit or loss	**673,197**	-	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 continuously:

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 2020		31 December 2019		
	Total carrying amount	Total fair value	Total carrying amount	Total fair value	Fair value level
	IQD million		IQD million		
Financial assets not measured in fair value					
Cash and balances with central banks	**13,874,631**	**13,874,631**	8,408,585	8,408,585	Level 2
Balances at banks	**23,343,064**	**23,343,064**	18,022,353	18,022,353	Level 2
Financial investments at amortized cost	**31,938,174**	**32,210,019**	48,363,330	48,145,756	Level 1
Loans to commercial and governmental banks	**1,970,996**	**1,970,996**	1,643,018	1,643,018	Level 2
Due from Ministry of Finance	**42,007,912**	**42,007,912**	15,880,912	15,880,912	Level 2
	113,134,777	**113,406,622**	92,318,198	92,100,624	
Financial liabilities not measured in fair value					
Currency issued	**66,031,234**	**66,031,234**	51,834,750	51,834,750	Level 2
Treasury bills issued	**31,720**	**31,720**	362,891	362,891	Level 2
Due to banks	**23,401,357**	**23,401,357**	27,594,195	27,594,195	Level 2
Due to foreign governments and banks	**38,855**	**38,855**	32,092	32,092	Level 2
Due to governmental institutions	**7,330,430**	**7,330,430**	8,312,359	8,312,359	Level 2
	96,833,596	**96,833,596**	88,136,287	88,136,287	

37. GEOGRAPHIC DISTRIBUTION OF ASSETS, LIABILITIES AND REVENUES

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:

31 December 2020	Iraq IQD million	Foreign countries IQD million	Total IQD million
Revenues	13,156,913	3,769,699	16,926,612
Total Assets	51,099,725	75,871,578	126,971,303
Total Liabilities	97,001,659	2,272,782	99,274,441

31 December 2019	Iraq IQD million	Foreign countries IQD million	Total 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

38. 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:

	2020 IQD million	2019 IQD million
ASSETS		
Loans to governmental banks	**1,722,064**	1,539,526
Due from Ministry of Finance	**1,555,519**	1,755,519
Government of Iraq treasury bills	**40,452,393**	14,125,393
Current accounts with local banks	**190,020**	214,197
Due from a governmental bank	**5,784**	5,026
Allowance for impairment losses of due from governmental Banks	**(5,784)**	(5,026)
LIABILITIES		
Treasury bills issued	**18,700**	74,940
Deposits of governmental banks	**16,005,101**	18,022,641
Due to Ministry of Finance	**7,208,483**	8,221,856
Due to other governmental institutions	**121,947**	90,503
INCOME STATEMENT		
Interest income from Ministry of Finance	**819,456**	655,208
Interest expense on treasury bills issued	**1,854**	107
Interest expenses on governmental banks deposits	**1,432**	3,607
Interest expenses on overnight investment for MOF	**16,345**	228,577

39. 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.

40. 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 1,468,599 million Iraqi dinars (2019: 1,195,451 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 results of those lawsuits.

41. 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 1,478,539 million (2019: IQD 2,923,991 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 2020, the IMF accounts related to MOF held off CBI's records comprise of Reserve tranche positions amounted to SDR 289,950,000 (2019: SDR 289,950,000), SDR Holdings amounted to SDR 1,316,988 (2019: SDR 2,976,260), IMF loans to MOF amounted to SDR 909,300,000 (2019: SDR 1,768,347,746) and SDR allocations amounted to SDR 1,134,495,508 (2019: SDR 1,134,495,508).

42. IMPACT OF THE OUTBREAK OF COVID-19

The Bank considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk
The Bank considered the following aspects to assess if there was a significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation.

- Temporary financial difficulties are distinguished from longer-term or permanent impact;
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk;
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available.

The above assessment has resulted in staging downgrade of certain exposures and increase in ECL.

42. IMPACT OF THE OUTBREAK OF COVID-19 (continued)

Macro-economic factors

The Bank considered of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainty stemming from fast evolving COVID-19, the Bank revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. The Bank applied a high probability weightage to the severe scenario combined with the revised forecasts of macro-economic factors. The uncertainties in the current market caused by the pandemic, may not be fully captured in the modelled results, and therefore a higher level of expert credit judgement has been applied on the ECL estimates. These adjustments did not result in significant increase in the amount of ECL charge for the year ended 31 December 2020.

Other impacts

The Bank considered the potential impact of the current economic volatility on the reported amounts in the Bank's financial statement. The reported amounts best represent management's assessment based on observable information. The impact of the highly uncertain economic environment remains judgmental and the Bank will accordingly continue to reassess its position and the related impact on a regular basis.

43. COMPARATIVE FIGURES

Some of the comparative figures for the year 2019 have been reclassified to correspond with those of 31 December 2020 presentation. The reclassification did not have any effect on profits or equity of 2019.