KPMG

TRADE BANK OF IRAQ

Financial Statements for the Year Ended

31 December 2015

With Independent Auditors' Report Thereon

TRADE BANK OF IRAQ

For the year ended December 31, 2015

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KPMG

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Independent auditors' report

To the Board of Directors of
Trade Bank of Iraq

We have audited the accompanying financial statements of Trade Bank of Iraq (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Central Bank of Iraq instructions, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Central Bank of Iraq instructions.

KPMG
Hatem Kawasmy
October 26, 2016

KPMG
Kawasmy & Partners Co.

TRADE BANK OF IRAQ

Statement of financial position

In thousands of USD	Note	As at December 31, 2015	2014
Assets			
Cash and balances with Central Bank of Iraq	7	7,793,312	8,705,683
Balances at banks	8	8,892,759	17,732,775
Loans and advances to customers - net	9	4,336,761	2,721,658
Investment securities - net	10	1,793,504	865,988
Property and equipment - net	11	78,792	63,162
Other assets - net	12	410,516	181,881
Total assets		23,305,644	30,271,147
Liabilities			
Deposits from customers	13	20,295,041	27,142,469
Collective impairment on LCs and LGs	14	37,051	36,983
Other liabilities	15	210,563	452,241
Total liabilities		20,542,655	27,631,693
Equity			
Share capital	16	1,500,858	856,166
Reserves	17	238,568	248,457
Retained earnings	17	1,023,563	1,534,831
Total equity		2,762,989	2,639,454
Total liabilities and equity		23,305,644	30,271,147

The notes on pages 6 to 37 are an integral part of these financial statements and should be read with them and with independent auditor report.

The financial statements were authorized for issue on behalf of the Board of Directors on 26 October 2016 by:

CEO & Chairman

Finance Manager

TRADE BANK OF IRAQ

Statement of profit or loss and other comprehensive income

In thousands of USD	Note	For the year ended December 31, 2015	2014
Interest income	18	263,362	191,078
Interest expense	18	(11,704)	(10,437)
Net interest income		251,658	180,641
Fee and commission income	19	173,298	164,250
Fee and commission expense		(11,664)	(9,990)
Net fee and commission income		161,634	154,260
Net trading income	20	145,691	85,713
Operating Income		558,983	420,614
Impairment loss on loans and advances to customers	9	(370,605)	(10,547)
Impairment loss on available for sale investment	10	(1,500)	(1,500)
Collective impairment loss on LGs and LCs	14	(68)	(16,970)
Impairment loss on other assets balances	12	(15,253)	–
Personnel expenses	21	(26,251)	(23,741)
General and administrative expenses	22	(22,905)	(33,544)
Depreciation expense	11	(5,755)	(6,008)
Other income		6,889	–
Profit for the year		123,535	328,304
Other comprehensive income			
Fair value reserve (available-for-sale financial assets)	10	957	52
Other comprehensive income for the year		957	52
Total comprehensive income for the year		124,492	328,356

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The financial statements were authorized for issue on behalf of the Board of Directors on 26 October 2016 by:

CEO & Chairman **Finance Manager**

TRADE BANK OF IRAQ

Statement of changes in equity

In thousands of USD	Share capital	General reserve	Fair value reserve	Special reserve	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2014	856,166	236,709	463	4,176	7,057	1,206,527	2,311,098
Profit for the year	–	–	–	–	–	328,304	328,304
Other comprehensive income							
Net change in fair value reserve (available-for-sale financial assets)	–	–	52	–	–	–	52
Total other comprehensive income	–	–	52	–	–	–	52
Total comprehensive income for the year	–	–	52	–	–	328,304	328,356
Balance at 31 December 2014	856,166	236,709	515	4,176	7,057	1,534,831	2,639,454
Balance at 1 January 2015	856,166	236,709	515	4,176	7,057	1,534,831	2,639,454
Profit for the year	–	–	–	–	–	123,535	123,535
Other comprehensive income							
Net change in fair value reserve (available-for-sale financial assets)	–	–	957	–	–	–	957
Total other comprehensive income	–	–	957	–	–	–	957
Total comprehensive income for the year	–	–	957	–	–	123,535	124,492
Transferred to share capital (Note 16)	644,692	–	–	–	–	(644,692)	–
Transferred from reserves to retained earning	–	(10,846)	–	–	–	9,889	(957)
Balance at 31 December 2015	1,500,858	225,863	1,472	4,176	7,057	1,023,563	2,762,989

The notes on pages 6 to 37 are an integral part of these financial statements and should be read with them and with independent auditor report.

TRADE BANK OF IRAQ

Statement of cash flows

In thousands of USD	Note	For the year ended December 31, 2015	2014
Cash flows from operating activities			
Profit for the year		123,535	328,304
Adjustments for:			
Impairment loss on loans and advances to customers	9	370,605	10,547
Impairment losses on available for sale investment	10	1,500	1,500
Impairment losses on other assets balances	12	15,253	–
Collective impairment on LCs and LGs	14	68	16,970
Depreciation expense	11	5,755	6,008
Net interest income	18	(251,658)	(180,641)
		265,058	182,688
Change in balances with Central Bank of Iraq	7	953,348	(409,531)
Change in net loans and advances to customers		(1,985,708)	(1,479,717)
Change in other assets		(243,888)	(101,102)
Change in deposits from customers		(6,847,428)	7,599,751
Change in other liabilities		(241,679)	15,833
		(8,100,296)	5,807,922
Interest received	18	263,362	191,078
Interest paid	18	(11,704)	(10,437)
Net cash (used in) from operating activities		(7,848,638)	5,988,563
Cash flows from investing activities			
Acquisition of investments securities	10	(1,714,161)	(1,156,034)
Proceeds from matured of investment securities	10	785,145	425,309
Acquisitions of property and equipment	11	(21,385)	(11,203)
Proceeds from sale of property and equipment		–	5,847
Net cash (used in) investing activities		(950,401)	(736,081)
Net (decrease) increase in cash and cash equivalents		(8,799,039)	5,252,482
Cash and cash equivalents at 1 January		25,305,323	20,052,841
Cash and cash equivalents at 31 December	23	16,506,284	25,305,323

The notes on pages 6 to 37 are an integral part of these financial statements and should be read with them and with independent auditor report.

