

TRADE BANK OF IRAQ
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019



Mustafa Fouad Abbas & Co for Auditing
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REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS OF TRADE BANK OF IRAQ
BAGHDAD - IRAQ

Qualified Opinion

We have audited the consolidated financial statements of Trade Bank of Iraq and its subsidiary (collectively known as “the Bank”), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion below, the accompanying consolidated financial statements are prepared in all material respects in accordance with the basis of preparation set out in Note 2.

Basis for Qualified Opinion

- As indicated in Note 3 to the consolidated 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 2019. As a result of the ongoing political situation, the Bank was unable to utilize or collect these outstanding balances. We were unable to determine the amount of required impairment provision for these balances as at 31 December 2019.

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 Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 to the consolidated financial statements, which describes the basis of preparation and accounting. As a result, the consolidated 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.

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

Management is responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated 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 consolidated 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 auditor's report to the related disclosures in the consolidated 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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.



1 April 2020

Mustafa Fouad Abbas & Co.
(A member firm of Ernst & Young Global Limited)
Baghdad – Iraq

TRADE BANK OF IRAQ
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

Assets	Note	31 December 2019	31 December 2018
		USD (000)	USD (000)
Cash and balances with Central Bank of Iraq	3	5,439,937	5,599,314
Due from banks and other financial institutions	4	11,859,751	7,484,465
Direct credit facilities	5	6,695,654	5,157,252
Financial assets at amortized cost	6	2,051,036	2,466,082
Financial assets at fair value through profit or loss	7	2,171,916	24,556
Financial assets at fair value through other comprehensive income	8	2,356	1,649
Property and equipment	9	54,257	54,833
Intangible assets		4,644	5,377
Other assets	10	513,596	352,719
Total assets		28,793,147	21,146,247
<u>Liabilities and equity</u>			
Liabilities			
Due to banks and other financial institutions	11	1,927,937	182,975
Customers' accounts	12	13,648,732	8,988,633
Margin accounts	13	9,251,978	8,367,490
Other liabilities	14	285,720	395,559
Total liabilities		25,114,367	17,934,657
Equity			
Share capital	15	2,346,882	2,346,882
Reserves	16	175,622	177,821
Retained earnings		1,156,266	686,887
Total attributable to equity holders of the parent		3,678,770	3,211,590
Non-controlling interest		10	-
Total equity		3,678,780	3,211,590
Total liabilities and equity		28,793,147	21,146,247

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01.04.2020

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

TRADE BANK OF IRAQ
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 USD (000)	31 December 2018 USD (000)
Interest income	18	516,898	441,014
Interest expense	19	(28,192)	(17,498)
Net interest income		488,706	423,516
Commission income	20	139,689	132,947
Commission expense		(5,389)	(6,192)
Net interest and commission income		623,006	550,271
Net gain from foreign currency exchange		15,709	40,152
Net gains (losses) on financial assets at fair value through profit or loss	21	35,492	(444)
Other operating income		610	644
Net operating income		674,817	590,623
Employees' expenses		(44,301)	(40,749)
Administrative expenses	22	(14,484)	(24,810)
Depreciation and amortization		(8,282)	(11,312)
Allowance for credit losses, net	5 & 14	(45,991)	(295,055)
Litigation expenses	14	(5,230)	(35,626)
Impairment of property and equipment		-	(2,961)
Total expenses		(118,288)	(410,513)
Profit for the year		556,529	180,110
Attributable to:			
Shareholders of the Bank		556,528	180,110
Non-controlling interest		1	-
Profit for the year		556,529	180,110

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TRADE BANK OF IRAQ

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	31 December 2019 USD (000)	31 December 2018 USD (000)
Profit for the year	556,529	180,110
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	707	202
Total other comprehensive income for the year	707	202
Total comprehensive income for the year	557,236	180,312
Attributable to:		
Shareholder of the Bank	557,235	180,312
Non-controlling interest	1	-
Total comprehensive income for the year	557,236	180,312


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TRADE BANK OF IRAQ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Reserves (Note 16)	Retained earnings	Total attributable to equity holders of the parent	Non- controlling interest	Total equity
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
31 December 2019						
Balance at 1 January 2019	2,346,882	177,821	686,887	3,211,590	-	3,211,590
Total comprehensive income for the year	-	707	556,528	557,235	1	557,236
Change in non-controlling interest	-	-	-	-	10	10
Transfers to reserves	-	55	(55)	-	-	-
Transfers to retained earnings	-	(2,961)	2,961	-	-	-
The Subsidiary's cash dividend distributed to non-controlling interest	-	-	-	-	(1)	(1)
Cash dividends distributed to the public treasury (Note 17)	-	-	(90,055)	(90,055)	-	(90,055)
Balance at 31 December 2019	<u>2,346,882</u>	<u>175,622</u>	<u>1,156,266</u>	<u>3,678,770</u>	<u>10</u>	<u>3,678,780</u>
31 December 2018						
Balance at 1 January 2018	2,346,882	178,190	687,422	3,212,494	-	3,212,494
Total comprehensive income for the year	-	202	180,110	180,312	-	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 17)	-	-	(181,216)	(181,216)	-	(181,216)
Balance at 31 December 2018	<u>2,346,882</u>	<u>177,821</u>	<u>686,887</u>	<u>3,211,590</u>	<u>-</u>	<u>3,211,590</u>

