

TRADE BANK OF IRAQ
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS OF TRADE BANK OF IRAQ
BAGHDAD - 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 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion below, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation set out in note 2.

Basis for Qualified Opinion

- These financial statements were prepared on a basis as described in note 2 to the financial statements. Because such basis of preparation differs from the annual financial statements for the year ended 31 December 2017, we were unable to determine if any adjustment might have been necessary to the comparatives presented in these financial statements.
- As indicated in note 3 to the financial statements, the "Cash and balances with Central Bank of Iraq" included "Balances with Central Bank of Iraq - Kurdistan region" which amounted to USD 3,726 million as at 31 December 2018. As a result of the ongoing political situation, the Bank was unable to utilize or collect these outstanding balances. We were not provided with an assessment for the possibility of collection and the required provision of impairment for these balances as at 31 December 2018.

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

Emphasis of matter - Basis of preparation and accounting and restriction on use

We draw attention to note 2.1 to the financial statements, which describes the basis of preparation and accounting. This basis of preparation is applied by the Bank to meet the requirements of the Central Bank of Iraq. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the information and use of the Bank's management and the shareholder (Government in Iraq) and should not be used by other parties.

Other matter

The financial statements of the Bank as at and for the year ended on 31 December 2017 were audited by another auditor who issued a qualified opinion on 3 April 2018 for not recording provision for impairment for balances held with Central Bank of Iraq in Kurdistan Region.

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 the basis of preparation set out in note 2, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Ernst & Young
Baghdad - Iraq
30 April 2019

TRADE BANK OF IRAQ
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

<u>Assets</u>	<u>Notes</u>	31 December 2018	31 December 2017
		USD (000)	USD (000)
Cash and balances with Central Bank of Iraq	3	5,599,314	6,486,006
Due from banks and other financial institutions	4	7,484,465	4,746,301
Direct credit facilities	5	5,157,252	5,117,138
Investment securities	6	-	2,534,929
Financial assets at amortized cost	7	2,466,082	-
Financial assets at fair value through profit or loss	8	24,556	-
Financial assets at fair value through other comprehensive income	9	1,649	-
Property and equipment	10	54,833	63,048
Intangible assets		5,377	5,718
Other assets	11	352,719	507,516
Total assets		21,146,247	19,460,656
<u>Liabilities And Shareholder's Equity</u>			
<u>Liabilities</u>			
Due to banks and other financial institutions	12	182,975	107,601
Customers' accounts	13	8,988,633	6,872,155
Margin accounts	14	8,367,490	9,085,582
Other liabilities	15	395,559	182,824
Total liabilities		17,934,657	16,248,162
<u>Shareholder's Equity</u>			
Share capital	16	2,346,882	2,346,882
General reserve	17	236,709	236,709
Fair value reserve	17	1,562	1,931
Special reserve	17	10,608	10,608
Translation reserve	17	(71,058)	(71,058)
Retained earnings		686,887	687,422
Total shareholder's equity		3,211,590	3,212,494
Total liabilities and shareholder's equity		21,146,247	19,460,656


CHAIRMAN OF THE BOARD OF DIRECTORS - TRADE BANK OF IRAQ


CFO - TRADE BANK OF IRAQ

Haydar J. Wirtut
30.4.2019

The accompanying notes from 1 to 33 are an integral part of these financial statements

TRADE BANK OF IRAQ
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 USD (000)	31 December 2017 USD (000)
Interest income	19	441,014	326,589
Interest expense	20	(17,498)	(13,903)
Net interest income		423,516	312,686
Commission income	21	132,947	135,004
Commission expense		(6,192)	(14,301)
Net interest and commission income		550,271	433,389
Net gain from foreign currency exchange		40,152	49,307
Change in fair value of financial assets at fair value through profit or loss	8	(444)	-
Other operating income		644	6,603
Net operating income		590,623	489,299
Employees' expenses		(40,749)	(37,709)
Administrative expenses	22	(24,810)	(22,735)
Depreciation and amortization		(11,312)	(7,309)
Allowance for credit losses	5	(273,107)	(59,114)
Provisions for indirect credit facilities		(21,948)	-
Impairment of property and equipment	10	(2,961)	-
Litigation expenses		(35,626)	-
Total expenses		(410,513)	(126,867)
Profit for the year		180,110	362,432

The accompanying notes from 1 to 33 are an integral part of these financial statements

TRADE BANK OF IRAQ**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Profit for the year	180,110	362,432
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		
Currency translation adjustments	-	(15,947)
Change in fair value of investment available for sale	-	450
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Change in fair value of financial assets at fair value through other comprehensive income	202	-
Total other comprehensive income for the year	202	(15,497)
Total comprehensive income for the year	180,312	346,935

The accompanying notes from 1 to 33 are an integral part of these financial statements

TRADE BANK OF IRAQ

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	General reserve	Fair value reserve	Special reserve	Translation reserve	Retained earnings	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
31 December 2018							
Balance at 1 January 2018	2,346,882	236,709	1,931	10,608	(71,058)	687,422	3,212,494
Total comprehensive income for the year	-	-	202	-	-	180,110	180,312
Gain from sale of financial assets at fair value through other comprehensive income	-	-	(571)	-	-	571	-
Cash dividends distributed to the public treasury (note 18)	-	-	-	-	-	(181,216)	(181,216)
Balance at 31 December 2018	2,346,882	236,709	1,562	10,608	(71,058)	686,887	3,211,590
31 December 2017							
Balance at 1 January 2017	1,500,858	236,709	1,481	10,608	(55,111)	1,397,989	3,092,534
Total comprehensive income for the year	-	-	450	-	(15,947)	362,432	346,935
Cash dividends distributed to the public treasury (note 18)	-	-	-	-	-	(226,975)	(226,975)
Capital increase (note 16)	846,024	-	-	-	-	(846,024)	-
Balance at 31 December 2017	2,346,882	236,709	1,931	10,608	(71,058)	687,422	3,212,494

The accompanying notes from 1 to 33 are an integral part of these financial statements