1. **Legal Status and Main Operations**

Trade Bank of Iraq (the "Bank" or "TBI") was established as an independent governmental entity on July 17, 2003 in accordance with the Coalition Provisional Authority (CPA) Order number (20) in 2003. The Bank was granted a banking license by the Central Bank of Iraq (CBI) on January 18, 2004.

The Bank is a separate governmental entity and is incorporated and domiciled in the Republic of Iraq.

The address of the Bank's registered office is Baghdad, Al-Mansoor district.

The Bank provides retail, corporate and investment banking services through its head office located in Baghdad, Al-Mansoor district and 21 branches with more than 1000 employees.

2. **Basis of preparation**

(a) **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting standards (IFRS) and Central Bank of Iraq instructions.

(b) **Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following item in the statement of financial position:

- available-for-sale financial assets are measured at fair value

(c) **Functional and presentation currency**

These financial statements are presented in US Dollars (USD), which is not the Bank's functional currency. The Bank's functional currency is the Iraqi Dinar (IQD). All financial information presented in USD has been rounded to the nearest thousand.

(d) **Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS and Central Bank of Iraq instructions requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment on the amount recognized in the financial statements is set out below in the following notes:

• Note 6 – determination of fair value of financial instruments;

• Note 14 – Collective impairment on LCs and LGs: key assumptions about the likelihood and magnitude of an outflow of resources.

Impairment of financial instruments

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 4 (g) (vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the recoverable amounts that are expected to be received. In estimating these amounts, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of amounts considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Investment in equity securities are evaluated for impairment on the basis described in accounting policy 4 (g) (vii). For an investment in equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In this respect , the Bank regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

3. Changes in accounting policies

The financial statements have been prepared in accordance with International Standards of Accounting and its interpretations which is issued by International Financial Reporting Interpretations Committee in addition to the local law and Central Bank of Iraq instructions.

The accounting policies applied by the Bank in these financial statements for the year ended December 31, 2015 are the same as those applied by the Bank in its financial statements for the year ended December 31, 2014, except for the following International Financial Reporting Standards effective after January 1, 2016. The application of these amended standards did not have a significant effect on the financial statements of the company.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010–2012 cycle
- Annual Improvements to IFRSs 2011–2013 cycle

4. Significant accounting policies

Except for changes explained in Note 3, the accounting policies set out below have been applied consistently to all years presented in these financial statements and have been applied consistently by the Bank.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year.

Non- monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the retranslation of available for sale equity instruments are recognized in other comprehensive income (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss).

(ii) Translation to the presentation currency

The results and financial positions are translated into the presentation currency using the following procedures:

- Assets and liabilities of financial are translated using the closing rate at the date of financial statements.
- Income and expenses are translated at the average exchange rates for the year; and
- All resulted exchange differences are recognized in the other comprehensive income and presented in "translation reserves".

(b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities measured at amortized cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income, see note 4 (d).

(b) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees, credit commitments for letters of credit, acceptances and letters of guarantee issued by the Bank are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(c) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(d) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(e) Income tax expense

The Bank is a governmental entity and its income is exempted from income tax according to Iraqi income tax law number (113) of year 1982, and its subsequent amendments. The bank employee are subject to the Tax Direct Deduction law.

(f) Financial assets and liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or

See Notes 4 (i), (j) and (k).

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost. See accounting policies (4) (n).

(iii) Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

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

(vi) Fair value measurement

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:

1- In the principal market for the asset or liability, or
2- In the absence of a principal market, in the most advantageous market for the asset or liability

The asset or liability measured at fair value might be either of the following:

1- A stand-alone asset or liability; or
2- A group of assets, a group of liabilities or a group of assets and liabilities (eg a cash generating unit or a business).A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities

The bank has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO. The valuation team regularly reviews significant unobservable inputs and valuation adjustments.

If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Bank Audit Committee.

When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

(viii) Designation at fair value through profit or loss

The Bank has designated financial assets and liabilities at fair value through profit or loss in either of the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Iraq and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(h) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading category – if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Due from banks are classified as loans and receivables. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(j) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

(i) Held-to-maturity

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

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see Note 4 (g) (vii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

(ii) Fair value through profit or loss

The Bank designates some investment securities at fair value, with fair value changes recognized immediately in profit or loss as described in Note 4 (g) (viii).

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss (see Note 4 (a) (i)). Impairment losses are recognized in profit or loss (see Note 4 (g) (vii)).

Other fair value changes, other than impairment losses (see Note 4 (g) (vii)), are recognized in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(k) **Property and equipment**

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income/ expense in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Items of property and equipment are depreciated from the date they are availble for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- Buildings 10 years
- Vehicles 1 year
- Fixture and Furniture 1 year

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) **Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Deposits

Deposits from customers are the Bank's main source of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(n) Provisions (Impairment losses)

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by using management best estimates to the risks specific to the liability.