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TRADE BANK OF IRAQ

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 USD (000)	31 December 2018 USD (000)
Operating activities:			
Profit for the year		556,529	180,110
Adjustments:			
Change in fair value of financial assets at fair value through profit or loss	21	(33,917)	444
Depreciation and amortization		8,282	11,312
Allowance for credit losses, net	5 & 14	45,991	295,055
Litigation expenses	14	5,230	35,626
Impairment of property and equipment		-	2,961
Cash flows from operating activities before changes in assets and liabilities		582,115	525,508
Changes in assets and liabilities:			
Balances with CBI		(283,791)	(471,093)
Time deposits with banks and other financial institutions maturing after 3 months		(701,536)	(3,464)
Direct credit facilities		(1,609,774)	(313,221)
Acquisition of Financial assets at fair value through profit and loss		(2,263,443)	(25,000)
Redemption of Financial assets at fair value through profit and loss		150,000	-
Other assets		(160,877)	154,797
Due to banks and other financial institutions		1,744,962	75,374
Customers' accounts		4,660,099	2,116,478
Margin accounts		884,488	(718,092)
Other liabilities		(88,547)	170,787
Litigations paid during the year		(1,142)	(15,626)
Net cash flows from operating activities		2,912,554	1,496,448
Investing activities:			
Purchase of financial assets at amortized cost		(15,290)	(268,086)
Maturity of financial assets at amortized cost		430,336	335,449
Sale of financial assets at fair value through other comprehensive income		-	37
Purchase of property and equipment		(6,351)	(3,017)
Purchase of intangible assets		(622)	(2,700)
Net cash flows from investing activities		408,073	61,683
Financing activities:			
Dividends paid to the shareholder of the Bank		(90,055)	(181,216)
Capital paid by non-controlling interest		10	-
Net cash flows used in financing activities		(90,045)	(181,216)
Net increase in cash and cash equivalents		3,230,582	1,376,915
Cash and cash equivalents, beginning of the year		8,647,881	7,270,966
Cash and cash equivalents, end of the year	23	11,878,463	8,647,881

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01.04.2020

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(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-Rasheed St. - Baghdad, and through its twenty-seven branches across Iraq and one branch in Kingdom of Saudi Arabia and a representative office in United Arab Emirates.

The Bank has 99.88% ownership interest in a subsidiary, Information Windows Co. for Electronic Payment & IT Services Limited ("the Subsidiary"), which has been registered in Iraq on 23 March 2019. The principal activity of the Subsidiary is electronic payment and IT support services. The Bank and its subsidiary are collectively known as ("the Bank").

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors on 1 April 2020.

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

2.1 Basis of Preparation

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with the accounting policies detailed below.

The consolidated 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 US Dollars except when otherwise indicated.

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

2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and the Subsidiary as at 31 December 2019. The Subsidiary is fully consolidated from the date on which control is transferred to the Bank. Control is achieved when the Bank has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All balances, transactions, income, and expenses between the Bank and the Subsidiary are eliminated in full. The consolidated financial statements include assets, liabilities and operating results of the Bank management and branches and the Subsidiary.

The Subsidiary is a mixed shareholding company incorporated in accordance with the Companies' Law in Iraq, its paid-in capital is IQD 10 billion (equivalent to USD 8.46 million) of which the Bank owns 99.88% as at 31 December 2019.

The financial statements of the Subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

The Subsidiary is fully consolidated from the date of acquisition, being the date on which the Bank obtained control, and continues to be consolidated until the date that such control ceases.

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

2.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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 consolidated statement of income.

- 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 on hand and non-restricted cash balances with banks and other financial institutions that mature within three months with an original maturity of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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).

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

2.3 Summary of significant accounting policies (continued)

Direct credit facilities

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

Direct credit facilities are categorized into the following stages that are in line with CBI regulations:

- Stage 1: Represented by governmental loans and performing direct credit facilities that are not past due.
- Stage 2: Represented by watch-list direct credit facilities that are past due for no more than 90 days and those direct credit facilities that their credit risks are significantly increased since the initial recognition.
- Stage 3: Represented by non-performing direct credit facilities that are past due for more than 90 days.

Allowance for credit losses on direct credit facilities is reviewed on the basis of the principles established by the CBI after taking into account the guarantees that are easy to liquefy in order to calculate the allowance for credit losses of direct credit facilities. The allowance is recorded in the consolidated statement of income.

Interest and commission arising on non-performing facilities is suspended when loans become impaired according to the CBI'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 consolidated statement of income, and cash recoveries of loans that were previously written off are credited to the consolidated statement of income.

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.

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 credit losses. The losses arising from allowance for credit losses are recognized in the consolidated statement of income.

The amount of the allowance 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 consolidated statement of income in separate line item and should be disclosed in accordance with CBI requirements in this regard).

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

2.3 Summary of significant accounting policies (continued)

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 consolidated statement of income. When these assets or portion of these assets are sold, the gain or loss arising are recorded in the consolidated statement of income.

Dividends are recorded in the consolidated statement of income.

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 consolidated 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 consolidated statement of income.