TRADE BANK OF IRAQ
**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

		31 December 2018	31 December 2017
	Notes	USD (000)	USD (000)
Operating activities:			
Profit for the year		180,110	362,432
Adjustments:			
Allowance for credit losses		273,107	59,114
Litigation expenses		35,626	-
Provisions for indirect credit facilities		21,948	-
Depreciation and amortization		11,312	7,309
Impairment of property and equipment		2,961	-
Change in fair value of financial assets at fair value through profit or loss		444	-
Allowance for impairment of other assets		-	52
Cash flows from operating activities before changes in assets and liabilities		525,508	428,907
Changes in assets and liabilities:			
Balances with CBI		(471,093)	(59,917)
Time deposits with banks and other financial institutions maturing after 3 months		(3,464)	310,698
Direct credit facilities		(313,221)	(439,724)
Acquisition of Financial assets at fair value through profit and loss		(25,000)	-
Other assets		154,797	(156,415)
Due to banks and other financial institutions		75,374	75,931
Customers' accounts		2,116,478	1,157,977
Margin accounts		(718,092)	(1,780,403)
Other liabilities		170,787	(24,996)
Litigations paid during the year		(15,626)	-
Net cash flows from (used in) operating activities		1,496,448	(487,942)
Investing activities:			
Purchase of financial assets held to maturity		-	(2,402,425)
Maturity of financial assets at held to maturity		-	1,702,735
Purchase of financial assets at amortized cost		(268,086)	-
Maturity of financial assets at amortized cost		335,449	-
Sale of financial assets at fair value through other comprehensive income		37	-
Purchase of property and equipment		(3,017)	(1,247)
Purchase of intangible assets		(2,700)	(1,701)
Net cash flows from (used in) investing activities		61,683	(702,638)
Financing activities:			
Dividends paid		(181,216)	(226,975)
Net cash flows used in financing activities		(181,216)	(226,975)
Net increase (decrease) in cash and cash equivalents		1,376,915	(1,417,555)
Cash and cash equivalents, beginning of the year		7,270,966	8,688,521
Cash and cash equivalents, end of the year	23	8,647,881	7,270,966

The accompanying notes from 1 to 33 are an integral part of these financial statements

(1) GENERAL INFORMATION

Trade Bank of Iraq (The "Bank") is an independent governmental bank established on 17 July 2003 in accordance with Coalition Provisional Authority order No. 20 of 2003. The Bank acquired the banking license by Central Bank of Iraq (CBI) on 18 January 2004 and its registered office is in Baghdad.

The Bank provides its banking services through its head office located in Al-Mansour Neighborhood - Baghdad, and through its twenty-five branches across Iraq and a representative office in the United Arab Emirates.

The financial statements were authorized for issuance by the Bank's Board of Directors in 30 April 2019.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

2.1 Basis of Preparation

The financial statements for the year ended 31 December 2018 have been prepared in accordance with the accounting policies as stated in note 2.2 below. The financial statements are prepared by the Bank's management to meet the requirements of the Central Bank of Iraq.

The financial statements are presented in US Dollars (USD) which is not the functional currency of the Bank as the functional currency for the Bank is Iraqi Dinar (IQD). All amounts are rounded to the nearest thousand Dollars except when otherwise indicated.

The accompanying financial statements are prepared for the Bank's management and the shareholder (Government of Iraq). As a result, the financial statements may not be suitable for any other purpose.

2.2 Summary of significant accounting policies

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

Revenue and expense recognition

- **Interest and similar income and expense**

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial assets or financial liability except for fees and interest on non performing facilities, on which interest is transferred to the interest in suspense account and not recognized in the income statement.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 Summary of significant accounting policies (continued)

Revenue and expense recognition (continued)

- **Fee and commission income**

Fee and commission income and expenses that are integral to the financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income related to issuance and amending financial guarantees is recognized in straight line method over the life of financial guarantee.

Other fee and commission income, including account servicing fee, transfer commission, branch coordination commission are recognized as the related services are performed.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Central Bank of Iraq and balances with banks and financial institutions maturing within three months, less restricted funds and balances owing to banks and financial institutions maturing more than three months.

Recognition of financial assets and liabilities

Purchases and sales of financial assets are recognized on the trade date (that being the date at which the sale or purchase takes place).

Direct credit facilities

Direct credit facilities are shown net of allowance of credit losses and interest and commissions in suspense.

Impairment of direct credit facilities is recognized in the allowance for credit losses when events occur after the initial recognition of the facility that have an impact on the estimated future cash flows of the facilities that can be reliably estimated. The impairment is recorded in the income statement.

Interest and commission arising on non-performing facilities is suspended when loans become impaired according to the Central Bank of Iraq's regulations.

Loans and the related allowance for credit losses are written off when collection procedures become ineffective. The excess in the allowance of possible loan losses, if any, is transferred to the income statement, and cash recoveries of loans that were previously written off are credited to the income statement.

Financial assets at amortized cost

Financial assets are measured at amortized cost only if these assets are held within a business model whose objective is to hold the asset to collect their contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets at amortized cost (continued)

Debt instruments meeting these criteria are initially measured at amortized cost plus transaction costs. Subsequently they are amortized using the effective interest rate method, less allowance for impairment. The losses arising from impairment are recognized in the income statement.

The amount of the impairment consists of the difference between the book value and present value of the expected future cash flows discounted at the original effective interest rate.

Reclassification of these assets is prohibited under CBI requirements (in case of selling any of these assets before its maturity date, the result of such transaction will be recorded in the income statement in separate line item and should be disclosed in accordance with CBI requirements in this regard).

Financial assets at fair value through profit or loss

Financial assets which do not meet the business model for financial assets at amortized cost, and are purchased with the aim of resale in the near future in order to generate profit from the short-term market prices fluctuation or the trading profit margins.

Financial instruments at fair value through profit or loss are initially measured at fair value, unless if the Bank classified the financial investments as not for trading at fair value through other comprehensive income at the purchase date.

Subsequently, these assets are revalued at fair value. Gains or losses arising on subsequent measurement of these financial assets including the change in fair value arising from non-monetary assets in foreign currencies are recognized in the income statement. When these assets or portion of these assets are sold, the gain or loss arising are recorded in the income statement.

Dividend and interest income are recorded in the income statement.

Financial assets at fair value through other comprehensive income

The Bank has the final right to value each financial instrument as an equity instrument at fair value through other comprehensive income; however, this classification is not permitted if the investment is an equity instrument held for trading.

These financial instruments are initially measured at their fair value plus transaction costs. Subsequently, they are measured at fair value. Gains or losses arising on subsequent measurement of these equity investments including the change in fair value arising from non-monetary assets in foreign currencies are recognized in other comprehensive income in the statement of changes in equity. The gain or loss on disposal of the asset is reclassified from fair value reserve to retained earnings.

