TRADE BANK OF IRAQ
BAGHDAD – ARAB REPUBLIC OF IRAQ
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
TOGETHER WITH INDEPENDENT
AUDITORS' REPORT

TRADE BANK OF IRAQ
Baghdad – Arab Republic of Iraq

FOR THE YEAR ENDED DECEMBER 31, 2017

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Independent auditors' report on the financial statements

To the Board of Directors
Trade Bank of Iraq
Baghdad – Arab Republic of Iraq

Qualified Opinion

We have audited the financial statements of **Trade Bank of Iraq** (**the 'Bank'**), which comprise the statement of financial position as at December 31, 2017, and the related statements of profit or loss, other comprehensive income, changes in owner's equity and cash flows for the year then ended, and its related notes, comprising significant accounting policies.

In our opinion and except for the possible effects of what is mentioned in the below basis of qualified opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2017, and of its financial performance and its cash flows for the year then ended, in accordance to the International Financial Reporting Standards (IFRS) and Central Bank of Iraq instructions.

Basis for Qualified Opinion

As mentioned in Note (7) to the Bank financial statements, the current accounts with Central Bank of Iraq include an amount of USD 3,726,838 thousand as of December 31, 2017 (USD 3,727,558 thousand as of December 31, 2016) deposited at Kurdistan Territory Central Banks and confirmed by them. We have not been provided with any evidence about the recoverability of these balances and were not able to verify its recoverability by using alternative procedures. Accordingly, we were unable to determine whether any adjustments are required to the audited financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board of Accountant Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Restriction of use

Without further qualification of our conclusion, we draw attention to Note (2) to the audited financial statement, which describes the basis of preparation for the audited financial statement. The financial statement are prepared to assist the management for internal use and for correspondence banks and the Government of Iraq and not for filling with any regulatory authorities, as a result, the audited financial statement may not be suitable for another purpose. Our qualified opinion is intended solely and should not be used by parties other than the Bank's management, correspondence banks and the Government of Iraq and not for another purpose.

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 IFRS 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.

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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 business, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 International Standards on Auditing will always detect a material misstatement when it exists. 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 International Standards on Auditing, 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 exists, we are required to draw attention in our auditors' 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 auditors' 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.

Kawasmy and Partners
KPMG

Amman – Jordan

Hatem Kawasmy

April 3, 2018

KPMG
Kawasmy & Partners Co.

TRADE BANK OF IRAQ
Baghdad – Arab Republic of Iraq

Statement of financial position

In thousands of USD	Note	As at December 31, 2017	2016
Assets			
Cash and balances at Central Bank of Iraq	7	6,486,006	7,294,552
Balances at banks	8	4,746,301	5,606,091
Loans and advances to customers - net	9	5,117,138	4,736,528
Investment securities	10	2,534,929	1,834,789
Property and equipment - net	11	68,766	73,127
Other assets - net	12	346,516	190,153
Total assets		**19,299,656**	**19,735,240**
Liabilities			
Customers and financial institutions Deposits	13	15,904,338	16,434,886
Collective impairment allowance against contractual agreements	14	36,550	36,550
Other liabilities	15	146,274	171,270
Total liabilities		**16,087,162**	**16,642,706**
Owner's equity			
Share capital	16	2,346,882	1,500,858
Reserves	17	178,190	193,687
Retained earnings	17	687,422	1,397,989
Total owner's equity		**3,212,494**	**3,092,534**
Total liabilities and owner's equity		**19,299,656**	**19,735,240**

The notes on pages 8 to 40 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 April 3, 2018 by:

CEO and Chairman

3/4/18

CFO

3/4/2018

TRADE BANK OF IRAQ
Baghdad – Arab Republic of Iraq

Statement of profit or loss

		For the year ended December 31,	
In thousands of USD	Note	2017	2016
Interest income	18	326,589	268,577
Interest expense	18	(13,903)	(6,311)
Net interest income		**312,686**	**262,266**
Fee and commission income	19	135,004	99,670
Fee and commission expense		(14,301)	(12,294)
Net fees and commissions income		**120,703**	**87,376**
Net trading income	20	44,238	206,628
Operating income		**477,627**	**556,270**
Impairment allowance on loans and advances to customers	9	(59,114)	(45,000)
Recovered allowance on available for sale impairment		-	3,000
Recovered allowance against contractual agreements	14	-	501
Employee expenses	21	(37,709)	(27,832)
General and administrative expenses	22	(11,799)	(18,265)
Depreciation expense	11	(7,309)	(13,865)
Other income (expense)		736	(860)
Profit for the year		**362,432**	**453,949**

The notes on pages 8 to 40 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 April 3, 2018 by:

CEO and Chairman **CFO**

3/4/18 3/4/2018

TRADE BANK OF IRAQ
Baghdad – Arab Republic of Iraq

Statement of other comprehensive income

	For the year ended December 31,	
	2017	**2016**
In thousands of USD		
Profit for the year	362,432	453,949
Items that will not be reclassified subsequently to statement of profit or loss		
Foreign currency translation reserve	(15,947)	(62,168)
Fair value reserve (available for sale financial assets)	450	9
Other comprehensive (loss) for the year	**(15,497)**	**(62,159)**
Total comprehensive income for the year	**346,935**	**391,790**

The notes on pages 8 to 40 are an integral part of these financial statements and should be read
With them and with independent auditor report.