Fair value

- The Bank values the financial instruments, such as derivatives and non-financial assets, at fair value at the date of the consolidated 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.

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

2.3 Summary of significant accounting policies (continued)

Fair value (continued)

- 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 consolidated 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 allowance for credit losses to be recognized in the consolidated statement of income.

Allowance for credit losses is determined as follows:

- For assets carried at amortized cost, allowance for credit losses 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 consolidated statement of income. 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 consolidated statement of income.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated 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)2.3 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are 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:

Item of property and equipment	Useful life
	Years
Buildings	10
Furniture & fixtures	1
Vehicles	1
Tools & equipment	1
Leasehold improvements	5

Work in progress comprise the costs incurred to construct and expand property and equipment items as of the financial statements date. These costs include costs of direct labor, direct materials, equipment, and contractors' costs. After completion, work in progress are transferred to their prospective property and equipment items.

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 consolidated statement of income 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 consolidated statement of income 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 consolidated 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)

2.3 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 consolidated 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 consolidated statement of income.
- 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 the year 1982, and its subsequent amendments. However, the Subsidiary is subject to corporate income tax. Current tax liabilities of the Subsidiary for the current and prior years are measured at the amount expected to be paid to the tax authorities, and in accordance with IAS 12.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the consolidated statement of financial position date.

The Bank's employees are subject to personal income tax.

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

2.3 Summary of significant accounting policies (continued)

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.

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 consolidated 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 consolidated statement of financial position under "Other assets" at the lower of their carrying value or fair value. Assets are revalued at the consolidated statement of financial position date on an individual basis and losses from impairment are transferred directly to the consolidated statement of income, 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.

2.4 Use of estimates

The preparation of the consolidated 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 management believes 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 reassess 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 consolidated statement of income.

2) BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)2.4 Use of estimates (continued)

- A periodic review is performed by management to financial assets at amortized cost to assess any impairment that will be recognized in the consolidated statement of income for the period.
- Litigation provision is calculated for any litigation liabilities according to the lawyer's opinion.

(3) CASH AND BALANCES WITH CENTRAL BANK OF IRAQ

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Cash on hand	106,950	276,298
Balances with Central Bank of Iraq:		
Current accounts *	4,346,740	4,661,997
Statutory cash reserve **	945,046	661,019
Time deposits ***	41,201	-
	<u>5,439,937</u>	<u>5,599,314</u>

* This item includes balances with Central Bank of Iraq at Kurdistan Region amounted to USD 3,726,179 thousands as at 31 December 2019 (31 December 2018: USD 3,726,415 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.

*** This item represents a 7-day time deposit with an interest rate of 1.5%.

(4) DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Current accounts inside Iraq	34	13,007
Current accounts outside Iraq	3,878,037	3,432,858
Time deposits outside Iraq *	7,981,680	4,038,600
	<u>11,859,751</u>	<u>7,484,465</u>

* Time deposits include deposits with maturity of more than 3 months amounted to USD 750,000 thousand (31 December 2018: USD 48,464 thousand).

(5) DIRECT CREDIT FACILITIES

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Loans:		
Governmental	4,937,408	3,463,814
Corporates	1,120,236	1,593,525
Retail	699,398	369,401
	6,757,042	5,426,740
Overdrafts:		
Corporates	1,994,220	1,766,884
Retails	1,961	536
	1,996,181	1,767,420
Total	8,753,223	7,194,160
Interest in suspense (A)	(787,406)	(838,117)
Allowance for credit losses (B)	(1,270,163)	(1,198,791)
Balance at end of the year	6,695,654	5,157,252

Non-performing credit facilities amounted to USD 2,619,848 thousand as at 31 December 2019 (31 December 2018: USD 3,189,331 thousand) representing 29.93% (31 December 2018: 44.33%) of gross direct credit facilities.

Non-performing credit facilities, net of interest in suspense, amounted to USD 1,832,442 thousand as at 31 December 2019 (31 December 2018: 2,351,214 thousand) representing 23.00% of gross credit facilities after deducting the interest in suspense (31 December 2018: 36.99%).

Allowance for credit losses for non-performing credit facilities net of interest in suspense coverage ratio was 69.32% as at 31 December 2019 (31 December 2018: 50.99%).

A. Interest in suspense

The movement on interest in suspense is as follows:

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Balance at 1 January	838,117	475,086
Additions during the year	487,948	539,044
Recoveries during the year	(369,636)	(176,013)
Written-off during the year	(169,023)	-
Balance at end of the year	787,406	838,117

(5) DIRECT CREDIT FACILITIES (continued)

B. Allowance for credit Losses

The movement on allowance for credit losses is as follows:

	31 December 2019			
	USD (000)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	9,633	4,900	1,184,258	1,198,791
Transfer to stage 1	27,998	(2,010)	(25,988)	-
Transfer to stage 2	(305)	38,605	(38,300)	-
Transfer to stage 3	(374)	(2,869)	3,243	-
Net movement for the year	(22,090)	(12,782)	106,244	71,372
Balance at end of the year	14,862	25,844	1,229,457	1,270,163

	31 December 2018			
	USD (000)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	8,713	15,631	901,340	925,684
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	2,766	(6,407)	276,748	273,107
Balance at year end	9,633	4,900	1,184,258	1,198,791

(6) FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Government of Iraq bonds *	752,716	920,054
Treasury bills **	1,298,320	1,546,028
	<u>2,051,036</u>	<u>2,466,082</u>

* The average rate of USD bonds with a total amount of USD 299,355 thousands is 6.48% which will mature during the period between 2021 and 2028. The average interest rate of bonds with total amount of USD 453,361 thousand is 6.91% which will mature during the period between 2020 and 2022.

