COMMERCIAL BANK OF IRAQ
(PRIVATE SHAREHOLDING COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

COMMERCIAL BANK OF IRAQ

CONTENTS OF THE CONSOLIDATED FINANCIAL STATMENTS

	AUDITOR REPORT	-
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1
	CONSOLIDATED STATEMENT OF PROFIT OR LOSS	2
	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
	CONSOLIDATED STATEMENT OF CASH FLOW	5
	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	6
1	CORPORATE INFORMATION	6
2	ACCOUNTING POLICIES	6
2.1	BASIS OF PREPARATION	6
2.2	BASIS OF CONSOLIDATION	6
2.3	NEW STANDARS	7
2.4	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	7-16
2.5	SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES	16
3	CASH AND BALANCES WITH CENTRAL BANK	16
4	DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	17
5	DIRECT CREDIT FACILITIES, NET	17-18
6.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	18
7	FINANCIAL ASSETS AT AMORTIZED COST	18
8	PROPERTY AND EQUIPMENT	19-20
9	OTHER ASSETS	21
10	DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS	21
11	CUSTOMERS' ACCOUNTS	22
12	CURRENT TAX LIABILITY	22
13	EARNINGS PER SHARE	23
14	OTHER LIABILITIES	23
15	PAID IN CAPITAL AND STATUTORY RESERVES	23
16	INTEREST INCOME	23
17	INTEREST EXPENSE	24
18	NET FEES AND COMMISSIONS	24
19	OTHER OPERATING INCOME	24
20	EMPLOYEES' EXPENSE	24
21	OTHER EXPENSE	25
22	DIVIDENDS	25
23	FAIR VALUE OF FINANCIAL INSTRUMENTS	25
24	CASH AND CASH EQUIVALENTS	25
25	RELATED PARTIES TRANSACTIONS	26
26	RISK MANAGEMENT	27-34
27	MATURITY ANALYSIS OF ASSETS AND LIABILITIES	35
28	SEGMENT INFORMATION	36-37
29	CAPITAL MANAGEMENT	37
30	CONTINGENT LIABILITIES AND COMMITMENTS	38
31	LAWSUITS	38
32	CONCENTRATION OF RISK IN GEOGRAPHIC AREA	38

شركة مصطفى فؤاد عباس وشريكه
للتدقيق ومراقبة الحسابات التضامنية
اعضاء الجمعية العراقية للمحاسبين القانونيين

Mustafa Fouad Abbas & Co.
Certified Public Accountants
Members of Iraqi ACA

شركة مهند فاضل العساف وشريكة لمراقبة وتدقيق الحسابات
شركة تضامنية رأسمالها (٢٠٠٠٠٠٠) مليوني دينار

Muhannad Fadhel Al-Assaf and partner
charter Accountants & Auditors

No: 5/1
Date: 30/3/2017

To: To: Shareholders of Commercial Bank of Iraq (Private Shareholding Company)

SUBJECT: AUDITORS' REPORT

We have examined the accompanying consolidated financial statements of Commercial Bank of Iraq and its subsidiary (Collectively the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's Equity and consolidated statement of cash flows, and disclosures from (1) to (32) for the year then ended, as well as the annual report for management which was prepared in accordance with companies law number 21 of 1997 applicable laws and regulations.

Managements' Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 addition, this responsibility included selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Local Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements based on sampling basis. An audit also includes evaluating the appropriateness of accounting principles. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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شركة مصطفى فؤاد عباس وشريكه
للتدقيق ومراقبة الحسابات التضامنية
اعضاء الجمعية العراقية للمحاسبين القانونيين

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charter Accountants & Auditors

We have the following comments and notes:

1. During the performance of our audit procedures and to the nature of the banking transactions, nothing has come to our attention for the existence of transaction related to money laundering or financing terrorism.

2. Capital adequacy stood at 728.8%

3. We reviewed the internal audit reports; we did not note major issues.

4. The accounting records used by the Bank complied with the requirements of the book keeping regulations and comprised the assets, liabilities, the Bank's sources and uses of funds for the fiscal year.

5. We observed the physical cash count with management at the Main, Alwatheq and Al- Mansour branches and noted no issues. The management have observed the physical count of the fixed assets and stocks inventory and they have provided us with matched statements.