These financial assets are not subject to impairment testing.

Dividend income is recognized in the income statement.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)
2.2 Summary of significant accounting policies (continued)

Fair value

- The Bank values the financial instruments, such as derivatives and non-financial assets, at fair value at the date of the financial statements.
- The fair value represents the price that will be obtained when selling the assets or the amount that will be paid to transfer the commitment of the regulated transaction between the participants in the market.
- In the absence of the primary market, the most suitable market will be used to trade the assets and liabilities.
- The bank needs the opportunities to reach the primary or most suitable markets.
- The entity values the fair value for the properties or the commitment to use the market participant's assumptions for valuing the properties or, a fair value measurement of a non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, the recoverable amount is estimated in order to determine the amount of impairment loss to be recognized in the income statement.

Impairment is determined as follows:

- For assets carried at amortized cost, impairment is based on the difference between the carrying value and the estimated cash flows discounted at the original effective interest method.
- Impairment is recognized in the income statement. If in a subsequent period, the amount of the impairment loss decreases, the carrying value of the asset is increased to its recoverable amount. The amount of the reversal is recognized in the income statement.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)
2.2 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment is stated at cost excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value, if any. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Useful lives (Years)
Buildings	10
Equipment and furniture	1
Vehicles	1
Computers	1
Leasehold improvements	5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in 'Other operating income' or 'Administrative expenses' in the income statement in the year the asset is derecognized.

Intangible assets

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

Impairment of non-financial assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The impairment loss recognized in the statement of income unless the assets is recorded in accordance with revaluation model. Any impairment for revalued assets should be treated according to that standard.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 Summary of significant accounting policies (continued)

De-recognition of financial assets and financial liabilities

A financial asset is derecognized when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- ▶ Either:
 - (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Foreign currencies

- Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.
- Monetary assets and liabilities in foreign currencies are translated into respective functional currencies at rates of exchange prevailing at the statement of financial position date.
- Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
- Any gains or losses are taken to the income statement.
- Exchange differences for non-monetary assets and liabilities in foreign currencies (such as equity instruments) are recorded as part of the change in fair value.

Taxes

The Bank is governmental entity and its income is exempted from income tax according to Iraqi tax law number (113) of year 1982, and its subsequent amendments. The Bank's employees are subject to personal income tax.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)
2.2 Summary of significant accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the commissions received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Assets seized by the bank

Assets seized by the Bank through calling upon collateral are shown in the statement of financial position under 'Other assets' at the lower of their carrying value or fair value. Assets are revalued at the statement of financial position date on an individual basis and losses from impairment are transferred directly to the income statement, while revaluation gains are not recognized as income. Reversal of previous impairment losses shall not result in a carrying value that exceeds the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

2.3 Use of estimates

The preparation of the financial statements and implementation of accounting policies requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as other comprehensive income items. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumption about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future change in such estimates.

The Bank's opinion is that its estimates are reasonable and are as follows:

- Allowance for credit losses of direct credit facility: The allowance for credit losses is reviewed on the basis of the principles established by the Central Bank of Iraq.
- Impairment losses on collaterals acquired by the Bank are determined based on appraisal reports prepared by certified appraisers. Valuation is performed on a regular basis.
- The management periodically recalculates the useful life of the property and equipment and intangible assets for the purpose of calculating annual depreciation and amortization based on the general condition of those assets and estimated future useful lives. Impairment losses (if any) are recorded in the statement of income.
- A periodic review is performed by management to financial assets at amortized cost to assess any impairment that will be recognized in the income statement for the period.
- Litigation provision is calculated for any litigation liabilities according to the lawyer's opinion.

TRADE BANK OF IRAQ
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

(3) CASH AND BALANCES WITH CENTRAL BANK OF IRAQ

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Cash on hand	276,298	284,070
Balances with Central Bank of Iraq:		
Current accounts *	4,661,997	6,012,433
Statutory cash reserve **	661,019	189,503
	5,599,314	6,486,006

* This item includes balances with Central Bank of Iraq at Kurdistan Region amounted to USD 3,726,415 thousands as at 31 December 2018 (31 December 2017: USD 3,726,838 thousands). As a result of ongoing political and economic situations in Iraq, the Bank was unable to utilize or collect these outstanding balances. There is no official restriction on these balances.

** These amounts represent statutory cash reserve held by Central Bank of Iraq and are not available for use in the Bank's day-to-day operations.

(4) DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Inside Iraq	13,007	18,193
Outside Iraq	3,432,858	3,891,057
Time deposits *	4,038,600	837,051
	7,484,465	4,746,301

* Time deposits include deposits with maturity of more than 3 months amounted to USD 48,464 thousand (31 December 2017: USD 45,000 thousand).

TRADE BANK OF IRAQ
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

(5) DIRECT CREDIT FACILITIES

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Loans:		
Governmental	3,463,814	3,299,554
Corporates	1,593,525	716,043
Retail	369,401	200,447
	<u>5,426,740</u>	<u>4,216,044</u>
Overdrafts:		
Corporates	1,766,884	1,819,933
Retails	536	481,931
	<u>1,767,420</u>	<u>2,301,864</u>
Total	7,194,160	6,517,908
Allowance for credit losses (Note 5A)	(1,198,791)	(925,684)
Interest in suspense (Note 5B)	<u>(838,117)</u>	<u>(475,086)</u>
Balance at end of the year	5,157,252	5,117,138

Non-performing credit facilities amounted to USD 3,189,331 thousand as at 31 December 2018 (31 December 2017: USD 2,471,356 thousand) representing 44.33% (31 December 2017: 37.92%) of gross direct credit facilities.

Non-performing credit facilities, net of interest in suspense, amounted to USD 2,351,214 thousand as at 31 December 2018 (31 December 2017: 1,996,270 thousand) representing 36.99% of gross credit facilities after deducting the interest in suspense (31 December 2017: 33.04%).

Allowance for credit losses for non-performing credit facilities net of interest in suspense coverage ratio was 50.99% as at 31 December 2018 (31 December 2017: 46.37%).