(o) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments and improvements to standards and interpretations were issued have not been applied in preparing these financial statements. Those which may be relevant to the Company, is set out below.

New standards

- IFRS 14 Regulatory Deferral Accounts (effective from 2016)
- IFRS 15 Revenue from Contracts with Customers (effective from 2017)
- IFRS 9 Financial Instruments (effective from 2018) excluding insurance companies which will be effective on 2021.
- IFRS (16) Leases (effective on January, 2019)

Amendments

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities Applying the consolidation exception. (effective from 2016)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective from 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (effective from 2016)
- Amendments to IAS 16 and 41: Bearer plants (effective from January 1st, 2016)
- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (effective from 2016)
- Amendments to IAS 27: Equity method in separate financial statements (effective from 2016)
- Amendments to IAS 1 (effective from 2016)

Improvements

- Annual Improvements to IFRSs 2012–2014 cycle (effective from 2016)

The bank's management expect to implement all of these standards and its explanation which presented above in preparing the financial statements without incurring any significant effects on the bank's financial statement.

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities included in trading assets is managed as a component of market risk, further details are provided in Note 5 (d) below.

Management of credit risk

The Bank has the responsibility for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for management of the Bank's credit risk, including:

- ***Formulating credit policies,*** covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- ***Establishing the authorization structure*** for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Bank Credit Committee and the CEO.

- ***Reviewing and assessing credit risk*** Bank Credit Committee assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- ***Limiting concentrations of exposure*** to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

- ***Developing and maintaining the Bank's risk grading*** in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approval of Credit committee and is subject to regular reviews.

- ***Reviewing compliance of business units with agreed exposure limits***, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Bank Credit committees on the credit quality of local portfolios and appropriate corrective action is taken.

- ***Providing advice, guidance and specialist skills*** to business units to promote best practice throughout the Bank in the management of credit risk.

Probability of default (PD)

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. They are validated, where appropriate, by comparison with externally available data. The Bank's rating method comprises three rating levels for loans not in default (Performing) and three default classes (Non-performing).

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

Impairment and provisioning policies

The impairment allowance included in the statement of financial position at year end is derived from each of the six internal rating grades (the last three grades are combined into one non-performing grade). However, the largest component of the impairment allowance comes from the non-performing grades.

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Significant financial difficulties facing the counterparty
- Breach of loan covenants as in case of default
- Expecting the bankruptcy of the counterparty, liquidation, lawsuit, or finance rescheduling.

- Deterioration of the borrower's competitive position
- Offering exceptions or surrenders due to economic and legal reasons related to financial difficulties encountered by the counterparty not provided by the Bank in ordinary conditions
- Deterioration in the value of collateral and
- Downgrading below loans grade

The bank calculate its impairment losses (provisions) based on the indicative list issued by the Central Bank of Iraq and the applied internal policies in the bank. In case the Central Bank of Iraq issued any extraordinary instructions, the bank is requested to apply and disclose about it on their accounts.

Based on the Central Bank of Iraq Board of Directors decision number 94 for the year 2016, the bank have booked 75% of its net profit for the year 2015 as extra impairment losses (provisions) for the direct credit facilities as shown in Note (25).

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	Loans and advances to customers		Balances with CBI and Due from Banks		Investment securities		Other assets	
In thousands of USD	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Carrying amount	4,336,761	2,721,658	16,331,803	26,195,271	1,791,462	861,606	410,516	181,881
Assets at amortized cost								
Grade 1-excellent	3,253,034	1,253,034	16,331,803	26,195,271	1,791,462	861,606	410,516	194,457
Grade 2-3 good and average	1,029,629	1,558,844	–	–	–	–	–	-
Grade 4-5-6: Impaired	1,097,735	402,941	–	–	–	–	15,253	-
Gross amount	5,380,398	3,214,819	16,331,803	26,195,271	1,791,462	861,606	425,769	194,457
Interest in suspense	(206,883)	(39,388)	–	–	–	–	–	-
Allowance for impairment (individual)	(789,823)	(406,642)	–	–	–	–	(15,253)	(12,576)
Allowance for impairment (collective)	(46,931)	(46,931)	–	–	–	–	–	-
Carrying amount amortized cost	4,336,761	2,721,658	16,331,803	26,195,271	1,791,462	861,606	410,516	181,881
Total carrying amount	4,336,761	2,721,658	16,331,803	26,195,271	1,791,462	861,606	410,516	181,881

Credit risk exposures relating to off-balance sheet items are as follows:

In thousands of USD	2015	2014
Letters of guarantee	6,680,190	6,682,849
Letters of credit	3,477,283	175,426
	10,157,473	6,858,275

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts before deducting an impairment allowance.

Collateral held and other credit enhancements and their financial effect

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

For impaired loans, the Bank obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement. At 31 December 2015, the net carrying amount of impaired loans and advances to corporate customers amounted to USD 466,149 million (2014: USD 402,941 million).

Concentration of risks of financial assets with credit risk exposure

(i) **Geographical sectors**

The following table breaks down the Bank's on balance sheet credit exposure at their gross carrying amounts before any allowance and interest in suspense (without taking into account any collateral held or other credit support), as categorized by geographical region as of 31 December 2015.