TRADE BANK OF IRAQ
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Statement of changes in owner's equity

In thousands of USD	Share capital	General reserve	Fair value reserve	Special reserve	Translation reserve	Reserves	Retained earnings	Total owner's equity
Changes for the year ended December 31, 2017								
Balance at 1 January 2017	**1,500,858**	**236,709**	**1,481**	**10,608**	**(55,111)**	**193,687**	**1,397,989**	**3,092,534**
Profit for the year	-	-	-	-	-	-	362,432	362,432
Other comprehensive income								
Foreign currency translation reserve	-	-	-	-	(15,947)	-	-	(15,947)
Net change in fair value reserve (available for sale financial assets)	-	-	450	-	-	-	-	450
Total comprehensive income for the year	**-**	**-**	**450**	**-**	**(15,947)**	**-**	**362,432**	**346,935**
Transferred to public treasury*	-	-	-	-	-	-	(226,975)	(226,975)
Transferred from returned earnings to share capital**	846,024	-	-	-	-	-	(846,024)	-
Balance at 31 December 2017	**2,346,882**	**236,709**	**1,931**	**10,608**	**(71,058)**	**178,190**	**687,422**	**3,212,494**
Changes for the year ended December 31, 2016								
Balance at 1 January 2016	**1,500,858**	**225,863**	**1,472**	**4,176**	**7,057**	**238,568**	**1,023,563**	**2,762,989**
Profit for the year	-	-	-	-	-	-	453,949	453,949
Other comprehensive income	-	-	-	-	-	-	-	-
Foreign currency translation reserve	-	-	-	-	(62,168)	-	-	(62,168)
Net change in fair value reserve (available-for-sale financial assets)	-	-	9	-	-	-	-	9
Total comprehensive income for the year	**-**	**-**	**9**	**-**	**(62,168)**		**453,949**	**391,790**
Transferred to public treasury*	-	-	-	-	-	-	(62,246)	(62,246)
Transferred from returned earnings to general reserve	-	10,846	-	-	-	-	(10,846)	-
Transferred from returned earnings to special reserve	-	-	-	6,432	-	-	(6,432)	-
Balance at 31 December 2016	**1,500,858**	**236,709**	**1,481**	**10,608**	**(55,111)**	**193,687**	**1,397,989**	**3,092,534**

* Based on Prime Ministries letter number 61/3121 dated on February 27, 2017, it was approved to transfer 50% of 2016 realized profits to public treasury.

** Based on letter from Head of Ministries number 61/2907 dated on February 22, 2017 and the Bank Board of Directors decision number 66 dated on May 24, 2016, they approved to raise the paid-up capital of the Bank by amount of 1 trillion Iraqi Dinars which equivalent to 846 millions of US dollars.

TRADE BANK OF IRAQ
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Statement of cash flows

In thousands of USD	Note	For the year ended December 31, 2017	2016
Cash flows from operating activities			
Profit for the year		362,432	453,949
Adjustments for:			
Impairment allowance on loans and advances to customers	9	59,114	45,000
Impairment allowances on available for sale investment	10	-	(3,000)
Impairment allowances on other assets balances	12	52	-
Allowance no longer needed against contractual agreements	14	-	501
Depreciation	11	7,309	13,865
Net interest income	18	(312,686)	(262,266)
		116,221	**248,049**
Change in mandatory reserve at Central Bank of Iraq	7	(60,637)	(337,615)
Change in loans and advances to customers - net		(439,724)	(384,767)
Change in other assets		(156,415)	220,363
Change in deposits from customers and financial institution		(530,548)	(3,860,155)
Change in other liabilities		(24,996)	(40,295)
		(1,096,099)	(4,154,420)
Interest received	18	326,589	268,577
Interest paid	18	(13,903)	(6,311)
Net cash (used in) operating activities		**(783,413)**	**(3,892,154)**
Cash flows from investing activities			
Acquisition of investments securities	10	(2,402,875)	(1,633,316)
Proceeds from matured investment securities	10	1,702,735	1,595,031
Acquisitions of property and equipment	11	(2,948)	(7,290)
Effect of change in foreign currency exchange rate		295,201	(90,230)
Net cash (used in) investing activities		**(407,887)**	**(135,805)**
Cash flow from financing activities			
Profit transferred to public treasury		(226,975)	(62,246)
Net cash (used in) investing activities		**(226,975)**	**(62,246)**
Net (decrease) in cash and cash equivalents		(1,418,275)	(4,090,205)
Cash and cash equivalents at 1 January		12,416,079	16,506,284
Cash and cash equivalents at December 31	23	**10,997,804**	**12,416,079**

The notes on pages 8 to 40 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") 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 Arab 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 24 branches spread inside Iraq with 1,274 employees.

The financial statements were approved for issue on April 3, 2018.

2. Significant accounting policies.

(a) Financial statement basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting standards (IFRS) issued by the international accounting standard board and the interpretations issued by the international financial reporting interpretations committee in accordance with the prevailing instructions of the central bank of Iraq, In case of a difference between International Financial Reporting Standards and the instructions of Central Bank of Iraq, Central Bank of Iraq instructions are applied. The main differences between IFRS as applied and the instructions of Central Bank of Iraq are as follows:

1- The calculation of loans and advances impairment allowance in accordance with the central Bank of Iraq instruction.

2- The Central Bank of Iraq have issued a letter number 9/2/15719 dated on November 5, 2017 which is related to the delay of implementation for (IFRS 9) for one year more. Accordingly, the bank did not apply the mentioned standard on the financial statement that ended on December 31, 2017.