6. The annual report was prepared in accordance with Companies law number 21 of 1997 and its amendments.

Opinion

Taking into consideration the disclosed notes and observations in our report, in our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

شركة مصطفى فؤاد عباس وشريكه تضامنية للتدقيق ومراقبة الحسابات

Azez Jafar Hassan

Chartered Public Accountant

Muhannad Fadhel Al-Assaf

Chartered Public Accountant

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COMMERCIAL BANK OF IRAQ

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS
AS AT 31 DECEMBER 2016

	Notes	2016	2015
		IQD (000)	IQD (000)
ASSETS			
Cash and balances with Central Bank	3	102,849,878	111,814,431
Due from banks and other Financial Institutions	4	14,861,644	34,486,830
Direct credit facilities , net	5	9,903,977	9,835,172
Financial assets at fair value through other comprehensive income	6	649,865	726,023
Financial assets at amortized cost	7	290,669,048	230,472,381
Property and equipment, net	8	1,500,671	950,228
Other assets	9	3,384,178	1,832,407
Total assets		423,819,261	390,117,472
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Due to banks and other Financial Institutions	10	3,483,951	877,652
Customers' accounts	11	117,737,848	89,784,099
Current tax liability	12	967,731	897,349
Other liabilities	14	19,688,678	24,119,073
Total liabilities		141,878,208	115,678,173
SHAREHOLDERS' EQUITY			
Paid capital	15	250,000,000	250,000,000
Statutory reserve	15	12,933,142	12,191,568
Other reserves		149,163	149,163
Fair value reserve		173,458	249,616
Retained earnings		18,685,290	11,848,952
Total shareholders' equity		281,941,053	274,439,299
Total liabilities and shareholders' equity		423,819,261	390,117,472

For Commercial Bank of Iraq-PSC

Saadoun Abdul Razzaq Kubba
Chairman of the Board of Directors

Nouri Mizal Saadoun El-Dubaisi
Chief Executive Officer

Araz Nabeel Younus AlMashhadani
Membership.number:19249
Head of Finance

Subject to our report number 5/1 and dated on 30/ 3 /2017

Azez Jafar Hassan
Chartered Public Accountant

شركة مصطفى فؤاد عباس وشركاه
لتدقيق ومراقبة الحسابات

Muhannad Fadhel Al-Assaf
Chartered Public Accountant

The accompanying notes 1 to 32 from an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		IQD (000)	IQD (000)
Interest income	16	16,552,729	16,819,514
Interest expense	17	(889,973)	(1,271,326)
Net interest income		15,662,756	15,548,188
Net fees and commissions	18	1,014,027	1,089,515
Other operating income	19	1,306,399	1,285,555
Non-interest income		2,320,426	2,375,070
Total operating income		17,983,182	17,923,258
Employees' expenses	20	(3,212,764)	(3,267,570)
Depreciation of property and equipment	8	(129,498)	(587,443)
Other operating expenses	21	(5,450,712)	(4,593,041)
Total operating expenses		(8,792,974)	(8,448,054)
Operating profit before provision for credit losses		9,190,208	9,475,204
Provision for credit losses and other		(690,367)	(1,245,230)
Operating profit before tax		8,499,841	8,229,974
Income tax expense	12	(921,929)	(869,640)
Net profit for the year		7,577,912	7,360,334
		IQD/Fils	IQD/Fils
Basic and diluted earnings per share	13	0/030	0/029

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 IQD (000)	2015 IQD (000)
Profit for the year	7,577,912	7,360,334
Other comprehensive income which will not be classified to profit or loss in subsequent period		
Change in fair value of financial assets at fair value through other comprehensive income	(76,158)	117,557
Total other comprehensive income for the year	(76,158)	117,557
Total comprehensive income for the year	7,501,754	7,477,891

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Paid capital	Statutory reserve	Other reserves	Fair value reserve	Retained earnings	Total
2016	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
At 1 January 2016	250,000,000	12,191,568	149,163	249,616	11,848,952	274,439,299
Total comprehensive income for the year	-	-	-	(76,158)	7,577,912	7,501,754
Transfer to reserves	-	741,574	-	-	(741,574)	-
Balance at 31 December 2016	250,000,000	12,933,142	149,163	173,458	18,685,290	281,941,053
2015						
At 1 January 2015	250,000,000	11,467,082	149,163	132,059	22,713,104	284,461,408
Total comprehensive income for the year	-	-	-	117,557	7,360,334	7,477,891
Transfer to reserves	-	724,486	-	-	(724,486)	-
Dividend declared for the years of 2014 and 2015	-	-	-	-	(17,500,000)	(17,500,000)
Balance at 31 December 2015	250,000,000	12,191,568	149,163	249,616	11,848,952	274,439,299