In thousands of USD	Iraq	Asia and other middle eastern courtiers	Europe	USA	Total
Balances with Central Bank of Iraq	7,793,312	–	–	–	7,793,312
Due from banks	19,111	2,104,386	4,984,650	1,784,612	8,892,759
Loans and advances to customers	4,336,761	–	–	–	4,336,761
Held to maturity investment securities	1,791,462	–	–	–	1,791,462
Other assets	425,769	–	–	–	425,769
As at 31 December 2015	14,366,415	2,104,386	4,984,650	1,784,612	23,240,063

In thousands of USD	Iraq	Asia and other middle eastern courtiers	Europe	USA	Total
Balances with Central Bank of Iraq	8,705,683	–	–	–	8,705,683
Due from banks	90,252	2,798,332	6,258,371	8,585,820	17,732,775
Loans and advances to customers	2,721,658	–	–	–	2,721,658
Held to maturity investment securities	861,606	–	–	–	861,606
Other assets	194,457	–	–	–	194,457
As at 31 December 2014	12,573,656	2,798,332	6,258,371	8,585,820	30,216,179

Credit risk exposures relating to off-balance sheet items are as follows:

In thousands of USD	Iraq	Other Countries	Total
Letter of guarantee	6,789,877	–	6,789,877
Letter of credit	17,652,708	–	17,652,708
As at 31 December 2015	24,442,585	–	24,442,585
As at 31 December 2014	27,721,878	–	27,721,878

(ii) Industry sector

The following table breaks down the Bank's credit exposure at gross carrying amount before any allowance and interest in suspense (without taking into account any other collateral held other credit support). As categorized by the industry sector of the Bank's counterparties.

In thousands of USD 2015	Financial	Trading	Consumer	Public and governmental	Others	Total
Balances with Central Bank of Iraq	7,439,044	-	-	-	-	7,439,044
Balances at banks	8,892,759	-	-	-	-	8,892,759
Held-to-maturity investment securities	-	-	-	1,791,462	-	1,791,462
Other assets	-	-	-	-	425,769	425,769
Loans and advances to customers						
Retail						
Loans	-	-	62,371	-	-	62,371
Overdrafts	-	-	316,344	-	-	316,344
Corporate entities						
Loans	-	271,128	-	-	-	271,128
Overdrafts	-	1,477,521	-	-	-	1,477,521
Governmental						
Loans	-	-	-	3,253,034	-	3,253,034
Overdrafts	-	-	-	-	-	-
Total 2015	16,331,803	1,748,649	378,715	5,044,496	425,769	23,929,432

In thousands of USD 2014	Financial	Trading	Consumer	Public and governmental	Others	Total
Balances with Central Bank of Iraq	8,462,496	-	-	-	-	8,462,496
Balances at banks	17,732,775	-	-	-	-	17,732,775
Held-to-maturity investment securities	-	-	-	861,606	-	861,606
Other assets	-	-	-	-	194,457	194,457
Loans and advances to customers						
Retail						
Loans	-	-	54,552	-	-	54,552
Overdrafts	-	-	312,305	-	-	312,305
Corporate entities						
Loans	-	441,617	-	-	-	441,617
Overdrafts	-	1,149,435	-	-	-	1,149,435
Governmental						
Loans	-	-	-	1,253,034	-	1,253,034
Overdrafts	-	-	-	3,876	-	3,876
Total 2014	26,195,271	1,591,052	366,857	2,118,516	194,457	30,466,153

Debt securities

All the Bank's debt securities are Iraqi governmental debt securities that are held to maturity (note 10).

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions; the Bank mitigates this risk by setting and monitoring limits for transactions and limiting the counterparties to specific and well known financial institutions. Settlement limits form part of the credit approval / limit monitoring process described earlier.

(c) **Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

The Bank relies mainly on deposits from customers as its primary sources of funding. Deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Central Treasury receives information from different departments regarding the liquidity profile of financial assets and liabilities. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. This process includes:

- Projecting cash flows by major currency and a consideration of the level of liquid assets in relation thereto.
- Maintenance of statement of financial position liquidity ratios.
- Monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors.
- Maintenance of liquidity contingency plans.

Funding approach

Sources of liquidity are regularly reviewed by the team in Bank treasury to maintain a wide diversification by currency, geography, provider, product and term.

Non-derivative financial liabilities and assets held for managing liquidity risk

The Table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position.

In thousands of USD 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Liabilities					
Deposits from customers	5,969,661	1,726,964	6,606,131	5,992,285	20,295,041
Other liabilities	210,562	–	–	–	210,562
Total liabilities	6,180,223	1,726,964	6,606,131	5,992,285	20,505,603

In thousands of USD 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Liabilities					
Deposits from customers	10,140,427	2,122,541	8,061,313	6,818,188	27,142,469
Other liabilities	452,241	–	–	–	452,241
Total liabilities	10,592,668	2,122,541	8,061,313	6,818,188	27,594,710

The Bank has divided the financial liabilities as per the contractual maturity to the periods mentioned above through the main automated system of Bank; Expected costs of those financial liabilities were calculated and allocated on the related time beckets. Non-renewal of those liabilities at maturity has been assumed when calculating the expected costs. Available assets used to meet the liabilities and to cover all the commitments related to loans include cash, balances with Central Bank of Iraq and due from banks, treasury bills and other governmental securities, and loans and advances to banks and customers.

Assets held for managing liquidity risk

The Bank holds diversified portfolio of cash and high-quality high-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Central Bank of Iraq
- Current balances with banks
- Secondary sources of liquidity in the form of highly liquid instruments for trading.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Bank's solvency, while optimizing the return on risk.