A. Allowance for credit Losses

The movement on allowance for credit losses is as follows:

	31 December 2018 USD (000)		
	Stage 1	Stage 2	Stage 3
Balance at 1 January	8,713	15,631	901,340
Transfer to stage 1	366	(365)	(1)
Transfer to stage 2	(457)	6,457	(6,000)
Transfer to stage 3	(1,755)	(10,416)	12,171
Net movement for the year	<u>2,766</u>	<u>(6,407)</u>	<u>276,748</u>
Balance at end of the year	9,633	4,900	1,184,258

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(5) DIRECT CREDIT FACILITIES (continued)

A. Allowance for credit Losses (continued)

	31 December 2017
	USD (000)
Balance at 1 January	866,570
Net movement for the year	59,114
Balance at end of the year	925,684

B. Interest in suspense

The movement on interest in suspense is as follows:

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Balance at 1 January	475,086	309,280
Additions during the year	539,044	172,750
Recoveries during the year	(176,013)	(6,944)
Balance at end of the year	838,117	475,086

(6) INVESTMENT SECURITIES

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Held to maturity investment	-	2,533,445
Available for sale investment	-	1,484
	-	2,534,929

(7) FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Government of Iraq bonds *	920,054	-
Treasury bills **	1,546,028	-
	2,466,082	-

(7) FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

- * The average rate of USD bonds with a total amount of USD 281,428 thousands is 5.87% which will mature during the period between 2021 and 2028. The average interest rate of bonds with total amount of USD 638,626 thousand is 4.66% which will mature during the period between 2019 and 2021.
- ** Treasury bills are issued by Ministry of Finance and Central Bank of Iraq with an average interest rate of 3.18% and mature between three to twelve months.

(8) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year, the Bank acquired 250,000 shares in a mutual fund. The cost of the share is USD 100 per share and the fair value is USD 98.2249 per share as at 31 December 2018. The movement of the financial assets at fair value through profit or loss as follow:

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Balance at 1 January	-	-
Acquisitions during the year	25,000	-
Change in fair value	(444)	-
Balance at end of the year	24,556	-

(9) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Quoted share	1,583	-
Unquoted shares	66	-
	1,649	-

The movements of financial assets at fair value through other comprehensive income:

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Balance at 1 January	1,484	-
Acquisitions during the year	-	-
Sold during the year	(37)	-
Change in fair value	202	-
Balance at end of the year	1,649	-

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(10) PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture & Fixtures	Vehicles	leasehold improvements	Tools & Equipment	Work in progress	Total
2018	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Cost:								
Balance at 1 January 2018	18,876	57,866	10,597	997	9,441	2,035	799	100,611
Additions	-	1,456	1,055	401	85	69	1,647	4,713
Disposals	-	-	(71)	-	-	(25)	-	(96)
Impairment	(2,961)	-	-	-	-	-	-	(2,961)
Transfers between categories	1,022	(1,022)	-	-	-	-	-	-
Transfer from Work in progress	-	284	1,412	22	19	-	(1,737)	-
Balance at 31 December 2018	16,937	58,584	12,993	1,420	9,545	2,079	709	102,267
Accumulated Depreciation:								
Balance at 1 January 2018	-	21,596	10,597	997	2,338	2,035	-	37,563
Depreciation charge for the year	-	5,028	2,467	423	1,980	69	-	9,967
Disposals	-	-	(71)	-	-	(25)	-	(96)
Balance at 31 December 2018	-	26,624	12,993	1,420	4,318	2,079	-	47,434
Net book value as at 31 December 2018	16,937	31,960	-	-	5,227	-	709	54,833

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(10) PROPERTY AND EQUIPMENT (CONTINUED)

	Land	Buildings	Furniture & Fixtures	Vehicles	leasehold improvements	Tools & Equipment	Work in progress	Total
2017	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Cost:								
Balance at 1 January 2017	18,876	58,530	9,987	908	9,124	1,928	27	99,380
Additions	-	108	610	89	317	107	-	1,231
Transfer from Work in progress	-	(772)	-	-	-	-	772	-
Balance at 31 December 2017	18,876	57,866	10,597	997	9,441	2,035	799	100,611
Accumulated Depreciation:								
Balance at 1 January 2017	-	17,570	9,709	908	139	1,928	-	30,254
Depreciation charge for the year	-	4,026	888	89	2,199	107	-	7,309
Balance at 31 December 2017	-	21,596	10,597	997	2,338	2,035	-	37,563
Net book value as at 31 December 2017	18,876	36,270	-	-	7,103	-	799	63,048

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(11) OTHER ASSETS

	31 December 2018	31 December 2017
	<u>USD (000)</u>	<u>USD (000)</u>
Interest receivables	228,934	282,755
Margins held by others	106,202	172,410
Other receivables	16,454	36,080
Commission receivables	12,085	15,686
Advances to employees	689	3,099
Assets repossessed by the bank	761	761
Prepaid expenses	572	795
Others	2,121	11,235
Allowance for impairment	(15,099)	(15,305)
	<u>352,719</u>	<u>507,516</u>

(12) DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
	<u>USD (000)</u>	<u>USD (000)</u>
Current accounts	108,494	57,980
Time deposits	74,481	49,621
	<u>182,975</u>	<u>107,601</u>

(13) CUSTOMERS' ACCOUNTS

	31 December 2018	31 December 2017
	<u>USD (000)</u>	<u>USD (000)</u>
Current and call accounts	7,978,403	6,322,323
Saving accounts	566,057	431,285
Time deposits	381,139	67,973
Other deposits	63,034	50,574
	<u>8,988,633</u>	<u>6,872,155</u>

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(14) MARGIN ACCOUNTS

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Against LCs	8,016,305	8,733,085
Against LGs	73,908	67,459
Other margins	277,277	285,038
	8,367,490	9,085,582

(15) OTHER LIABILITIES

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Other payables	204,210	43,411
Provision for indirect credit facilities	58,498	36,550
Deferred income	51,520	49,386
Certified cheques	23,073	15,869
Litigation provision	20,000	-
Accounts under reconciliation	19,175	24,444
Interest payables	5,264	1,541
Accrued expenses	4,759	4,776
Frozen customers' balances by court order	2,618	2,603
Stamp fees payables	1,888	1,592
Abroad transfers	509	452
Others	4,045	2,200
	395,559	182,824

(16) SHARE CAPITAL

Share capital comprises of 2.75 trillion shares as at 31 December 2018 and 31 December 2017, at a par value of IQD 1 per share.

As per the letter from prime minister number M.R.R / 61 / 2907 dated on 22 February 2017 and the Bank's board of directors decision number 66 dated on 24 May 2016, the share capital of the Bank was raised by an amount of IQD 1 trillion (equivalent to USD 846 million) to IQD 2.75 trillion (equivalent to USD 2,347 million) as at 31 December 2017 through capitalization from retained earnings.