** Treasury bills are issued by Ministry of Finance and Central Bank of Iraq with an average interest rate of 2.8% and mature between three to twelve months.

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

Financial assets at fair value through profit or loss comprise of unquoted investment funds outside Iraq. The main activity of those funds is to invest in Government of Iraq bonds and time deposits with foreign banks. The funds are open-ended funds and the Bank can redeem its shares in the funds at any time. The funds are measured at the net assets value as provided by the investment manager.

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

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Quoted share	2,288	1,583
Unquoted shares	68	66
	<u>2,356</u>	<u>1,649</u>

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

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Balance at 1 January	1,649	1,484
Sold during the year	-	(37)
Change in fair value	707	202
Balance at end of the year	<u>2,356</u>	<u>1,649</u>

(9) PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture & fixtures	Vehicles	Tools & equipment	Leasehold improvements	Work in progress	Total
2019	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Cost:								
Balance at 1 January 2019	16,937	58,584	12,993	1,420	2,079	9,545	709	102,267
Additions	350	970	1,326	134	-	1,275	2,296	6,351
Transfer from Work in progress	-	230	523	-	583	24	(1,360)	-
Balance at 31 December 2019	17,287	59,784	14,842	1,554	2,662	10,844	1,645	108,618
Accumulated Depreciation:								
Balance at 1 January 2019	-	26,624	12,993	1,420	2,079	4,318	-	47,434
Depreciation charge for the year	-	3,316	1,816	134	583	1,078	-	6,927
Balance at 31 December 2019	-	29,940	14,809	1,554	2,662	5,396	-	54,361
Net book value as at 31 December 2019	17,287	29,844	33	-	-	5,448	1,645	54,257

(9) PROPERTY AND EQUIPMENT (CONTINUED)

	Land	Buildings	Furniture & fixtures	Vehicles	Tools & equipment	Leasehold improvements	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	2,035	9,441	799	100,611
Additions	-	1,456	1,055	401	69	85	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	2,079	9,545	709	102,267
Accumulated Depreciation:								
Balance at 1 January 2018	-	21,596	10,597	997	2,035	2,338	-	37,563
Depreciation charge for the year	-	5,028	2,467	423	69	1,980	-	9,967
Disposals	-	-	(71)	-	(25)	-	-	(96)
Balance at 31 December 2018	-	26,624	12,993	1,420	2,079	4,318	-	47,434
Net book value as at 31 December 2018	16,937	31,960	-	-	-	5,227	709	54,833

(10) OTHER ASSETS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Due from Ministry of Finance	281,269	141
Interest receivables	109,869	228,934
Margins held by others	88,026	106,202
Other receivables	39,331	16,313
Commission receivables	8,916	12,085
Assets repossessed by the bank	761	761
Prepaid expenses	747	572
Advances to employees	31	689
Others	157	2,121
Allowance for credit losses on other receivables	(15,511)	(15,099)
	<u>513,596</u>	<u>352,719</u>

(11) DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Current accounts	1,883,423	108,494
Time deposits	44,514	74,481
	<u>1,927,937</u>	<u>182,975</u>

(12) CUSTOMERS' ACCOUNTS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Current and call accounts	11,899,458	7,978,403
Time deposits	1,015,259	381,139
Saving accounts	662,322	566,057
Other deposits	71,693	63,034
	<u>13,648,732</u>	<u>8,988,633</u>

(13) MARGIN ACCOUNTS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Against LCs	8,792,085	8,016,305
Against LGs	98,647	73,908
Other margins	361,246	277,277
	<u>9,251,978</u>	<u>8,367,490</u>

(14) OTHER LIABILITIES

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Other payables	116,494	204,210
Deferred income	40,336	51,520
Allowance for indirect credit facilities *	33,117	58,498
Litigation provision **	24,088	20,000
Certified cheques	22,482	23,073
Accounts under reconciliation	19,436	19,175
Interest payables	15,758	5,264
Accrued expenses	5,897	4,759
Frozen customers' balances by court order	1,574	2,618
Stamp fees payables	1,073	1,888
Abroad transfers	527	509
Dividend payables to non-controlling interest	1	-
Others	4,937	4,045
	<u>285,720</u>	<u>395,559</u>

* The movement on allowance for credit losses of indirect credit facilities is as follows:

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Balance at 1 January	58,498	36,550
Net movement during the year	(25,381)	21,948
Balance at end of the year	<u>33,117</u>	<u>58,498</u>

TRADE BANK OF IRAQ

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(14) OTHER LIABILITIES (CONTINUED)

** The movement on provision for litigation is as follows:

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Balance at 1 January	20,000	-
Additions during the year	5,230	35,626
Paid during the year	(1,142)	(15,626)
Balance at end of the year	24,088	20,000

(15) SHARE CAPITAL

Share capital comprises of 2.75 trillion shares as at 31 December 2019 and 31 December 2018, at a par value of IQD 1 per share with total amount of IQD 2.75 trillion (equivalent to USD 2,347 million).