Management of market risks

The Bank separates its exposure to market risks between trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in Bank treasury and monitored by the treasury operating unit. Regular reports are submitted to the Board of Directors and heads of each business unit regularly and daily to the general manager.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retails and commercial banking assets and liabilities. Non trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Board is the monitoring body for compliance with these limits and is assisted by treasury department in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

In thousands of USD 31 December 2015	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non bearing interest
Cash and balances with Central Bank of Iraq	7,793,312	-	-	-	-	-	7,793,312
Balances at banks	8,892,759	8,892,759	-	-	-	-	-
Loans and advances to customers - net	4,336,761	-	48,660	841,118	3,446,983	-	-
Available-for-sale investment securities	5,042	-	-	-	-	-	5,042
Held-to-maturity investment securities	1,791,462	-	-	1,714,162	-	77,300	-
Other assets	425,769	-	-	-	-	-	425,769
Total financial assets	23,245,105	8,892,759	48,660	2,555,280	3,446,983	77,300	8,224,123
Deposits from customers	(20,295,041)	(456,900)	(1,726,964)	(6,606,131)	(5,992,285)	-	(5,512,761)
Total financial liabilities	(20,295,041)	(456,900)	(1,726,964)	(6,606,131)	(5,992,285)	-	(5,512,761)
Total interest repricing gap	2,950,064	8,435,859	(1,678,304)	(4,050,851)	(2,545,302)	77,300	2,711,362

In thousands of USD 31 December 2014	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non bearing interest
Cash and balances with Central Bank of Iraq	8,705,683	-	-	-	-	-	8,705,683
Balances at banks	17,732,775	17,732,775	-	-	-	-	-
Loans and advances to customers - net	2,721,658	591,960	3,866	666,367	1,459,465	-	-
Available-for-sale investment securities	5,882	-	-	-	-	-	5,882
Held-to-maturity investment securities	861,606	-	-	784,306	-	77,300	-
Other assets	194,457	-	-	-	-	-	194,457
Total financial assets	30,222,061	18,324,735	3,866	1,450,673	1,459,465	77,300	8,906,022
Deposits from customers	(27,142,469)	(387,379)	(2,122,541)	(8,061,313)	(6,818,188)	-	(9,753,048)
Total financial liabilities	(27,142,469)	(387,379)	(2,122,541)	(8,061,313)	(6,818,188)	-	(9,753,048)
Total interest repricing gap	3,079,592	17,937,356	(2,118,675)	(6,610,640)	(5,358,723)	77,300	(847,026)

Exposure to foreign currency exchange risk

The Bank's exchange exposure arises from foreign exchange dealing by treasury and currency exposures originated by commercial banking businesses. The latter are transferred to treasury where they are managed within approved limits. The Bank manages foreign exchange exposure within risk limits. The Bank's exposure to foreign exchange risk is shown in the table below:

As at 31 December 2015

In thousands of USD

	USD	IQD	EUR	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank of Iraq	1,476,248	6,293,410	22,429	1,225	–	–	7,793,312
Balances at banks	7,490,759	17,454	1,359,310	20,398	1,839	2,999	8,892,759
Loans and advances to customers	3,563,909	751,888	20,964	–	–	–	4,336,761
Available-for-sale investment securities	5,000	42	–	–	–	–	5,042
Held-to-maturity investment securities	628,615	1,162,791	56	–	–	–	1,791,462
Other assets	342,210	77,249	6,287	23	–	–	425,769
Total financial assets	13,506,741	8,302,834	1,409,046	21,646	1,839	2,999	23,245,105
Financial liabilities							
Deposits from customers	17,308,847	1,589,983	1,374,161	18,463	1,505	2,082	20,295,041
Collective impairment on LCs and LGs	–	37,051	–	–	–	–	37,051
Other liabilities	54,779	155,599	184	–	–	–	210,562
Total financial liabilities	17,363,626	1,782,633	1,374,345	18,463	1,505	2,082	20,542,654
Net on balance sheet financial position	(3,856,885)	6,520,201	34,701	3,183	334	917	2,702,451

As at 31 December 2014

In thousands of USD

	USD	IQD	EUR	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank of Iraq	1,665,528	7,010,527	28,926	702	-	-	8,705,683
Balances at banks	15,818,780	21,204	1,846,672	37,186	1,882	7,051	17,732,775
Loans and advances to customers	1,985,349	712,918	23,391	–	–	–	2,721,658
Available-for-sale investment securities	5,799	50	33	–	–	–	5,882
Held-to-maturity investment securities	77,300	784,306	–	–	–	–	861,606
Other assets	103,327	78,212	–	342	–	–	181,881
Total financial assets	19,656,083	8,607,217	1,899,022	38,230	1,882	7,051	30,209,485
Financial liabilities							
Deposits from customers	23,888,332	1,265,025	1,941,300	38,475	3,053	6,284	27,142,469
Collective impairment on LCs and LGs	36,983	–	–	–	–	–	36,983
Other liabilities	(3,978,733)	4,486,362	(54,415)	(542)	(1,181)	750	452,241
Total financial liabilities	19,946,582	5,751,387	1,886,885	37,933	1,872	7,034	27,631,693
Net on balance sheet financial position	(290,499)	2,855,830	12,137	297	10	17	2,577,792

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all applicable legal and regulatory requirements.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Bank's board of directors.

(f) Capital management

Regulatory capital

The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which include regulatory share capital, retained earnings, general reserve and special reserve.
- Tier 2 capital, which includes the element of the fair value reserve relating to investment securities and translation reserve in addition to collective impairment allowance.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business.