The accompanying financial statement, are prepared for management purposes only, the correspondence banks and the Government of Iraq. As a result the financial statement may not be suitable for any other purpose.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial assets available for sale which measured at fair value, at the date of financial statements.

(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:

• Determination of fair value of financial instruments;

• Collective impairment allowance against contractual agreements: key assumptions about the likelihood and magnitude of an outflow of resources.

Impairment of financial instruments

Assets impairment loss accounted for at amortized cost.

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 and Central Bank of Iraq instructions. 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 which 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 "significant" and a decline in a quoted market price at the date of reporting.

3. <u>Changes in accounting policies</u>

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, 2017 are the same as those applied by the Bank in its financial statements for the year ended December 31, 2016, except for the following International Financial Reporting Standards effective after December 31,2017:

Standards	Effective Date
-Amendments on IAS (7) : Disclosure Initiative	January 1st, 2017
Amendments on IAS (12) : Recognition of Deferred Tax Assets for Unrealized	January 1st, 2017
Amendments on IFRS (12) : Ownership of other firms disclosure: Annual	January 1st, 2017

The application of these amended standards did not have a significant effect on the financial statements of the Bank.

4. Significant accounting policies

Except for changes explained in the above 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 issued by CBI at the date of financial statements.
- Income and expenses are translated at the average exchange rates issued by CBI 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 profit and loss include:

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

(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 and measurement

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 advances;
- held to maturity;
- available for sale;

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(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 prime market for the asset or liability, or
2- In the absence of a prime 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.

(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 against the fair value reserve at owners equity. 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.

(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 advances (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 advances, 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 advances. 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. 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 through profit or loss, with fair value changes recognized immediately in profit or loss.

(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. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, 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 allowance)

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) New standards and interpretations not yet adopted

The following new and revised IFRSs have been issued but are not effective yet, the Bank has not applied the following new and revised IFRSs that are available for early application but are not effective yet.

<u>New Standards</u>

- International Financial Reporting Standards (9): Financial Instruments (effective on January 1st, 2018 except for Insurance Companies which will be effective on January 1st, 2021 with earlier application permitted).
- International Financial Reporting Standards (15): Revenue from Contracts with Customers (effective on January 1st, 2018 with earlier application permitted).
- International Financial Reporting Standards (16): Leases (effective on January 1st, 2019 with earlier application permitted).
- IFRS (17) Insurance Contracts (effective 1 January 2021 with early application permitted).

<u>Adjustment:</u>

- IFRS 2 Classification and Measurement of Share-based Payment Account (effective 1 January 2018 with early application permitted).
- IFRS 10 and IAS 28 Sale or Contribution of Assets between Investor and its Joint Venture Partners (no date specified).
- IAS 40 (Clarification of the transfer of investment property (effective 1 January 2018).
- Amendments to International Financial Reporting Standards (IFRS) (2014-2016) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (effective January 1, 2018).
- IFRIC 22: Foreign currency transactions and prepayment allowance.

Management anticipates that these standards and amendments will be applied in the preparation of the financial statements at the dates set out above, which will have no material impact on the financial statements except the effect of IFRS (9) Financial instrument and The below is the effect if application of IFRS 16 (Leases) which will disclose the expected impact of its application when the Bank reviews the impact, since it is not practicable to provide a reasonable estimate of the implications of applying this standard in the current period.

Effect of application of International standards No. (9):

The Bank is required to apply IFRS 9 as from 1 January 2018.

The following are the most important aspects of application**:**

A- Classification and measurement of financial assets:

The Bank's management does not expect any material impact from the application of the Standard as mentioned in "B" below.

B- Classification and measurement of financial liabilities:

IFRS (9) has retained the requirements of IAS (39) regarding the classification of financial liabilities. IAS (39) requires recognition of the differences in the assessment of financial liabilities classified as financial liabilities at fair value through profit or loss in the statement of profit and loss, whereas IFRS (9) requires:

- Changing the name of the financial assets available for sale to financial assets at fair value through other comprehensive income.
- Changing the name of the financial assets available for trading to financial assets at fair value through the statement of profit or loss.
- Recognition of differences in the assessment of financial liabilities classified as financial liabilities at fair value through statement of profit and loss as a result of changes in credit risk in the statement of comprehensive income.
- The remaining amount of fair value valuation differences is recognized in the statement profit or loss.

The Bank has not classified any financial liabilities in financial liabilities at fair value through profit or loss and other comprehensive income. There is no intention of the management to classify any financial liabilities in this category. Therefore, there is no impact from the application of IFRS (9), to the financial statements.

C- Impairment of financial assets

IFRS (9) replaces the 'incurred loss' model in IAS (39) with a forward-looking 'expected credit loss' model. Which requires the use of estimates and judgments to estimate economic factors. The model will be applied to all financial assets - debt instruments classified at amortized cost or at fair value through statement of comprehensive income or at fair value through profit or loss.

Impairment losses will be calculated in accordance with the requirements of IFRS (9) in accordance with the following rules:

- 12 month impairment loss: The expected impairment will be calculated for the next 12 months from the date of the financial statements.
- Impairment losses for the lifetime of the instrument: The expected impairment of the life of the financial instrument will be calculated until the maturity date from the date of the financial statements.

The expected credit loss mechanism depends on the (probability of default), which is calculated according to the credit risk and future economic factors, (loss given default), which depends on the value of the existing collateral and (the exposure at default).