(16) RESERVES

	General reserve	Fair value reserve	Special reserve *	Translation reserve **	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
<u>31 December 2019</u>					
Balance at 1 January 2019	236,709	1,562	10,608	(71,058)	177,821
Total comprehensive income for the year	-	707	-	-	707
Transfers to reserves	55	-	-	-	55
Transfers to retained earnings	-	-	(2,961)	-	(2,961)
Balance at 31 December 2019	<u>236,764</u>	<u>2,269</u>	<u>7,647</u>	<u>(71,058)</u>	<u>175,622</u>
<u>31 December 2018</u>					
Balance at 1 January 2018	236,709	1,931	10,608	(71,058)	178,190
Total comprehensive income for the year	-	202	-	-	202
Gain from sale of FA at FVTOCI	-	(571)	-	-	(571)
Balance at 31 December 2018	<u>236,709</u>	<u>1,562</u>	<u>10,608</u>	<u>(71,058)</u>	<u>177,821</u>

* 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 consolidated financial statements from the functional currency to the presentation currency.

(17) CASH DIVIDENDS DISTRIBUTED TO THE PUBLIC TREASURY

The Prime Minister's office approved on 20 May 2019 the distribution of 50% of the realized profit for the year 2018 which amounted to USD 90,055 thousand to the public treasury of Government of Iraq.

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 Government of Iraq.

(18) INTEREST INCOME

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Direct credit facilities	233,077	237,966
Deposits held with banks and other financial institution	191,333	112,115
Financial assets at amortized cost	92,488	90,933
	<u>516,898</u>	<u>441,014</u>

(19) INTEREST EXPENSE

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Customers' deposits	22,661	11,686
Saving accounts	5,531	5,812
	<u>28,192</u>	<u>17,498</u>

(20) COMMISSION INCOME

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Indirect credit facilities	82,788	84,629
Bank transfers	32,486	33,905
Other commissions	24,415	14,413
	<u>139,689</u>	<u>132,947</u>

(21) NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Realized gains from the investment funds	1,575	-
Unrealized gain (losses)	33,917	(444)
	<u>35,492</u>	<u>(444)</u>

(22) ADMINISTRATIVE EXPENSES

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Travel and transportation	3,916	3,439
Subscriptions	1,362	1,812
Rent	1,326	1,810
Maintenance	883	238
Office supplies	654	540
Fuel and oil	338	294
Advertising	281	196
Research and consultancy	272	192
Legal expenses	40	11,040
Others	5,412	5,249
	<u>14,484</u>	<u>24,810</u>

(23) CASH AND CASH EQUIVALENTS

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

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Cash and balances with Central Bank of Iraq	5,439,937	5,599,314
Due from banks and other financial institutions	11,859,751	7,484,465
Less:		
Statutory cash reserve	(945,046)	(661,019)
Balances with CBI - Kurdistan Region *	(3,726,179)	(3,726,415)
Time deposits with banks and other financial institution maturing after 3 months	<u>(750,000)</u>	<u>(48,464)</u>
	<u>11,878,463</u>	<u>8,647,881</u>

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

(24) RELATED PARTY TRANSACTIONS

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

	31 December 2019 USD (000)	31 December 2018 USD (000)
<u>Consolidated statement of financial position:</u>		
Balances with CBI	5,332,987	5,323,016
Due from banks and other financial institutions	34	13,007
Direct credit facilities	4,940,047	3,465,740
Financial assets at amortized cost	2,051,036	2,466,082
Other assets	281,349	461
Due to banks and other financial institutions	57,705	93,041
Customers' deposits	11,701,124	7,430,958
Margin accounts	7,743,900	7,200,362
<u>Off-balance sheet items:</u>		
Letters of guarantees	2,013	207,453
Letters of credit	9,975,666	9,844,580
<u>Consolidated statement of income:</u>		
Interest and commission income	144,426	96,777

Bonuses and compensations of the chairman and members of board of directors and key management personnel amounted to USD 2,364 thousand incurred during the year ended 31 December 2019 (31 December 2018: USD 2,433 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

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 consolidated statement of financial position. The maximum exposure is shown after allowances and suspended interest and before and after the effect of mitigation through the use of collaterals and other credit risk mitigations.

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

	2019 USD (000)	2018 USD (000)
Consolidated statement of financial position items:		
Balances at Central Bank of Iraq	5,332,987	5,323,016
Due from banks and other financial institutions	11,859,751	7,484,465
Direct credit facilities	6,695,654	5,157,252
Financial assets at amortized cost	2,051,036	2,466,082
Other assets	511,900	348,576
	26,451,328	20,779,391
Outside consolidated statement of financial position items:		
Letters of guarantee	2,774,616	3,204,690
Letters of credits	10,153,696	9,901,866
	12,928,312	13,106,556
Net maximum credit risk exposure before consideration of credit risk mitigations	39,379,640	33,885,947
Credit risk mitigations:		
Cash margins	8,891,302	8,090,409
Real Estate	450,194	1,014,933
Stock shares	1,868	357,700
Counter guarantees	2,419,845	2,442,939
Letters of guarantee	-	62,627
	11,763,209	11,968,608
Net maximum credit risk exposure after consideration of credit risk mitigation	27,616,431	21,917,339

The above exposure is based on the balance as stated in the consolidated statement of financial position.