The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. The Bank's regulatory capital is managed by its central treasury.

The Bank's regulatory capital position as at 31 December was as follows:

	As of December 31,	
In thousands of USD	**2015**	2014
Tier 1 capital		
Share capital	1,500,858	856,166
General and special reserves	230,039	240,885
Retained earnings	1,023,563	1,534,831
	2,754,460	2,631,882
Tier 2 capital		
Fair value and translation reserve	8,529	7,572
Collective impairment allowance	46,931	83,983
	55,460	91,555
Total regulatory capital	2,809,920	2,723,437

6. Fair values of financial instruments

See accounting policy related to fair value measurement in note 4 (g) (vi).

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market debt and equity security exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

Balances at banks	Fair value			Total	Total carrying
31 December 2015	Level 1	Level 2	Level 3	fair value	amount
Financial assets measured at fair value:					
Financial assets available for sale:					
Equity securities	1,002	-	4,040	5,042	5,042
Financial assets not measured at fair value:					
Balances with Central Bank	-	7,793,312	-	7,793,312	7,793,312
Due from banks	-	8,892,759	-	8,892,759	8,892,759
Loans and advances to customers	-	4,336,761	-	4,336,761	4,336,761
Investment securities	-	1,791,462	-	1,791,462	1,791,462
Total Financial assets not measured at fair value	1,002	22,814,294	4,040	22,819,336	22,819,336
Financial liabilities not measured at fair value:					
Deposits from customers	-	20,295,041	-	20,295,041	20,295,041
Total Financial liabilities not measured at fair value	-	20,295,041	-	20,295,041	20,295,041

In thousands of USD	Fair value			Total	Total carrying
31 December 2014	Level 1	Level 2	Level 3	fair value	amount
Financial assets measured at fair value:					
Financial assets available for sale:					
Equity securities	882	-	5,000	5,882	5,882
Financial assets not measured at fair value:					
Balances with Central Bank	-	8,705,683	-	8,705,683	8,705,683
Due from banks		17,732,775	-	17,732,775	17,732,775
Loans and advances to customers	-	2,721,658		2,721,658	2,721,658
Investment securities	-	861,606	-	861,606	861,606
Total Financial assets not measured at fair value	882	30,021,722	5,000	30,027,604	30,027,604
Financial liabilities not measured at fair value:					
Deposits from customers	-	27,142,469	-	27,142,469	27,142,469
Total Financial liabilities not measured at fair value	-	27,142,469		27,142,469	27,142,469

The financial assets classified as available for sale includes non-listed equity securities amounting to USD thousands 5,000 (2014: USD thousands 882) that are measured at cost. Management believes that there are no observable market value for these securities and cost is the best estimate of their fair market value. During the year of 2015, the bank booked an additional impairment loss in amount of USD 1.5 M on these investments amounting to be in total USD 3 M. Based on the bank management opinion, this impairment losses is sufficient to meet any expected future losses.

7. Cash and balances with Central Bank of Iraq

In thousands of USD	As of December 31, 2015	2014
Cash at vaults	354,268	243,187
Balances with Central Bank of Iraq except the mandatory reserve	7,259,257	7,329,361
Cash and cash equivalents (note 23)	7,613,525	7,572,548
Mandatory reserve deposits with the Central Bank *	179,787	1,133,135
	7,793,312	8,705,683
Non-interest bearing balances	7,793,312	8,705,683
	7,793,312	8,705,683

* Mandatory reserve deposits are not available for use in the Bank's day-to-day operations and are non-interest bearing.

8. Balances at banks

In thousands of USD	As of December 31, 2015	2014
Local banks	15,996	14,982
Governmental banks (Note 24)	3,115	9,680
Foreign banks	8,873,648	17,708,113
Cash and cash equivalents (note 23)	8,892,759	17,732,775
Floating interest bearing balances	8,892,759	17,732,775
	8,892,759	17,732,775

9. Loans and advances to customers - net

In thousands of USD	As of December 31, 2015	2014
Retail		
Loans and advances	62,371	54,552
Overdrafts	316,344	312,305
	378,715	366,857
Corporate		
Loans and advances	271,128	441,617
Overdrafts	1,477,521	1,149,435
	1,748,649	1,591,052
Governmental		
Loans and advances	3,253,034	1,253,034
Overdrafts	–	3,876
	3,253,034	1,256,910
Gross loans and advances to customers	5,380,398	3,214,819
Less: Interest in suspense	(206,883)	(39,588)
Less: Allowance for impairment	(836,754)	(453,573)
Net loans and advances to customers	4,336,761	2,721,658

Reconciliation of allowance account for losses on loans and advances to customers is as follows:

In thousands of USD	As of December 31, 2015	2014
Balance at 1 January	453,573	443,026
Provision for the year *	370,605	10,547
Transfer from other provisions	12,576	–
Balance at 31 December	836,754	453,573

* Based on the Central Bank of Iraq Board of Directors decision number 94 for the year 2016 dated on June 29, 2016, the bank should book 75% of its net profit for the year 2015 as impairment losses (provisions) for the direct credit facilities which justify the increase in the current year expense comparing to the prior year.