The bank did not calculate the effect that may arise from applying IFRS (9), which will be implemented on the bank financial statement on January 1, 2018. Therefore, the bank did not disclose this effect on the current financial statement in accordance to the requirements of IFRS (8). “The accounting policies and changes in the errors and estimates” based on the Central Bank of Iraq letter number 9/2/15719 dated on November 5, 2017 which related to the delay of the standard implementation for one year.

D- Disclosure

IFRS (9) requires many detailed disclosures, especially with regard to the hedge accounting, credit risk and expected credit losses. Moreover, the bank is working to provide all important details for these disclosures to be presented in financial statements after applying.

E- Implementation

The bank will take an advantage of the exemption applied by the standard on January 1st, 2018 to reflect the impact on opening balances on retained earnings and existed provisions instead of reissuing the financial statement for the year ended December 31, 2017 and before.

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.

5. 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 and 4/2014 instructions. In case the Central Bank of Iraq issued any extraordinary instructions, the bank is requested to apply and disclose about it on their accounts.

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 at Banks		Investment securities		Other assets	
In thousands of USD	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	6,517,908	5,912,378	10,948,238	12,656,599	2,534,929	1,834,789	361,821	205,406
Assets at amortized cost:								
Grade 1-excellent	3,454,560	3,074,161	10,948,238	12,656,599	2,534,929	1,834,789	346,516	190,153
Grade 2-3 good and average	591,992	965,388	-	-	-	-	-	-
Grade 4-5-6: Impaired	2,471,356	1,872,829	-	-	-	-	15,305	15,253
Gross amount	**6,517,908**	**5,912,378**	**10,948,238**	**12,656,599**	**2,534,929**	**1,834,789**	**361,821**	**205,406**
Interest in suspense	(475,086)	(309,280)	-	-	-	-	-	-
Allowance for impairment (individual)	(925,684)	(866,570)	-	-	-	-	(15,305)	(15,253)
Carrying amount amortized cost	**5,117,138**	**4,736,528**	**10,948,238**	**12,656,599**	**2,534,929**	**1,834,789**	**346,516**	**190,153**
Total carrying amount	**5,117,138**	**4,736,528**	**10,948,238**	**12,656,599**	**2,534,929**	**1,834,789**	**346,516**	**190,153**

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

In thousands of USD	2017	2016
Letters of guarantee	3,699,942	5,705,870
Letters of credit	2,021,554	1,310,550
	5,721,496	7,016,420

The above table represents a worse-case scenario of credit risk exposure to the Bank at December 31, 2017 and 2016, 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 bank 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 December 31, 2017, the net carrying amount of impaired loans and advances allowance amounted to USD 925,684 Thousand (2016: USD 866,570 Thousand).

Notes to financial statements for the year ended December 31, 2017

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 net carrying amounts after the allowance and interest in suspense (without taking into account any collateral held or other credit support), as categorized by geographical region as of December 31, 2017 and 2016.

In thousands of USD	Iraq	Asia and other middle eastern courtiers	Europe	USA	Australia	Total
Cash and Balances with Central Bank of Iraq	6,486,006	-	-	-	-	6,486,006
Balances at banks	18,193	1,689,734	2,577,890	460,469	15	4,746,301
Loans and advances to customers- net	5,117,138	-	-	-	-	5,117,138
Held to maturity investment securities	2,533,445	-	-	-	-	2,533,445
Other assets	361,821	-	-	-	-	361,821
As at December 31, 2017	**14,516,603**	**1,689,734**	**2,577,890**	**460,469**	**15**	**19,244,711**

In thousands of USD	Iraq	Asia and other middle eastern courtiers	Europe	USA	Australia	Total
Cash and Balances with Central Bank of Iraq	7,294,552	-	-	-	-	7,294,552
Balances at banks	21,053	1,675,691	3,477,514	431,833	-	5,606,091
Loans and advances to customers - net	4,736,528	-	-	-	-	4,736,528
Held to maturity investment securities	1,833,755	-	-	-	-	1,833,755
Other assets	205,406	-	-	-	-	205,406
As at December 31, 2016	**14,091,294**	**1,675,691**	**3,477,514**	**431,833**	**-**	**19,676,332**

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

In thousands of USD	Iraq	Other Countries	Total
Letter of guarantee	3,767,403	-	3,767,403
Letter of credit	10,487,791	-	10,487,791
As at December 31, 2017	**14,255,194**	**-**	**14,255,194**
As at December 31, 2016	**24,442,585**	**-**	**24,442,585**

Concentration of risks of financial assets with credit risk exposure

(ii) Industry sector

The following table breaks down the Bank's credit exposure at net carrying amount after 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.

Notes to financial statements for the year ended December 31, 2017

In thousands of USD				Public and		
2017	**Financial**	**Trading**	**Retail**	**governmental**	**Others**	**Total**
Balances with Central Bank of Iraq	6,201,936	-	-	-	-	6,201,936
Balances at banks	4,746,301	-	-	-	-	4,746,301
Held-to-maturity investment securities	-	-	-	2,533,445	-	2,533,445
Other assets		-	-	-	361,821	361,821
Loans and advances:						
Retail:						
Loans	-	-	200,447	-	-	200,447
Overdrafts	-	-	481,931	-	-	481,931
Corporate entities:						
Loans	-	716,043	-	-	-	716,043
Overdrafts	-	1,819,933	-	-	-	1,819,933
Governmental:						
Loans	-	-	-	3,299,554	-	3,299,554
Total 2017	**10,948,237**	**2,535,976**	**682,378**	**5,832,999**	**361,821**	**20,361,411**