The accompanying notes 1 to 32 from an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		IQD (000)	IQD (000)
OPERATING ACTIVITIES			
Profit before income tax		8,499,841	8,229,974
Adjustments for:			
Depreciation of property and equipment		129,498	587,443
Provision for credit losses and other		690,367	1,245,230
Foreign currency exchange gain		(305,321)	(1,000,420)
Cash flow from operating activities before changes in operating assets and liabilities		9,014,385	9,062,227
Changes in operating assets and liabilities:			
Decrease (increase) in direct credit facilities		14,624	(4,158,471)
Increase in other assets		(1,551,772)	(18,246)
Increase (Decrease) in Customers' accounts		28,259,070	(29,973,830)
(Decrease) increase in other liabilities		(5,191,247)	1,632,551
Net cash flows from (used in) operating activities before income tax		30,545,060	(23,455,769)
Income tax paid		(864,491)	(6,077,829)
Net cash flows from (used in) operating activities		29,680,569	(29,533,598)
INVESTING ACTIVITIES			
Financial assets at amortized cost		(60,196,667)	49,170,175
Project in progress		(103,149)	-
Purchase of property and equipment		(576,791)	(111,997)
Net cash flows (used in) from investing activities		(60,876,607)	49,058,178
FINANCING ACTIVITIES			
Dividends paid		-	(8,700,249)
Net cash flows used in financing activities		-	(8,700,249)
Net (decrease) increase in cash and cash equivalents		(31,196,038)	10,824,331
Cash and cash equivalents at beginning of the year	24	145,423,609	134,599,278
Cash and cash equivalents at end of the year	24	114,227,571	145,423,609

The accompanying notes 1 to 32 from an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

Commercial Bank of Iraq the ("Bank") is a private shareholding company offering retail and corporate banking services in Iraq. The Bank was incorporated on 11 February 1992 and conducts its operations through 11 branches located in Baghdad and Basra. The Bank's registered office is at Al-Sadoon Street, Baghdad, Iraq. The Bank is a subsidiary of Ahli United Bank (Bahrain) the ("Parent") which owns 64.7% of its capital. The consolidated financial statements are consolidated with the parent's consolidated financial statements.
The Bank has 100% (2015: 100%) ownership interest in a subsidiary, Ahli United Brokerage and investment Co. The ("Subsidiary"), has been registered in Iraq on 3 July 2008. The principle activity of the subsidiary is brokerage.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value only through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements and financial assets at amortized cost. The consolidated financial statements are presented in Iraqi Dinars (IQD), rounded to the nearest thousand Dinars except otherwise indicated. IQD is the functional currency of the Bank and its subsidiary.

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank as at 31 December 2016 and its Subsidiary (Ahli United Brokerage and Investment Co.) over which the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All balances, transactions, income, and expenses between the Bank and the Subsidiary are eliminated in full upon consolidation. The financial statements of the Bank's subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies. The subsidiary paid-in capital is IQD 200,000 Thousand (2015:IQD 200,000 Thousand) of which the Bank owns 100% as at 31 December 2016 (2015:100%), hence there are no non-controlling interests as Commercial Bank of Iraq owns 100% of the Subsidiary.

The subsidiary's main activity is investment brokerage.
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. ACCOUNTING POLICIES (CONTINUED)

2.3 NEW STANDARDS

STANDARDS ISSUED BUT NOT YET EFFECTIVE

- IFRS 9 Financial Instruments (Implemented IFRS 9 Classification and measurement on 1 Jan 2014)
- IFRS 16 Leases
- IFRS 15 Revenue from Contracts with Customers

STANDARDS ISSUED AND EFFECTIVE

- Equity Method in Separate Financial Statements (Amendments to IAS 27 and IFRS 1)
- IAS 1 Presentation of Financial Statements – Amendments to IAS 1
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

There was no impact on the financial position or the financial performance of the bank due to implementing the above new standards.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statement are set out below. These polices have been consistently applied to all year presented.

Critical accounting judgments and estimates
The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates, and assumptions that affect the reported amount of assets and liabilities, it also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and future periods.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on loans and advances

The Bank reviews its defaulted loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model input such as volatility for longer dated derivative and discount rates, prepayment rates and default rates for asset backed securities.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets at fair value through other comprehensive income

The Bank treats financial assets at fair value through other comprehensive income equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to 'Other operating income' in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

Financial instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and advances to customers

Credit facilities are initially recognized at the fair value of consideration given and subsequently measured at amortized cost using the effective interest rate method, after provision for impairment and interest and commission in suspense.