10. Investment securities - net

In thousands of USD	As of December 31, 2015	As of December 31, 2014
Held-to-maturity investment	1,791,462	861,606
Available-for-sale investment	5,042	5,882
(Impairment losses on available for sale investment)	(3,000)	(1,500)
	1,793,504	865,988
Held-to-maturity investment securities		
Iraqi treasury bills, maturity 91 days	1,070,213	-
Iraqi treasury bills, maturity 182 days	-	784,306
Iraqi treasury bills, maturity more than 182 days	721,249	77,300
Total held-to-maturity investment	1,791,462	861,606
Available-for-sale investment securities		
Equity securities at cost : unlisted	4,040	5,000
Equity securities at fair value: listed	1,002	882
Total available-for-sale investment securities	5,042	5,882
Total investment securities	1,796,504	867,488
Current	1,074,253	-
Non current	722,251	867,488
	1,796,504	867,488

The movement in investment securities during the year is summarized as follows:

	Held-to-maturity	Available-for-sale	Total
Balance at 1 January 2014	130,829	5,830	136,659
Additions	1,156,034	-	1,156,034
Matured	(425,257)	-	(425,257)
Gains from changes in fair value	-	52	52
Balance at 31 December 2014	861,606	5,882	867,488
Balance at 1 January 2015	861,606	5,882	867,488
Additions	1,714,161	-	1,714,161
Matured	(784,305)	(1,797)	(786,102)
Gains from changes in fair value	-	957	957
Balance at 31 December 2015	1,791,462	5,042	1,796,504

The movement on available for sale impairment losses during the year is summarized as follows:

In thousands of USD	As of December 31, 2015	As of December 31, 2014
As of January 1,	1,500	-
Impairment loss during the year	1,500	1,500
Balance as of December 31,	3,000	1,500

11. Property and equipment

In thousands of USD Cost	Land	Buildings	Machinery and tools	Leasehold Improvement	Vehicles	Fixture and Fiurniture	Building under construction	Total
Balance at 1 January 2014	10,265	25,629	935	8,635	611	1,551	20,704	68,330
Additions	1,440	176	167	1,902	191	1,997	5,330	11,203
Transfer	-	(54)	-	-	(70)	-	(5,723)	(5,847)
Balance at 31 December 2014	**11,705**	**25,751**	**1,102**	**10,537**	**732**	**3,548**	**20,311**	**73,686**
Balance at 1 January 2015	11,705	25,751	1,102	10,537	732	3,548	20,311	73,686
Additions	6,894	7,757	269	157	-	2,206	4,102	21,385
Transfer	-	21,624	-	-	-	-	(21,624)	-
Balance at 31 December 2015	**18,599**	**55,132**	**1,371**	**10,694**	**732**	**5,754**	**2,789**	**95,071**
Depreciation								
Balance at 1 January 2014	-	2,381	935	-	332	868	-	4,516
Depreciation for the year	-	2,761	167	-	400	2,680	-	6,008
Balance at 31 December 2014	-	**5,142**	**1,102**	-	**732**	**3,548**	-	**10,524**
Balance at 1 January 2015	-	5,142	1,102	-	732	3,548	-	10,524
Depreciation for the year	-	3,141	269	139	-	2,206	-	5,755
Balance at 31 December 2015	-	**8,283**	**1,371**	**139**	**732**	**5,754**	-	**16,279**
Carrying amounts								
Balance at 1 January 2014	11,705	20,609	-	10,537	-	-	20,311	63,162
Balance at 31 December 2015	18,599	46,849	-	10,555	-	-	2,789	78,792

In 2010 the Government of Iraq granted the Bank a Land amounting to USD 4,176 for use in its banking operation. Since the Government of Iraq is the owner of the Bank and the grant was unconditional, the land was recognized freehold asset of the Bank and as a special reserve in equity (see note 17).

12. Other assets - net

In thousands of USD	As of December 31, 2015	2014
Commissions receivable	23,586	35,670
Prepaid expenses	906	2,114
Advances to employees	3,118	2,783
Accrued interest income	369,089	134,744
Other assets	29,070	19,146
Allowance for impairment *	(15,253)	(12,576)
	410,516	181,881

* Based on the bank management opinion, an amount of USD 12,576 K allowance for impairment related to accrued interest and other assets was transferred to direct credit facilities impairment loss due to the fact that is not required anymore and to support the facilities provisions. During the year 2015 an amount of USD 15,253 was booked according to uncollectable debts in the other assets accounts.

13. Deposits from customers

In thousands of USD	As of December 31, 2015	2014
Current accounts	5,616,285	9,134,476
Saving accounts	307,387	321,231
Call deposits	46,643	66,148
Other deposits	40,615	36,304
	6,010,930	9,558,159
Margin accounts		
Margin accounts against letters of credit	14,174,424	17,477,282
Margin accounts against letters of guarantees	109,687	107,028
Total margin accounts	14,284,111	17,584,310
Total deposits from customers	20,295,041	27,142,469

14. Collective impairment on LCs and LGs

In thousands of USD	**As of December 31, 2015**	**2014**
Balance at January 1,	36,983	20,013
Impairment loss for current year	68	16,970
Balance December 31,	37,051	36,983

15. Other liabilities

In thousands of USD	As of December 31, 2015	2014
Trade creditors	44,137	130,816
Certified checks issued	25	29
Deferred LCs and LGs commission income	75,726	131,602
Internal bills of exchange	49,858	120,576
Customers' restricted LGs margin	–	30
Accrued expenses	1,216	5,196
Bills of exchange	129	839
Stamp fees payable	1,251	1,098
Customers funds blocked by legal order	2,158	2,221
Other	36,064	59,834
	210,563	452,241

16. Share capital

Based on the Iraqi Head of Ministries decision number 260 for the year 2015 dated on July 8, 2015, the bank had obtained the approval to increase the share capital in amount of IQD 750 B which equal to USD 644,692 K to be in total disclosed and paid equal to USD 1,500,858 K comparing to USD 856,166 K on 2014.