In thousands of USD				Public and		
2016	**Financial**	**Trading**	**Retail**	**governmental**	**Others**	**Total**
Balances with Central Bank of Iraq	7,050,508	-	-	-	-	7,050,508
Balances at banks	5,606,091	-	-	-	-	5,606,091
Held-to-maturity investment securities	-	-	-	1,833,755	-	1,833,755
Other assets		-	-	-	205,406	205,406
Loans and advances:	-					
Retail:						
Loans	-	-	89,408	-	-	89,408
Overdrafts	-	-	262,158	-	-	262,158
Corporate entities:						
Loans	-	630,076	-	-	-	630,076
Overdrafts	-	1,517,337	-	-	-	1,517,337
Governmental:						
Loans	-	-	-	3,413,399	-	3,413,399
Total 2016	**12,656,599**	**2,147,413**	**351,566**	**5,247,154**	**205,406**	**20,608,138**

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 and banks as its primary sources of funding. Deposits from customers and banks 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	**less than**	**1-3**	**3 months**	**1-5**	
Decemeber 31, 2017	**1 month**	**months**	**to 1 year**	**years**	**Total**
Liabilities					
Deposits from customers	15,795,584	27,725	74,261	6,768	15,904,338
Other liabilities	146,274	-	-	-	146,274
Total liabilities	**15,941,858**	**27,725**	**74,261**	**6,768**	**16,050,612**
Decemeber 31, 2016					
Liabilities					
Deposits from customers	4,681,732	26,719	357,287	11,369,148	16,434,886
Other liabilities	171,270	-	-	-	171,270
Total liabilities	**4,853,002**	**26,719**	**357,287**	**11,369,148**	**16,606,156**

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 **December 31, 2017**	**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	6,486,006	-	-	-	-	-	6,486,006
Balances at banks	4,746,301	1,550,025	307,496	122,500	2,766,280	-	-
Loans and advances to customers - net	5,117,138	757,904	2,000,298	764,688	431,436	1,162,812	-
Available-for-sale investment securities	1,484	-	-	-	-	-	1,484
Held-to-maturity investment securities	2,533,445	1,054,614	25,333	691,942	661,793	99,763	-
Other assets	361,821	-	-	-	-	-	361,821
Total financial assets	**19,246,195**	**3,362,543**	**2,333,127**	**1,579,130**	**3,859,509**	**1,262,575**	**6,849,311**
Deposits from customers and financial institutions	(15,904,338)	(7,163,797)	(1,694,012)	(2,553,496)	(4,491,633)	(1,400)	-
Total financial liabilities	**(15,904,338)**	**(7,163,797)**	**(1,694,012)**	**(2,553,496)**	**(4,491,633)**	**(1,400)**	**-**
Total interest repricing gap	**3,341,857**	**(3,801,254)**	**639,115**	**(974,366)**	**(632,124)**	**1,261,175**	**6,849,311**

In thousands of USD **December 31, 2016**	**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	7,294,552	-	-	-	-	-	7,294,552
Balances at banks	5,606,091	1,181,575	563,430	361,288	3,499,798	-	-
Loans and advances to customers - net	4,736,528	-	-	511,802	4,132,883	91,843	-
Available-for-sale investment securities	1,034	-	-	-	-	-	1,034
Held-to-maturity investment securities	1,833,755	-	-	-	1,734,767	98,988	-
Other assets	205,406	-	-	-	-	-	205,406
Total financial assets	**19,677,366**	**1,181,575**	**563,430**	**873,090**	**9,367,448**	**190,831**	**7,500,992**
Deposits from customers and financial institutions	(16,434,886)	(5,969,661)	(1,726,964)	(6,606,131)	(2,132,130)	-	-
Total financial liabilities	**(16,434,886)**	**(5,969,661)**	**(1,726,964)**	**(6,606,131)**	**(2,132,130)**	**-**	**-**
Total interest repricing gap	**3,242,480**	**(4,788,086)**	**(1,163,534)**	**(5,733,041)**	**7,235,318**	**190,831**	**7,500,992**

Notes to financial statements for the year ended December 31, 2017

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 December 31, 2017

In thousands of USD	USD	IQD	EUR	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank of Iraq	676,431	5,805,735	2,831	1,009	-	-	6,486,006
Balances at banks	4,080,043	2,573	636,987	22,057	1,337	3,304	4,746,301
Loans and advances to customers - net	4,615,112	489,358	12,668	-	-	-	5,117,138
Available-for-sale investment securities	1,381	25	78	-	-	-	1,484
Held-to-maturity investment securities	622,790	1,910,655	-	-	-	-	2,533,445
Other assets	226,165	105,570	29,846	-	-	240	361,821
Total assets	**10,221,922**	**8,313,916**	**682,410**	**23,066**	**1,337**	**3,544**	**19,246,195**
Liabilities							
Deposits from customers	12,364,683	2,729,991	781,946	25,720	1,223	775	15,904,338
Other allowances	-	36,550	-	-	-	-	36,550
Other liabilities	38,509	104,128	3,609	28	-	-	146,274
Total liabilities	**12,403,192**	**2,870,669**	**785,555**	**25,748**	**1,223**	**775**	**16,087,162**
Net on balance sheet financial position	**(2,181,270)**	**5,443,247**	**(103,145)**	**(2,682)**	**114**	**2,769**	**3,159,033**