(17) RESERVES

	31 December 2018	31 December 2017
	USD (000)	USD (000)
General reserve	236,709	236,709
Fair value reserve	1,562	1,931
Special reserve *	10,608	10,608
Translation reserve **	(71,058)	(71,058)
	177,821	178,190

* The Government of Iraq had granted the Banks lands to be used in the Bank's operational activities in its capacity as owner as unconditional grant, the lands were recognized within properties owned by the Bank and as special reserve in equity.

** The translation reserve represents all foreign currency differences arising from the translation of the financial statements from the functional currency to the presentation currency.

(18) CASH DIVIDENDS DISTRIBUTED TO THE PUBLIC TREASURY

The Prime Minister's office approved on 15 February 2018 the distribution of 50% of the realized profit for the year 2017 which amounted to USD 181,216 thousand to the public treasury of the Government of Iraq.

The Prime Minister's office approved on 22 February 2017 the distribution of 50% of the realized profit for the year 2016 which amounted to USD 226,975 thousand to the public treasury of the Government of Iraq.

(19) INTEREST INCOME

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Direct credit facilities	237,966	201,008
Due from banks	112,115	50,085
Financial assets at amortized cost	90,933	75,496
	441,014	326,589

(20) INTEREST EXPENSE

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Customers' deposits	11,686	9,192
Saving accounts	5,812	4,711
	17,498	13,903

(21) COMMISSION INCOME

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Indirect credit facilities	84,629	105,452
Bank transfers	33,905	18,915
Other commissions	14,413	10,637
	<u>132,947</u>	<u>135,004</u>

(22) ADMINISTRATIVE EXPENSES

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Legal and professional	11,040	256
Travel and transportation	3,439	4,497
Rent	1,810	3,170
Subscriptions	1,812	2,339
office supplies	540	369
Fuel and oil	294	717
Maintenance	238	523
Advertising	196	614
Research and consultancy	192	625
Security expenses	-	2,765
Others	5,249	6,860
	<u>24,810</u>	<u>22,735</u>

(23) CASH AND CASH EQUIVALENTS

Cash and cash equivalents appearing in the statement of cash flows consist of the following:

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Cash and balances with Central Bank of Iraq	5,599,314	6,486,006
Due from banks and other financial institutions	7,484,465	4,746,301
Less:		
Statutory reserve	(661,019)	(189,503)
Balances with CBI - Kurdistan Region *	(3,726,415)	(3,726,838)
Time deposits with banks and other financial institution maturing after 3 months	(48,464)	(45,000)
	<u>8,647,881</u>	<u>7,270,966</u>

* These balances were deducted from cash and cash equivalents as they are not available for general use of the Bank.

(24) RELATED PARTY TRANSACTIONS

Trade Bank of Iraq is governmental entity that has transactions with governmental banks and ministries and other governmental institutions in the normal course of business and with commercial interests and commissions' rates. Related party transactions in statement of financial position and off-balance sheet and income statement are as follows:

	31 December 2018 USD (000)	31 December 2017 USD (000)
Statement of financial position :		
Balances with Central Bank of Iraq	5,323,016	6,201,936
Due from banks and other financial institutions	13,007	18,193
Investment securities	-	2,533,445
Direct credit facilities	3,465,740	3,310,422
Financial assets at amortized cost	2,466,082	-
Due to banks and other financial institutions	93,041	52,106
Margin accounts	7,200,362	7,763,178
Off-balance sheet items:		
Letters of guarantees	207,453	187,823
Letters of credit	9,844,580	9,037,159
Income statement:		
Interest and commission income	96,777	89,644

Bonuses and compensations of the chairman and members of board of directors and key management personnel amounted to USD 2,433 thousand paid during the year ended 31 December 2018 (31 December 2017: USD 2,409 thousand).

(25) RISK MANAGEMENT

The Bank's board of directors is responsible for general policies of risk management and approval of risk management strategies, The Bank manages its various banking risks in different ways, but there is no documented comprehensive strategy for risks and means of controlling and mitigating them.

Credit Risk, concentrate on assets and liabilities

Credit risks is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on levels of risk in accordance with the Central Bank of Iraq's instructions. Also, the Bank obtains adequate collaterals from customers.

Credit Risk Exposures

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown after allowances and suspended interest and before the effect of mitigation through the use of master netting and collateral agreements.

- 1) Credit exposures (Net of allowance for impairment of credit losses and interests and commissions in suspense)

	<u>2018</u>	<u>2017</u>
	<u>USD (000)</u>	<u>USD (000)</u>
Balance sheet items:		
Balances at Central Bank of Iraq	5,323,016	6,201,936
Due from banks and other financial institutions	7,484,465	4,746,301
Direct credit facilities:		
Retails	343,471	660,178
Corporates	1,349,967	1,157,406
Governmental	3,463,814	3,299,554
Investment securities	-	2,533,445
Financial assets at amortized cost	2,466,082	-
Other assets	348,576	491,626
Total Balance Sheet Items	<u>20,779,391</u>	<u>19,090,446</u>
Off-balance sheet items:		
Letters of guarantee	3,204,690	3,767,403
Letters of credits	9,901,866	10,487,791
Total Off-balance Sheet Items	<u>13,106,556</u>	<u>14,255,194</u>
Total Balance sheet and Off-balance sheet items	<u>33,885,947</u>	<u>33,345,640</u>

The above table represents the maximum credit risk for the Bank as of 31 December 2018 and 2017 without taking the collateral or the other credit risk mitigations into consideration, in regards of the assets that were included in the statement of financial position. The above exposure is based on the balance as stated in the statement of financial position.