Impairment of direct credit facilities is recognized in the impairment allowance 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 consolidated statement of income.

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

Loans and the related impairment allowance 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 fair value through other comprehensive income

a. Equity investments that are not held for sale in the near future.

b. 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.
c. These financial assets are not subject to impairment testing.

Dividend income is recognized in the statement of income.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at amortized cost

a. 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; and

b. 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 statement of income.

   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.

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a Bank of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- 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; and
- Either:
  (a) the Bank has transferred substantially all the risks and rewards of the asset, or
  (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices offer, options pricing models and other relevant valuation models.

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 consolidated statement of income.

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 rate.
- For assets carried at fair value, impairment is the difference between the fair value of consideration given and the fair value of the asset.
- For assets carried out at cost, impairment is the difference between cost and fair value or the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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 except for equity instruments classified as available-for-sale investments for which the reversal is recognized in the statement of changes in equity.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

2. ACCOUNTING POLICIES (CONTINUED)
2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- *Interest and similar income and expense*

For all financial instruments measured at amortized cost, interest bearing financial instruments classified as available-for-sale financial and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest method 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. Interest that is 90 days or more overdue is excluded from income interest on impaired loans and advances and other financial assets is not recognized in the consolidated statement of income.

- *Fees and commissions income*

Fees and commissions income from providing transaction services are recognized on completion of the underlying service.

- *Dividend income*

Revenue is recognized when the Bank’s right to receive the payment is established.

Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise of cash on hand, current accounts with central bank and amounts due from banks on demand or with an original maturity of three months or less.

2. ACCOUNTING POLICIES (CONTINUED)
2.4 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 amortization 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	20
Equipment and machinery	2
Vehicles	2
Furniture	5
Computers / IT Software	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 'Other operating expenses' in the consolidated statement of income in the year the asset is derecognized.

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.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Credit loss expense'. The premium received is recognized in the consolidated statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 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.

Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities.

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

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the for seeable future.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax (Continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires from 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 fair value changes reported in consolidated statement of equity.

3. CASH AND BALANCES WITH CENTRAL BANK

	2016	2015
	IQD (000)	IQD (000)
Cash on hand*	**6,429,958**	6,440,102
Accounts with Central Bank**	**96,419,920**	105,374,329
	102,849,878	111,814,431

* Cash on hand includes foreign currency balances amounting to IQD 2,408,505 thousand (2015: IQD 2,931,223 thousand).

** Accounts with Central Bank of Iraq include a cash reserve of IQD 11,665,291 thousand (2015: 11,004,639 thousand) which is not available for use in the Bank's day-to-day operations.

** Accounts with Central Bank of Iraq include 7 days deposit of IQD 30,000,000 thousand as at 31 December 2016 (2015: Nil).

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
	IQD (000)	IQD (000)
Current accounts	14,861,644	34,486,830
	14,861,644	34,486,830

Current accounts with banks include foreign currency balances amounting to IQD 14,526,086 thousand (2015: IQD 34,252,210 thousand). The above due from banks and other financial institutions balance does not include any past due or impaired balances as 31 December 2016 and 2015.

5. DIRECT CREDIT FACILITIES, NET

	2016	2015
	IQD (000)	IQD (000)
Retail	7,230,708	5,625,658
Corporate	22,013,863	22,708,630
Gross loans and advances	29,244,571	28,334,288
Less allowance for impairment losses*	(10,462,550)	(10,545,978)
Less suspended interest**	(8,878,044)	(7,953,138)
	9,903,977	9,835,172

*A reconciliation of the allowance for impairment losses for loans and advances is as follows:

	2016	2015
Allowance for impairment losses:	IQD (000)	IQD (000)
At 1 January	10,545,978	9,970,649
Charge for the year	1,199,125	1,413,500
Recovery	(1,282,553)	(370,385)
Disposal	-	(467,786)
At 31 December	10,462,550	10,545,978

5. DIRECT CREDIT FACILITIES, NET (CONTINUED)

**The movement of the suspended interest is as follows

	2016	2015
	IQD (000)	IQD (000)
Suspended interest:		
Balance as at 1 January	7,953,138	7,083,920
Additions during the year	1,011,350	1,055,172
Recovery during the year	(86,444)	(185,954)
Balance as at 31 December	8,878,044	7,953,138

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016	2015
	IQD (000)	IQD (000)
Quoted equities	404,865	481,023
Unquoted equities	245,000	245,000
	649,865	726,023

The unquoted investments were stated at cost, due to the non-availability of reliable method that could be used to determine the fair value of such investments.