As at December 31, 2016

In thousands of USD	USD	IQD	EUR	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank of Iraq	621,541	6,649,835	21,862	1,314	-	-	7,294,552
Balances at banks	4,629,824	8,514	933,314	28,507	1,751	4,182	5,606,091
Loans and advances to customers - net	4,663,621	52,491	20,416	-	-	-	4,736,528
Available-for-sale investment securities	971	-	63	-	-	-	1,034
Held-to-maturity investment securities	628,341	1,205,414	-	-	-	-	1,833,755
Other assets	166,719	38,590	77	20	-	-	205,406
Total assets	**10,711,016**	**7,954,844**	**975,732**	**29,841**	**1,751**	**4,182**	**19,677,366**
Liabilities							
Deposits from customers	13,929,468	1,413,722	1,056,837	32,795	1,419	644	16,434,886
Other allowances	-	36,550	-	-	-	-	36,550
Other liabilities	45,728	125,193	323	26	-	-	171,270
Total liabilities	**13,975,196**	**1,575,465**	**1,057,160**	**32,821**	**1,419**	**644**	**16,642,706**
Net on balance sheet financial position	**(3,264,180)**	**6,379,378**	**(81,428)**	**(2,980)**	**332**	**3,538**	**3,034,660**

(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	2017	2016
Tier 1 capital		
Share capital	2,346,882	1,500,858
General and special reserves	247,317	247,317
Retained earnings	687,422	1,397,989
	3,281,621	**3,146,164**
Tier 2 capital		
Fair value and translation reserve	(69,127)	(53,630)
Total regulatory capital	**3,212,494**	**3,092,534**

6. Fair values of financial instruments

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:

In thousands of USD

December 31, 2017	**Fair value**			**Total**	**Total carrying**
Financial assets measured at fair value:	**Level 1**	**Level 2**	**Level 3**	**fair value**	**amount**
Financial assets available for sale:	1,484	-	-	1,484	1,484
Financial assets not measured at fair value:					
Cash and balances with Central Bank	-	6,486,006	-	6,486,006	6,486,006
Balances at banks	-	4,746,301	-	4,746,301	4,746,301
Loans and advances to customers- net	-	5,117,138	-	5,117,138	5,117,138
Held to maturity investment securities	-	2,533,445	-	2,533,445	2,533,445
Total Financial assets not measured at fair value	**1,484**	**18,882,890**	**-**	**18,884,374**	**18,884,374**
Financial liabilities not measured at fair value:					
Deposits from customers	-	15,904,338	-	15,904,338	15,904,338
Total Financial liabilities not measured at fair value	**-**	**15,904,338**	**-**	**15,904,338**	**15,904,338**

In thousands of USD

December 31, 2016	**Fair value**			**Total**	**Total carrying**
Financial assets measured at fair value:	**Level 1**	**Level 2**	**Level 3**	**fair value**	**amount**
Financial assets available for sale:	1,034	-	-	1,034	1,034
Financial assets not measured at fair value:					
Cash and Balances with Central Bank	-	7,294,552	-	7,294,552	7,294,552
Balances at banks	-	5,606,091	-	5,606,091	5,606,091
Loans and advances to customers- net	-	4,736,528	-	4,736,528	4,736,528
Held to maturity investment securities	-	1,833,755	-	1,833,755	1,833,755
Total Financial assets not measured at fair value	**1,034**	**19,470,926**	**-**	**19,471,960**	**19,471,960**
Financial liabilities not measured at fair value:					
Deposits from customers	-	16,434,886	-	16,434,886	16,434,886
Total Financial liabilities not measured at fair value	**-**	**16,434,886**	**-**	**16,434,886**	**16,434,886**

7. Cash and balances at Central Bank of Iraq

The details of this item are as follows:

	As of December 31,	
In thousands of USD	**2017**	**2016**
Cash at vaults	284,070	244,044
Balances at Central Bank of Iraq except the mandatory reserve	6,012,433	6,921,642
Cash and cash equivalents (note 23)	6,296,503	7,165,686
Mandatory reserve deposits at the Central Bank *	189,503	128,866
	6,486,006	**7,294,552**
Non-interest bearing balances	6,486,006	6,873,918
	6,486,006	**6,873,918**

* 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

The details of this item are as follows:

	As of December 31,	
In thousands of USD	**2017**	**2016**
Local banks	-	6,212
Governmental banks (Note 24)	18,193	14,842
Foreign banks	4,728,108	5,585,037
Total	**4,746,301**	**5,606,091**
Floating interest bearing balances	3,583,403	3,962,528
	3,583,403	**3,962,528**

Total deposits matured after 3 months as of December 31, 2017 amounted to USD 45,000 thousands against (USD 355,698 thousands as of December 31, 2016).