(25) RISK MANAGEMENT (continued)

Credit Risk (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
2019	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Low risk	7,269,713	-	574,782	13,602,832	21,447,327
Acceptable risk	-	522,875	275,181	-	798,056
Watch list	-	62,807	2,010	-	64,817
Non- performing:					
Substandard debts	-	15,826	1,328	-	17,154
Doubtful debts	-	2,352	8,108	-	10,460
Bad debts	-	97,499	2,256,724	3,832,371	6,186,594
Total	7,269,713	701,359	3,118,133	17,435,203	28,524,408
Less: Interest in suspense	-	(50,993)	(716,880)	(19,533)	(787,406)
Less: Allowance for credit losses	-	(82,257)	(1,101,247)	(102,170)	(1,285,674)
Net	7,269,713	568,109	1,300,006	17,313,500	26,451,328

	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 credit 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

(25) RISK MANAGEMENT (continued)Credit Risk (continued)

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

2019	Retails USD (000)	Corporates USD (000)	Banks and other Financial Institutions USD (000)	Total USD (000)
Acceptable risk	23,609	26,658	-	50,267
Watch list	1,066	-	-	1,066
Non-performing:				
Substandard debts	4,489	1,138	-	5,627
Doubtful debts	319	6,155	-	6,474
Bad debts	222,780	166,418	-	389,198
Total	252,263	200,369	-	452,632
Comprising of:				
Cash margins	570	-	-	570
Real Estate	251,693	198,501	-	450,194
Stock shares	-	1,868	-	1,868
Total	252,263	200,369	-	452,632

The fair values of collaterals shown are to the extent to the values of the loans.

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

2019	Inside Iraq USD (000)	Outside Iraq USD (000)	Total USD (000)
Balances at Central Bank of Iraq	5,332,987	-	5,332,987
Due from banks and other financial institutions	34	11,859,717	11,859,751
Direct credit facilities	6,695,654	-	6,695,654
Financial assets at amortized cost	2,051,036	-	2,051,036
Other assets	414,958	96,942	511,900
Total 2019	14,494,669	11,956,659	26,451,328
Total 2018	13,205,441	7,573,950	20,779,391

(25) RISK MANAGEMENT (continued)Credit Risk (continued)

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

	Governmental	Retails	Corporates	Treasury	Total
2019	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Balances at Central Bank of Iraq	-	-	-	5,332,987	5,332,987
Due from banks and other financial institutions	34	-	-	11,859,717	11,859,751
Direct credit facilities	4,937,408	568,109	1,190,137	-	6,695,654
Financial assets at amortized cost	2,051,036	-	-	-	2,051,036
Other assets	281,269	-	109,869	120,762	511,900
Total	<u>7,269,747</u>	<u>568,109</u>	<u>1,300,006</u>	<u>17,313,466</u>	<u>26,451,328</u>
	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	<u>5,947,438</u>	<u>347,780</u>	<u>1,344,044</u>	<u>13,140,129</u>	<u>20,779,391</u>

(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 consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the consolidated statement of income 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 2019. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown:

2019

Currency	Increase in interest rate	Sensitivity of net interest income
	Basis Point	USD (000)
USD	1%	134,421
EUR	1%	2,962
IQD	1%	33,590

2018

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

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

(25) RISK MANAGEMENT (continued)Market Risk (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 consolidated statement of income and consolidated statement of changes in shareholder's equity, assuming that all other variables remain constant:

2019

Currency	Change in currency exchange rate	Effect on profit and loss	Effect on equity
	%	USD (000)	USD (000)
USD	5	374,897	117
EUR	5	41,664	-
Others	5	2,129	-

2018

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

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

(25) RISK MANAGEMENT (continued)Market Risk (continued)

3. Equity Price Risk

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

The following table illustrates 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:

2019

	Increase in equity price	Effect on equity
	%	USD (000)
Market		
Nasdaq	1	23
Others	1	1

2018

	Increase in equity price	Effect on equity
	%	USD (000)
Market		
Nasdaq	1	15
Others	1	1