The bank represent a governmental entity according to the Coalition Provisional Authority (CPA) Order number (100) in 2004. Then CPA authorities was delegated to Iraqi Head of Ministries.

17. Reserves and retained earnings

In thousands of USD	As of December 31, 2015	2014
General reserve (a)	225,863	236,709
Fair value reserve-available-for-sale investments (b)	1,472	515
Special reserve (c)	4,176	4,176
Translation reserve (d)	7,057	7,057
Retained earnings (e)	1,023,563	1,534,831
	1,262,131	1,783,288

The Head of Ministries consulting about the net profit realized for each year and the accumulated retained earnings to take a decision of retained these earnings in the bank book or invest it for future benefits.

Movement in reserves and retained earnings were as follows:

(a) ***General reserve***

In thousands of USD	As of December 31, 2015	2014
Balance at 1 January	236,709	236,709
Transfer from retained earnings	(10,846)	–
Balance at 31 December	225,863	236,709

(b) ***Fair value reserve – financial instruments available-for-sale***

In thousands of USD	As of December 31, 2015	2014
Balance at 1 January	515	463
Revaluation change during the year	957	52
Balance at 31 December	1,472	515

(c) ***Special reserve***

The Government of Iraq granted the Bank land for the use in business (see note 11). Because the Government of Iraq is the owner of the Bank and the grant was unconditional, the land was recognized freehold asset of the Bank and as a special reserve in equity.

(d) ***Translation reserve***

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements from the functional currency to the market currency.

(e) ***Retained earnings***

In thousands of USD	As of December 31, 2015	2014
Balance at 1 January	1,534,831	1,206,527
Transferred to share capital	(644,692)	–
Transferred from reserves	10,846	–
Reallocation for fair value reserve	(957)	–
Profit for the year	123,535	328,304
Balance at 31 December	1,023,563	1,534,831

18. Net interest income

In thousands of USD	For the year ended December 31, 2015	2014
Interest income		
Balances with Central Bank of Iraq and due from banks	28,655	34,103
Loans and advances to customers	176,615	127,210
Held-to-maturirty investment securities (note 24)	58,092	29,765
Total interest income	263,362	191,078
Interest expense		
Deposits from customers	(11,704)	(10,437)
Total interest expense	(11,704)	(10,437)
Net interest income	251,658	180,641

19. Fee and commission income

In thousands of USD	For the year ended December 31, 2015	2014
Commission income on letters of credit	105,502	97,929
Commission income on letters of guarantee	49,402	44,825
Commission income on fund transfers	10,654	13,999
Other fees and commissions	7,740	7,497
Total fee and commission income	173,298	164,250

20. Net trading income

In thousands of USD	For the year ended December 31, 2015	2014
Interest income	6,800	5,603
Net gain from foreign exchange operations	138,898	80,110
Losses from changes in fair value	(7)	-
	145,691	85,713

21. Personnel expenses

In thousands of USD	For the year ended December 31, 2015	2014
Wages and salaries	26,251	23,741

22. General and administrative expenses

In thousands of USD	For the year ended December 31, 2015	2014
Security expenses	9,317	8,845
Research & consultancy services	56	162
Subscriptions, fees and licenses	1,018	1,852
Rent	1,458	1,683
Travel and transportation expenses	708	844
Advertising expenses	63	210
Fuel and oil	477	338
Repairs and maintenance	286	392
Office supplies	352	509
Legal and professional fees	239	186
Taxes and governmental fees	331	333
Other expenses	8,600	18,190
	22,905	33,544

23. Cash and cash equivalents

In thousands of USD	As of December 31, 2015	2014
Cash and balances with Central Bank of Iraq other than mandatory reserve deposits (Note 7)	7,613,525	7,572,548
Balances at banks (Note 8)	8,892,759	17,732,775
	16,506,284	25,305,323

24. Related parties

The Bank is a governmental entity, and all the governmental entities except for the Central Bank of Iraq (regulator) are considered related parties

A number of banking transactions are entered into with related parties in the normal course of business These include loans, deposits and other transactions

The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year as follows:

(a) Governmental entities

Loans and advances and overdrafts to governmental entities

In thousands of USD	2015	2014
Loans outstanding at 1 January	1,256,910	417,606
Net movement during the year	1,996,124	839,304
Loans outstanding at 31 December (note 9)	3,253,034	1,256,910

Deposits from governmental entities

In thousands of USD	2015	2014
Deposits at 1 January	24,438,458	17,326,038
Net movement during the year	(6,101,697)	7,111,620
Deposits at 31 December	18,336,761	24,438,458

Other balances with governmental entities

In thousands of USD	2015	2014
Due from governmental banks	3,115	9,680
Held-to-maturity investment securities	1,791,462	861,606
	1,794,577	871,286

Interest income from governmental entities

In thousands of USD	2015	2014
Loans	77,121	26,330
Financial assets held for trading	6,800	5,603
Held-to-maturity investment securities	58,092	29,765
	142,013	61,698

(b) Key management personnel compensation

In thousands of USD	2015	2014
Benefits and remuneration - short term	143	123

25. Subsequent event

Based on the Central Bank of Iraq Board of Directors decision number 94 for the year 2016 dated on June 29, 2016, the bank should book 75% of its net profit for the year 2015 which equal to USD 370,605 K as impairment losses (provisions) for the direct credit facilities to strength the bank financial position, process the losses incurred in the political areas and distribute the reaming as dividends or capitalize it.

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