9. Loans and advances to customers - net

The details of this item are as follows:

	As of December 31,	
In thousands of USD	**2017**	**2016**
Retail		
Loans and advances	200,447	89,408
Overdrafts	481,931	262,158
	682,378	**351,566**
Corporate		
Loans and advances	716,043	630,076
Overdrafts	1,819,933	1,517,337
	2,535,976	**2,147,413**
Governmental		
Loans and advances	3,299,554	3,413,399
	3,299,554	**3,413,399**
Total loans and advances to customers	**6,517,908**	**5,912,378**
Less: Interest in suspense	(475,086)	(309,280)
Less: Allowance for impairment	(925,684)	(866,570)
Net loans and advances to customers	**5,117,138**	**4,736,528**

The movement on allowance for impairment of loans and advances to customers are as follows:

	As of December 31,	
	2017	**2016**
Balance at 1 January	866,570	836,754
Provision for the year	59,114	45,000
Provisions (transferred)	-	(15,253)
Net effect for foreign currency exchange rate	-	69
Balance at 31 December	**925,684**	**866,570**

10. Investment securities

The details of this item are as follows:

In thousands of USD	As of December 31, 2017	2016
Held-to-maturity investment*	2,533,445	1,833,755
Available-for-sale investment**	1,484	1,034
	2,534,929	**1,834,789**
*** Held-to-maturity investment securities**		
Iraqi treasury bills, maturity within 91 days	1,124,887	1,015,203
Iraqi treasury bills, maturity within 181 day	47,115	-
Iraqi treasury bills, maturity within more than 181 day	1,361,443	818,552
Total held -to-maturity investment	**2,533,445**	**1,833,755**
****Available-for-sale investment securities**		
Equity securities at cost - unlisted	25	25
Equity securities at fair value - listed	1,459	1,009
Total available-for-sale investment securities	**1,484**	**1,034**
Total investment securities	**2,534,929**	**1,834,789**

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

	Held-to-maturity	Available-for-sale	Total
Balance at 1 January 2017	1,833,755	1,034	1,834,789
Additions	2,402,425	-	2,402,425
Matured	(1,702,735)	-	(1,702,735)
Gains from changes in fair value	-	450	450
Balance at 31 December 2017	**2,533,445**	**1,484**	**2,534,929**
Balance at 1 January 2016	1,791,462	5,042	1,796,504
Additions	1,633,316	-	1,633,316
Matured	(1,591,023)	(4,017)	(1,595,040)
Gains from changes in fair value	-	9	9
Balance at 31 December 2016	**1,833,755**	**1,034**	**1,834,789**

11. Property and equipment- Net

The details of this item are as follows:

In thousands of USD **Cost**	Land	Buildings	Machinery and tools	Leasehold Improvement	Vehicles	Fixture and Fiurniture	Building under construction	Total
Balance at 1 January 2017	18,876	58,530	1,928	9,413	908	9,987	3,739	103,381
Additions	-	79	107	1,719	88	720	235	2,948
Transfer during the year	-	(772)	-	-	-	(110)	882	-
Balance at 31 December 2017	**18,876**	**57,837**	**2,035**	**11,132**	**996**	**10,597**	**4,856**	**106,329**
Accumelated Depreciation								
Balance at 1 January 2017	-	17,570	1,928	139	908	9,709	-	30,254
Depreciation for the year	-	4,027	107	2,199	88	888	-	7,309
Balance at 31 December 2017	-	**21,597**	**2,035**	**2,338**	**996**	**10,597**	-	**37,563**
Net book value	**18,876**	**36,240**	-	**8,794**	-	-	**4,856**	**68,766**
Cost								
Balance at 1 January 2016	18,599	55,132	1,371	10,694	732	5,754	2,789	95,071
Additions	-	2,569	543	-	175	4,003	-	7,290
Transfer during the year	-	646	-	(1,297)	-	139	512	-
Foreign currency exchange net effect	277	183	14	16	1	91	438	1,020
Balance at 31 December 2016	**18,876**	**58,530**	**1,928**	**9,413**	**908**	**9,987**	**3,739**	**103,381**
Accumelated Depreciation								
Balance at 1 January 2016	-	8,283	1,371	139	732	5,754	-	16,279
Depreciation for the year	-	9,264	543	-	175	3,883	-	13,865
Foreign currency exchange net effect	-	23	14	-	1	72	-	110
Balance at 31 December 2016	-	**17,570**	**1,928**	**139**	**908**	**9,709**	-	**30,254**
Net book value	**18,876**	**40,960**	-	**9,274**	-	**278**	**3,739**	**73,127**

In 2010 and 2015 the Government of Iraq had granted the Bank two Lands amounting to USD 10,608 for use in its banking operation. Since the Government of Iraq is the owner of the Bank and the grant was unconditional, the lands was recognized freehold asset of the Bank and as a special reserve in equity (see note 17).

12. Other assets – net

The details of this item are as follows:

In thousands of USD	As of December 31, 2017	As of December 31, 2016
Accrued interest income	282,755	161,228
Commissions receivable	15,686	16,844
Prepaid expenses	795	734
Advances to employees	3,111	2,963
Asset seized by the bank against loans settelment	761	-
Other assets	58,713	23,637
Allowance for impairment	(15,305)	(15,253)
	346,516	**190,153**

13. Customers and financial institutions deposits

The details of this item are as follows:

In thousands of USD	As of December 31, 2017	As of December 31, 2016
Current accounts	6,201,798	4,672,866
Saving accounts	431,285	329,256
Call deposits	293,990	213,916
Other deposits	337,718	352,863
	7,264,791	**5,568,901**
Cash Margin		
Margin cash against letters of credit	8,572,086	10,813,742
Margin cash against letters of guarantees	67,461	52,243
Total margin accounts	**8,639,547**	**10,865,985**
Total deposits from customers and financial institutions	**15,904,338**	**16,434,886**

14. Collective impairment allowance against contractual agreements

The details of this item are as follows:

	As of December 31,	
In thousands of USD	**2017**	**2016**
Balance at January 1,	36,550	37,051
Provision no longer needed	-	(501)
Balance December 31,	**36,550**	**36,550**