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

(25) RISK MANAGEMENT (continued)Interest rate gap

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

2019	Less than month USD (000)	1 – 3 months USD (000)	3 – 6 months USD (000)	6 – 12 months USD (000)	More than one year USD (000)	Non-interest bearing USD (000)	Total USD (000)
Cash and balances at							
Central Bank of Iraq	41,201	-	-	-	-	5,398,736	5,439,937
Due from banks and other							
financial institutions	5,498,544	1,983,136	500,000	-	-	3,878,071	11,859,751
Direct credit facilities	1,739,458	1,123	241	14,393	4,940,439	-	6,695,654
Financial assets at amortized cost	820,488	-	201,539	700,086	328,923	-	2,051,036
Financial assets at fair value through profit or loss	-	-	-	-	-	2,171,916	2,171,916
Financial assets at fair value through other comprehensive income	-	-	-	-	-	2,356	2,356
Property and equipment	-	-	-	-	-	54,257	54,257
Intangible assets	-	-	-	-	-	4,644	4,644
Other assets	1,057	1,618	166	-	-	510,755	513,596
Total Assets	8,100,748	1,985,877	701,946	714,479	5,269,362	12,020,735	28,793,147
Due to banks and financial							
Institutions	-	179	46,797	5,338	-	1,875,623	1,927,937
Customers' accounts	194,378	4,786	185,683	589,145	-	12,674,740	13,648,732
Margin accounts	242,272	2,048,918	1,058,124	859,971	5,037,063	5,630	9,251,978
Other liabilities	-	-	-	-	-	285,720	285,720
Total Liabilities	436,650	2,053,883	1,290,604	1,454,454	5,037,063	14,841,713	25,114,367
Interest rate sensitivity gap	7,664,098	(68,006)	(588,658)	(739,975)	232,299	(2,820,978)	3,678,780
2018	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Total Assets	2,634,452	1,389,290	1,020,245	705,608	5,914,290	9,482,362	21,146,247
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

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(25) RISK MANAGEMENT (Continued)Concentration in currency risk

2019	USD	IQD	EUR	GBP	CHF	Others	Total
<u>Assets</u>							
Cash and balances with Central Bank of Iraq	1,139,611	4,297,569	1,781	976	-	-	5,439,937
Due from banks and other financial Institutions	11,018,597	34	799,310	23,647	14,235	3,928	11,859,751
Direct credit facilities	4,744,334	1,929,999	21,321	-	-	-	6,695,654
Financial assets at amortized cost	728,692	1,322,344	-	-	-	-	2,051,036
Financial assets at fair value through profit or loss	2,171,916	-	-	-	-	-	2,171,916
Financial assets at fair value through other comprehensive income	2,289	25	42	-	-	-	2,356
Property and equipment	-	54,257	-	-	-	-	54,257
Intangible assets	-	4,636	-	8	-	-	4,644
Other assets	465,037	30,018	18,517	-	-	24	513,596
Total Assets	<u>20,270,476</u>	<u>7,638,882</u>	<u>840,971</u>	<u>24,631</u>	<u>14,235</u>	<u>3,952</u>	<u>28,793,147</u>
<u>Liabilities</u>							
Due to banks and financial Institutions	46,205	1,880,860	872	-	-	-	1,927,937
Customers' accounts	10,778,434	2,866,106	3,979	213	-	-	13,648,732
Margin accounts	8,362,012	194,901	654,373	26,332	14,252	108	9,251,978
Other liabilities	62,312	222,135	1,273	-	-	-	285,720
Total Liabilities	<u>19,248,963</u>	<u>5,164,002</u>	<u>660,497</u>	<u>26,545</u>	<u>14,252</u>	<u>108</u>	<u>25,114,367</u>
Net concentration in the consolidated statement of financial position	<u>1,021,513</u>	<u>2,474,880</u>	<u>180,474</u>	<u>(1,914)</u>	<u>(17)</u>	<u>3,844</u>	<u>3,678,780</u>
<u>2018</u>	<u>USD</u>	<u>IQD</u>	<u>EUR</u>	<u>GBP</u>	<u>CHF</u>	<u>Other</u>	<u>Total</u>
Total Assets	<u>13,839,404</u>	<u>6,541,362</u>	<u>717,216</u>	<u>44,174</u>	<u>844</u>	<u>3,247</u>	<u>21,146,247</u>
Total Liabilities	<u>14,483,084</u>	<u>2,754,736</u>	<u>649,863</u>	<u>45,834</u>	<u>834</u>	<u>306</u>	<u>17,934,657</u>
Net concentration in the statement of financial position	<u>(643,680)</u>	<u>3,786,626</u>	<u>67,353</u>	<u>(1,660)</u>	<u>10</u>	<u>2,941</u>	<u>3,211,590</u>

(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)
2019							
Due to banks and financial institution	-	179	46,797	5,338	-	1,875,623	1,927,937
Customers' accounts	194,378	4,786	185,683	589,145	-	12,674,740	13,648,732
Margin accounts	242,272	2,048,918	1,058,124	859,971	5,037,063	5,630	9,251,978
Other liabilities	-	-	-	-	-	285,720	285,720
Total Liabilities	436,650	2,053,883	1,290,604	1,454,454	5,037,063	14,841,713	25,114,367
Total Assets	8,100,748	1,985,877	701,946	714,479	5,269,362	12,020,735	28,793,147
	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

(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)
<u>2019</u>			
Letters of guarantee	1,775,611	999,005	2,774,616
Letters of credit	4,953,535	5,200,161	10,153,696
Total	<u>6,729,146</u>	<u>6,199,166</u>	<u>12,928,312</u>
	Less than one year	More than one year	Total
	USD (000)	USD (000)	USD (000)
<u>2018</u>			
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	<u>5,331,071</u>	<u>7,775,485</u>	<u>13,106,556</u>