(25) RISK MANAGEMENT (continued)

2) Credit exposures are classified by the level of risks according to the following table:

	Governmental	Retails	Corporates	Banks and other Financial Institutions	Total
2018	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Low risk	5,947,438	-	-	9,394,508	15,341,946
Acceptable risk	-	263,075	255,803	-	518,878
Watch list	-	13,667	18,496	-	32,163
Non performing:					
Substandard debts	-	39,253	715	-	39,968
Doubtful debts	-	57,314	24,522	-	81,836
Bad debts	-	938	2,960,931	3,854,738	6,816,607
Total	5,947,438	374,247	3,260,467	13,249,246	22,831,398
Less: Interest in suspense	-	10,890	782,329	44,898	838,117
Less: Allowance for impairment losses	-	15,577	1,134,094	64,219	1,213,890
Net	5,947,438	347,780	1,344,044	13,140,129	20,779,391
Total 2017	5,848,727	682,378	3,011,874	9,547,467	19,090,446

3) The following table shows the distribution of collaterals measured at fair value over credit facilities:

	Retails	Corporates	Banks and other Financial Institutions	Total
2018	USD (000)	USD (000)	USD (000)	USD (000)
Acceptable risk	42,212	28,497	-	70,709
Watch list	30,343	41,794	-	72,137
Non performing:				
Substandard debts	82,290	1,430	-	83,720
Doubtful debts	57,019	73,418	-	130,437
Bad debts	3,389	947,026	128,038	1,078,453
Total	215,253	1,092,165	128,038	1,435,456
Comprising of:				
Cash margins	196	-	-	196
Real Estate	157,305	857,628	-	1,014,933
Stock shares	57,752	171,910	128,038	357,700
Letters of guarantees	-	62,627	-	62,627
Total	215,253	1,092,165	128,038	1,435,456

The fair value of collaterals shown does not exceed the value of the loan for each individual customer.

(25) RISK MANAGEMENT (continued)

4) Credit Concentration based on geographic distribution is as follows:

	Inside Iraq	Outside Iraq	Total
2018	USD (000)	USD (000)	USD (000)
Balances at Central Bank of Iraq	5,323,016	-	5,323,016
Due from banks and other financial institutions	13,007	7,471,458	7,484,465
Direct credit facilities:			
Governmental	3,463,814	-	3,463,814
Retails	343,471	-	343,471
Corporates	1,349,967	-	1,349,967
Financial assets at amortized cost	2,466,082	-	2,466,082
Other assets	246,084	102,492	348,576
Total 2018	13,205,441	7,573,950	20,779,391
Total 2017	14,362,338	4,728,108	19,090,446

5) Concentration in credit exposures based on economic sectors is as follows:

	Governmental	Retails	Corporates	Treasury	Total
2018	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Balances at Central Bank of Iraq	-	-	-	5,323,016	5,323,016
Due from banks and other Financial institutions	-	-	-	7,484,465	7,484,465
Direct credit facilities	3,463,814	343,471	1,330,761	19,206	5,157,252
Financial assets at amortized cost	2,466,082	-	-	-	2,466,082
Other assets	17,542	4,309	13,283	313,442	348,576
Total 2018	5,947,438	347,780	1,344,044	13,140,129	20,779,391
Total 2017	5,848,727	682,378	3,011,874	9,547,467	19,090,446

(25) RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk of fluctuation and changes in the fair value or the cash flows from financial instrument due to changes in market prices, interest rates, currency rates, and equity prices. These risks are monitored based on specific policies and procedures carried out through specialized committees and concerned business units.

Sensitivity analysis is based on estimating the possible loss as a result of changes in the interest and foreign exchange rates. The fair value is calculated based on the present value of future cash flows adjusted for changes in interest rates.

1. Interest rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Bank's profit for one year. Based on the floating rate of short-term deposits at banks held at 31 December 2018. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown:

2018

Currency	Increase in interest rate	Sensitivity of net interest income	Sensitivity of equity
	Basis Point	USD (000)	USD (000)
USD	1%	63,490	-
EUR	1%	6,958	-
IQD	1%	26,490	-
GBP	1%	432	-

2017

Currency	Increase in interest rate	Sensitivity of net interest income	Sensitivity of equity
	Basis Point	USD (000)	USD (000)
USD	1%	67,493	-
EUR	1%	321	-
IQD	1%	26,261	-

In the event of an opposite change in the indicator, the effect will remain constant but with an opposite sign.

(25) RISK MANAGEMENT (continued)**2. Currency Risk**

Foreign currency risk is the risk of change in the value of financial instruments as a result of change in foreign currency rates. The Iraqi Dinar is the functional currency of the Bank. The Board sets position limits for each foreign currency in the Bank. These positions are monitored on daily basis, and hedging strategies are adopted to ensure that the foreign currency positions held are within the approved limits.

The following table illustrates the possible effect of Iraqi Dinar against currencies on income statement and statement of changes in shareholder's equity, assuming that all other variables remain constant:

2018

Currency	<i>Change in currency exchange rate</i>	<i>Effect on profit and loss</i>	<i>Effect on equity</i>
	<i>%</i>	<i>USD (000)</i>	<i>USD (000)</i>
USD	5	(32,184)	79
EUR	5	3,368	-
Other	5	65	-

2017

Currency	<i>Change in currency exchange rate</i>	<i>Effect on profit and loss</i>	<i>Effect on equity</i>
	<i>%</i>	<i>USD (000)</i>	<i>USD (000)</i>
USD	5	(106,390)	73
EUR	5	(5,157)	-
Other	5	10	-

In the event of an opposite change in the indicator, the effect will remain constant but with an opposite sign.

(25) RISK MANAGEMENT (continued)

3. Equity Price Risk

Equity price risk arises from the change in the fair value of equity investments. The Bank manages this risk by distributing its investments over various geographic and economic sectors. Most of the Bank's investments are listed on the Nasdaq stock exchange.

The following table illustrates the statement of income sensitivity and the accumulative change in fair value as a result of possible reasonable changes in the equity prices while assuming that all other variables remain constant:

2018

	<i>Increase in equity price</i>	<i>Effect on equity</i>
	<i>%</i>	<i>USD (000)</i>
Market		
Nasdaq	5	76
Others	5	3

2017

	<i>Increase in equity price</i>	<i>Effect on equity</i>
	<i>%</i>	<i>USD (000)</i>
Market		
Nasdaq	5	73
Others	5	1

In the event of an opposite change in the indicator, the effect will be for the same amount but in an opposite direction.