15. Other liabilities

The details of this item are as follows:

	As of December 31,	
In thousands of USD	**2017**	**2016**
Trade creditors	43,143	39,992
Certified checks issued	15,869	39,941
Deferred commission income on LCs and LGs	66,564	84,605
Internal bills exchange	452	455
Accrued expenses	7,563	2,463
Stamp fees payable	1,592	1,376
Customers funds blocked by legal order	2,439	2,361
Other	8,652	77
	146,274	**171,270**

16. Share capital

Based on letter from Prime Minister number M.R.R/ 61/2907 dated on February 22, 2017 and the Bank Board of Directors decision number 66 dated on May 24, 2016, they approved to raise the paid-up capital of the Bank by amount of 1 trillion Iraqi Dinars to be 2.750 trillion Iraqi Dinars, which equivalent to 2,346 Million of US dollars as of December 31, 2017 against 1.750 trillion Iraqi Dinars, which equivalent to 1,500 Million US dollars as at December 31, 2016, in purpose of enable the bank to perform its operations better through the expansion of credit granting base which will support and finance the various economic activities and investment projects and achieve better returns in addition to implementing the standards of Basel III. The Bank increased its capital through capitalizing the retained earnings and not through depositing cash from the Governmental Public Treasury.

17. Reserves and retained earnings

The details of this item are as follows:

	As of December 31,	
	2017	**2016**
General reserve (a)	236,709	236,709
Fair value reserve-available-for-sale investmemts (b)	1,931	1,481
Special reserve (c)	10,608	10,608
Translation reserve (d)	(71,058)	(55,111)
Retained earnings (e)	687,422	1,397,989
	865,612	**1,591,676**

The Bank's management consult with the Head of Ministries about the net profit realized for each year and the accumulated retained earnings to take a decision to transfer it or retained these earnings in the bank book to invest for future benefits.

Movement on reserves and retained earnings were as follows:

(a) General reserve

	As of December 31,	
	2017	**2016**
Balance at 1 January	236,709	225,863
Transfer from retained earnings	-	10,846
Balance at 31 December	**236,709**	**236,709**

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

	As of December 31,	
	2017	**2016**
Balance at 1 January	1,481	1,472
Revaluation change during the year	450	9
Balance at 31 December	**1,931**	**1,481**

(c) Special reserve

The Government of Iraq had granted the Bank two lands for the use in business (see note 11). Since the Government of Iraq is the owner of the Bank and the grant was unconditional, the lands were 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 presentation currency.

(e) Retained earnings

	As of December 31,	
	2017	**2016**
Balance at 1 January	1,397,989	1,023,563
Transferred to share capital	(846,024)	-
Transferred to public treasury	(226,975)	(62,246)
Transferred to reserves	-	(17,278)
Profit for the year	362,432	453,949
Balance at 31 December	**687,422**	**1,397,989**

18. Net interest income

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Interest income		
Balances with Central Bank of Iraq and due from banks	50,085	33,091
Loans and advances to customers	201,008	173,655
Held-to-maturirty investment securities	75,496	61,831
Total interest income	**326,589**	**268,577**
Interest expense		
Deposits from customers and financial institution	(13,903)	(6,311)
Total interest expense	(13,903)	(6,311)
Net interest income	**312,686**	**262,266**

19. Fee and commission income

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Commission income on letters of credit	52,199	42,603
Commission income on letters of guarantee	55,918	36,505
Commission income on fund transfers	17,118	12,498
Other fees and commissions	9,770	8,064
Total fee and commission income	**135,004**	**99,670**

20. Net trading income

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Net gain from foreign exchange operations	44,238	206,628
	44,238	**206,628**

21. Employee expenses

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Wages and salaries	37,709	27,832
	37,709	**27,832**

22. General and administrative expenses

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Security expenses	1,500	7,069
Subscriptions, fees and licenses	1,269	1,131
Rent	1,720	1,492
Travel and transportation expenses	1,904	1,452
Research & consultancy services	339	352
Advertising expenses	333	250
Fuel and oil	389	337
Repairs and maintenance	284	213
Office supplies	200	232
Legal and professional fees	139	96
Taxes and governmental fees	185	42
Other expenses	3,537	5,599
	11,799	**18,265**

23. Cash and cash equivalents

The details of this item are as follows:

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Cash and balances with Central Bank of Iraq other than mandatory reserve deposits (Note 7)	6,296,503	7,165,686
Balances at banks (Note 8)	4,701,301	5,250,393
	10,997,804	**12,416,079**

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, advances and over draft to governmental entities.

In thousands of USD	For the year ended December 31,	
	2017	**2016**
Loans outstanding at 1 January	3,413,399	3,253,034
Net movement during the year	(113,845)	160,365
Loans outstanding at 31 December (note 9)	**3,299,554**	**3,413,399**

- Deposits from governmental entities

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Deposits at 1 January	14,554,309	18,336,761
Net movement during the year	(898,875)	(3,782,452)
Deposits at 31 December	**13,655,434**	**14,554,309**

- Other balances with governmental entities

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Balances at governmental banks	18,193	14,842
Held-to-maturity investment securities	2,533,445	1,833,779
	2,551,638	**1,848,621**

- Interest income from governmental entities

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Loans	76,768	76,768
Held-to-maturity investment securities	75,496	59,081
	152,264	**135,849**

(b) Key management personnel compensation

	For the year ended December 31,	
In thousands of USD	**2017**	**2016**
Benefits and remuneration - short term	**141**	**132**