(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)
<u>2019</u>			
Assets			
Cash and balances at Central Bank of Iraq	1,713,522	3,726,415	5,439,937
Due from banks and financial institutions	11,859,751	-	11,859,751
Direct credit facilities	1,755,215	4,940,439	6,695,654
Financial assets at amortized cost	1,722,113	328,923	2,051,036
Financial assets at fair value through profit or loss	2,171,916	-	2,171,916
Financial assets at fair value through other comprehensive income	-	2,356	2,356
Property and equipment	-	54,257	54,257
Intangible assets	-	4,644	4,644
Other assets	513,596	-	513,596
Total Assets	<u>19,736,113</u>	<u>9,057,034</u>	<u>28,793,147</u>
Liabilities			
Due to banks and financial institution	1,927,937	-	1,927,937
Customers' accounts	13,648,732	-	13,648,732
Margin accounts	4,214,915	5,037,063	9,251,978
Other liabilities	285,720	-	285,720
Total Liabilities	<u>20,077,304</u>	<u>5,037,063</u>	<u>25,114,367</u>
Net	<u>(341,191)</u>	<u>4,019,971</u>	<u>3,678,780</u>

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

	Within 1 year	More than 1 year	Total
	USD (000)	USD (000)	USD (000)
<u>2018</u>			
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	<u>11,445,332</u>	<u>9,700,915</u>	<u>21,146,247</u>
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	<u>12,730,450</u>	<u>5,204,207</u>	<u>17,934,657</u>
Net	<u>(1,285,118)</u>	<u>4,496,708</u>	<u>3,211,590</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:

<u>2019</u>	Iraq	Outside Iraq	Total
	USD (000)	USD (000)	USD (000)
Revenues	438,186	270,212	708,398
Total Assets	14,550,900	14,242,247	28,793,147
Total Liabilities	25,016,137	98,230	25,114,367
 <u>2018</u>			
	Iraq	Outside Iraq	Total
	USD (000)	USD (000)	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

(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 2019	31 December 2018		
	USD (000)	USD (000)		
Financial assets at fair value through profit or loss	2,171,916	24,556	Level 2	Net assets value
Financial assets at fair value through other comprehensive income	2,288	1,583	Level 1	Based on price quotations in financial markets
Financial assets at fair value through other comprehensive income	68	66	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 2019		31 December 2018		Fair value level
	Total carrying amount	Total fair value	Total carrying amount	Total fair value	
	USD (000)	USD (000)	USD (000)	USD (000)	
Financial assets not measured at fair value					
Cash and balances with Central Bank of Iraq	5,439,937	5,439,937	5,599,314	5,599,314	Level 2
Due from banks and other financial institutions	11,859,751	11,859,751	7,484,465	7,484,465	Level 2
Direct credit facilities	6,695,654	6,695,654	5,157,252	5,157,252	Level 2
Financial assets at amortized cost	2,051,036	2,057,360	2,466,082	2,217,009	Level 1 and 2
	<u>26,046,378</u>	<u>26,052,702</u>	<u>20,707,113</u>	<u>20,458,040</u>	
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,927,937	1,927,937	182,975	182,975	Level 2
Customers' accounts	13,648,732	13,648,732	8,988,633	8,988,633	Level 2
Margin accounts	9,251,978	9,251,978	8,367,490	8,367,490	Level 2
	<u>24,828,647</u>	<u>24,828,647</u>	<u>17,539,098</u>	<u>17,539,098</u>	

(29) CONTINGENT LIABILITIES AND COMMITMENTS

The total outstanding commitments and contingent liabilities are as follows:

	31 December 2019	31 December 2018
	USD (000)	USD (000)
Letters of guarantee	2,774,616	3,204,690
Letters of credit	10,153,696	9,901,866
	<u>12,928,312</u>	<u>13,106,556</u>

(30) CAPITAL MANAGEMENT

Capital Adequacy	31 December 2019	31 December 2018
	USD (000)	USD (000)
Primary capital items:		
Share capital	2,346,882	2,346,882
General reserve	236,764	236,709
Other reserves	(63,411)	(60,450)
Retained earnings	1,156,266	686,887
Total Primary capital	<u>3,676,501</u>	<u>3,210,028</u>
Supplementary Capital:		
Fair value reserve	1,135	781
General provisions	844,611	911,714
Total Supplementary Capital	<u>845,746</u>	<u>912,495</u>
Total supplementary and primary Capital	<u>4,522,247</u>	<u>4,122,523</u>
Total risk weighted assets in the consolidated statement of financial position	5,683,775	2,546,675
Total risk weighted assets off the consolidated statement of financial position	1,085,551	1,245,016
	<u>6,769,326</u>	<u>3,791,691</u>
Capital adequacy ratio	<u>66.80%</u>	<u>108.73%</u>

The Bank calculated capital adequacy at 31 December 2019 according to the CBI's regulations that requires the capital adequacy ratio to be not less than 12%.

(31) CONCENTRATION OF RISK IN GEOGRAPHICAL AREA

The Bank carries out most of 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 494 million as of 31 December 2019. The management and the Banks's lawyers representing it in the litigation Believe that the Bank will not be held liable for any amounts in excess of the amounts provided as at 31 December 2019.

(33) SUBSEQUENT EVENTS

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

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

Subsequent to the consolidated financial statements date, the Prime Minister's office approved on 12 February 2020 the distribution of 20% of the realized profit for the year 2019 to the public treasury of Government of Iraq and to increase the share capital of the Bank to USD 3 billion.