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(25) RISK MANAGEMENT (continued)

4. Interest rate gap

The following analysis shows interest rate re-pricing or maturity dates; whichever is earlier:

2018	Less than month	1 - 3 months	3 - 6 months	6 - 12 months	More than one year	Non-interest bearing	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Cash and balances at							
Central Bank of Iraq	-	-	-	-	-	5,599,314	5,599,314
Due from banks and other							
financial institutions	2,633,722	1,388,179	16,699	-	-	3,445,865	7,484,465
Direct credit facilities	4	-	66	162,946	4,994,236	-	5,157,252
Financial assets at amortized cost	-	-	1,003,366	542,662	920,054	-	2,466,082
Financial assets at fair value							
through profit or loss	-	-	-	-	-	24,556	24,556
Financial assets at fair value							
through other comprehensive							
income	-	-	-	-	-	1,649	1,649
Property and equipment	-	-	-	-	-	54,833	54,833
Intangible assets	-	-	-	-	-	5,377	5,377
Other assets	726	1,111	114	-	-	350,768	352,719
Total Assets	2,634,452	1,389,290	1,020,245	705,608	5,914,290	9,482,362	21,146,247
Due to banks and financial							
Institutions	-	-	-	74,481	-	108,494	182,975
Customers' accounts	-	-	711	362,936	280	8,624,706	8,988,633
Margin accounts	187,823	1,042,255	767,922	1,165,563	5,203,927	-	8,367,490
Other liabilities	-	-	-	-	-	395,559	395,559
Total Liabilities	187,823	1,042,255	768,633	1,602,980	5,204,207	9,128,759	17,934,657
Interest rate sensitivity gap	2,446,629	347,035	251,612	(897,372)	710,083	353,603	3,211,590
2017	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Total Assets	3,362,543	2,333,127	789,565	789,565	5,336,545	6,849,311	19,460,656
Total Liabilities	761,670	1,694,012	1,276,748	1,276,748	4,675,857	6,563,127	16,248,162
Interest rate sensitivity gap	2,600,873	639,115	(487,183)	(487,183)	660,688	286,184	3,212,494

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(25) RISK MANAGEMENT (Continued)**5. Concentration in currency risk:**

2018	USD	IQD	EUR	GBP	CHF	Others	Total
<u>Assets</u>							
Cash and balances with Central Bank	876,786	4,720,232	1,355	941	-	-	5,599,314
Due from banks and other financial Institutions	6,762,998	38	674,128	43,233	844	3,224	7,484,465
Direct credit facilities	5,093,652	55,736	7,864	-	-	-	5,157,252
Financial assets at amortized cost	804,573	1,661,509	-	-	-	-	2,466,082
Financial assets at fair value through profit or loss	24,556	-	-	-	-	-	24,556
Financial assets at fair value through other comprehensive income	1,583	25	41	-	-	-	1,649
Property and equipment	-	54,833	-	-	-	-	54,833
Intangible assets	-	5,377	-	-	-	-	5,377
Other assets	275,256	43,612	33,828	-	-	23	352,719
Total Assets	13,839,404	6,541,362	717,216	44,174	844	3,247	21,146,247
<u>Liabilities</u>							
Due to banks and financial Institutions	56,542	125,796	637	-	-	-	182,975
Customers' accounts	6,789,536	2,193,836	5,050	211	-	-	8,988,633
Margin accounts	7,591,901	85,227	643,601	45,621	834	306	8,367,490
Other liabilities	45,105	349,877	575	2	-	-	395,559
Total Liabilities	14,483,084	2,754,736	649,863	45,834	834	306	17,934,657
Net concentration in the statement of financial position	(643,680)	3,786,626	67,353	(1,660)	10	2,941	3,211,590
2017	USD	IQD	EUR	GBP	CHF	Other	Total
Total Assets	10,436,383	8,313,916	682,410	23,066	1,337	3,544	19,460,656
Total Liabilities	12,564,192	2,870,669	785,555	25,748	1,223	775	16,248,162
Net concentration in the statement of financial position	(2,127,809)	5,443,247	(103,145)	(2,682)	114	2,769	3,212,494

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(25) RISK MANAGEMENT (Continued)

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due, or to finance its activities without bearing additional costs or losses. The liquidity policy was approved by the Board of Directors.

The asset and liability management policy is carried out by ALCO which works on diversifying the funding sources and matching between their maturity dates, in addition to maintaining sufficient reserves of cash, cash equivalents and trading investments to militate against liquidity risks.

The table below summarizes the undiscounted cash flows of the contractual obligations:

	Less than 1 Month	1-3 months	3 - 6 months	6-12 months	1-5 Years	No fixed Maturity	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
2018							
Due to banks and Financial institution	-	22,390	40,755	11,336	-	108,494	182,975
Customers' accounts	-	-	711	362,936	280	8,624,706	8,988,633
Margin accounts	187,823	1,042,255	767,922	1,165,563	5,203,927	-	8,367,490
Other liabilities	-	-	-	-	-	395,559	395,559
Total Liabilities	187,823	1,064,645	809,388	1,539,835	5,204,207	9,128,759	17,934,657
Total Assets	2,634,452	1,389,290	1,020,245	705,608	6,325,268	9,071,384	21,146,247
	Less than 1 Month	1-3 months	3 - 6 months	6-12 months	1-5 Years	No fixed maturity	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
2017							
Due to banks and Financial institution	-	14,917	27,152	7,552	-	57,980	107,601
Customers' accounts	4,044,885	988,750	449,432	449,432	-	939,656	6,872,155
Margin accounts	4,088,512	999,414	454,279	454,279	3,089,098	-	9,085,582
Other liabilities	-	-	-	-	-	182,824	182,824
Total Liabilities	8,133,397	2,003,081	930,863	911,263	3,089,098	1,180,460	16,248,162
Total Assets	3,362,543	2,333,127	789,565	789,565	5,336,545	6,849,311	19,460,656

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(25) RISK MANAGEMENT (continued)**Liquidity Risk (continued)****Off-balance sheet items**

	Less than one year	More than one year	Total
	USD (000)	USD (000)	USD (000)
2018			
Letters of guarantee	1,721,796	1,482,894	3,204,690
Letters of credit	3,609,275	6,292,591	9,901,866
Total	5,331,071	7,775,485	13,106,556
	Less than one year	More than one year	Total
	USD (000)	USD (000)	USD (000)
2017			
Letters of guarantee	2,024,127	1,743,276	3,767,403
Letters of credit	3,822,706	6,665,085	10,487,791
Total	5,846,833	8,408,361	14,255,194

(26) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	Within 1 year	More than 1 year	Total
	USD (000)	USD (000)	USD (000)
2018			
Assets			
Cash and balances at Central Bank of Iraq	1,872,899	3,726,415	5,599,314
Due from banks and financial institutions	7,484,465	-	7,484,465
Direct credit facilities	163,016	4,994,236	5,157,252
Financial assets at amortized cost	1,546,028	920,054	2,466,082
Financial assets at fair value through profit or loss	24,556	-	24,556
Financial assets at fair value through other comprehensive income	1,649	-	1,649
Property and equipment	-	54,833	54,833
Intangible assets	-	5,377	5,377
Other assets	352,719	-	352,719
Total Assets	11,445,332	9,700,915	21,146,247
Liabilities			
Due to banks and financial institution	182,975	-	182,975
Customers' accounts	8,988,353	280	8,988,633
Margin accounts	3,163,563	5,203,927	8,367,490
Other liabilities	395,559	-	395,559
Total Liabilities	12,730,450	5,204,207	17,934,657
Net	(1,285,118)	4,496,708	3,211,590

(26) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Within 1 year	More than 1 year	Total
<u>2017</u>	<u>USD (000)</u>	<u>USD (000)</u>	<u>USD (000)</u>
Assets			
Cash and balances at Central Bank of Iraq	2,759,168	3,726,838	6,486,006
Due from banks and financial institutions	1,980,021	2,766,280	4,746,301
Direct credit facilities	3,954,326	1,162,812	5,117,138
Investment securities	1,773,373	761,556	2,534,929
Property and equipment	-	63,048	63,048
Intangible assets	-	5,718	5,718
Other assets	507,516	-	507,516
Total Assets	<u>10,974,404</u>	<u>8,486,252</u>	<u>19,460,656</u>
Liabilities			
Due to banks and financial institution	107,601	-	107,601
Customers' accounts	6,872,155	-	6,872,155
Margin accounts	5,996,484	3,089,098	9,085,582
Other liabilities	182,824	-	182,824
Total Liabilities	<u>13,159,064</u>	<u>3,089,098</u>	<u>16,248,162</u>
Net	<u>(2,184,660)</u>	<u>5,397,154</u>	<u>3,212,494</u>

(27) ASSETS, LIABILITIES AND REVENUES GEOGRAPHIC DISTRIBUTION

The following table shows the distribution of the Bank's operating income, assets and liabilities by geographic segment:

	Iraq 31 December 2018 USD (000)	Foreign Countries 31 December 2018 USD (000)	Total 31 December 2018 USD (000)
Revenues	482,014	132,743	614,757
Total Assets	13,572,297	7,573,950	21,146,247
Total Liabilities	17,852,482	82,175	17,934,657
	Iraq 31 December 2017 USD (000)	Foreign Countries 31 December 2017 USD (000)	Total 31 December 2017 USD (000)
Revenues	428,856	88,647	517,503
Total Assets	14,732,548	4,728,108	19,460,656
Total Liabilities	16,060,263	187,899	16,248,162

(28) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The Bank is revaluing financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income at the end of each reporting period and the table below shows information related to determining the fair value:

	Fair value USD (000)		Fair value level	Method of valuation and observable inputs
	31 December 2018	31 December 2017		
	USD (000)	USD (000)		
Financial assets at fair value through profit or loss	24,556	-	Level 2	Through comparison of similar financial instruments
Financial assets at fair value through other comprehensive income	1,583	1,381	Level 1	Based on price quotations in financial markets
Financial assets at fair value through other comprehensive income	66	103	Level 2	Through comparison of similar financial instruments

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

	31 December 2018		31 December 2017		
	<i>Total carrying amount</i>	<i>Total fair value</i>	<i>Total carrying amount</i>	<i>Total fair value</i>	Fair value level
	USD (000)		USD (000)		
Financial assets not measured at fair value					
Cash and balances with Central Bank of Iraq	5,599,314	5,599,314	6,486,006	6,486,006	Level 2
Due from banks and other financial institutions	7,484,465	7,484,465	4,746,301	4,746,301	Level 2
Direct credit facilities	5,157,252	5,157,252	5,117,138	5,117,138	Level 2
Held to maturity investment	-	-	2,533,445	2,540,827	Level 1 and 2
Financial assets at amortized cost	2,466,082	2,217,009	-	-	Level 1 and 2
	<u>20,707,113</u>	<u>20,458,040</u>	<u>18,882,890</u>	<u>18,890,272</u>	
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	182,975	182,975	107,601	107,601	Level 2
Customers' accounts	8,988,633	8,988,633	6,872,155	6,872,155	Level 2
Cash Margins	8,367,490	8,367,490	9,085,582	9,085,582	Level 2
	<u>17,539,098</u>	<u>17,539,098</u>	<u>16,065,338</u>	<u>16,065,338</u>	

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(29) CONTINGENT LIABILITIES AND COMMITMENTS

The total outstanding commitments and contingent liabilities are as follows:

	31 December 2018	31 December 2017
	USD (000)	USD (000)
Letters of guarantee	3,204,690	3,767,403
Letters of credit	9,901,866	10,487,791
	13,106,556	14,255,194

(30) CAPITAL MANAGEMENT

Capital Adequacy	31 December 2018	31 December 2017
	USD (000)	USD (000)
Primary capital items:		
Share capital	2,346,882	2,346,882
General reserve	236,709	236,709
Other reserves	(60,450)	(60,450)
Retained earnings	686,887	687,422
Total Primary capital	3,210,028	3,210,563
Supplementary Capital:		
Fair value reserve	781	966
General provisions	911,714	579,800
Total Supplementary Capital	912,495	580,766
Total supplementary and primary Capital	4,122,523	3,791,329
 Total risk weighted assets in-financial statements	 2,546,675	 3,357,227
Total risk weighted assets off-financial statements	1,245,016	1,420,455
	3,791,691	4,777,682
 Capital adequacy ratio	 108.73%	 79.35%

The Bank calculated capital adequacy at 31 December 2018 according to the Central Bank of Iraq's regulations.

(31) CONCENTRATION OF RISK IN GEOGRAPHICAL AREA

The Bank carries out its activities in Iraq, the political and economic destabilization in the area increases the risk of carrying out business and could adversely affect performance.

(32) LAWSUITS

There are lawsuits filed against the Bank totalling USD 697 million as of 31 December 2018. In the opinion of the management and the lawyers representing the Bank in the litigation at financial statements issuance date, the Bank will not be held liable for any amount in excess of the amount of provisions taken in connection with the lawsuits totalling USD 20 million (note 15) as of 31 December 2018.

(33) COMPARATIVE FIGURES

Some of the comparative figures for the year 2017 have been reclassified to correspond with those of 31 December 2018 presentation. The reclassification did not have any effect on profits or equity of 2017.