7. FINANCIAL ASSETS AT AMORTIZED COST

	2016	2015
	IQD (000)	IQD (000)
Treasury bills*	163,648,617	168,087,435
Government bonds	127,020,431	62,384,946
	290,669,048	230,472,381

(*) Treasury bills are issued by Central Bank Of Iraq (CBI) and Ministry of Finance with an average interest rate 4% and are maturing within one year.

8. PROPERTY AND EQUIPMENT

2016	Land IQD (000)	Buildings IQD (000)	Equipment & Machinery IQD (000)	Vehicles IQD (000)	Furniture IQD (000)	Computers IQD (000)	IT software IQD (000)	Total IQD (000)
Cost:								
At 1 January	274,022	4,113,916	377,277	115,100	1,084,915	721,962	4,110,324	10,797,516
Additions	-	-	282,316	-	50,972	41,553	203,488	578,329
Disposals	-	-	-	(1,537)	-	-	-	(1,537)
At 31 December	274,022	4,113,916	659,593	113,563	1,135,887	763,515	4,313,812	11,374,308
Accumulated depreciation:								
At 1 January	-	3,675,784	374,083	86,071	1,080,691	545,055	4,085,604	9,847,288
Charge of the year	-	43,880	14,169	6,405	4,689	38,749	21,606	129,498
At 31 December	-	3,719,664	388,252	92,476	1,085,380	583,804	4,107,210	9,976,786
Net book value at 31 December 2016	274,022	394,252	271,341	21,087	50,507	179,711	206,602	1,397,522
Work in Progress*	-	103,149	-	-	-	-	-	103,149
Net book value at 31 December 2016 including Work in Progress	274,022	497,401	271,341	21,087	50,507	179,711	206,602	1,500,671

* Work in Progress represents fixtures and fittings that will be transferred to property and equipment upon completion.

8. PROPERTY AND EQUIPMENT (CONTINUED)

2015	Land IQD (000)	Buildings IQD (000)	Equipment & Machinery IQD (000)	Vehicles IQD (000)	Furniture IQD (000)	Computers IQD (000)	IT software IQD (000)	Total IQD (000)
Cost:								
At 1 January	274,022	4,113,916	376,764	85,950	1,044,067	678,303	4,079,425	10,652,447
Additions	-	-	761	29,150	38,215	43,935	-	112,061
Transfer from work in progress	-	-	-	-	9,736	-	30,899	40,635
Disposals	-	-	(248)	-	(7,103)	(276)	-	(7,627)
At 31 December	274,022	4,113,916	377,277	115,100	1,084,915	721,962	4,110,324	10,797,516
Accumulated depreciation:								
At 1 January	-	3,456,677	373,936	85,950	931,108	400,938	4,018,287	9,266,896
Charge of the year	-	219,107	395	121	156,110	144,393	67,317	587,443
Related to Disposals	-	-	(248)	-	(6,527)	(276)	-	(7,051)
At 31 December	-	3,675,784	374,083	86,071	1,080,691	545,055	4,085,604	9,847,288
Net book value at 31 December 2015	274,022	438,132	3,194	29,029	4,224	176,907	24,720	950,228

9. OTHER ASSETS

	2016 IQD (000)	2015 IQD (000)
Inter branch balances *	6,999,815	6,999,815
Accrued interest	3,031,782	1,580,898
Others	352,396	448,219
	10,383,993	9,028,932
Allowance for inter branch balances *	(6,999,815)	(7,196,525)
	3,384,178	1,832,407

The movement of the allowance for inter branch balances is as follows:

	2016 IQD (000)
At 1 January	7,196,525
Excess (Transfer to other provision)	(196,710)
At 31 December	6,999,815

(*) The Bank has booked an allowance of IQD 6,999,815 thousand (2015: IQD 7,196,525 thousand) towards a fraud detected in 2010. The allowance was booked during the year 2011, during 2016 the excess provision has been transferred to other provision.

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016		
	Inside Iraq IQD (000)	Outside Iraq IQD (000)	Total IQD (000)
Current and demand deposits	421	3,483,530	3,483,951
	421	3,483,530	3,483,951

	2015		
	Inside Iraq IQD (000)	Outside Iraq IQD (000)	Total IQD (000)
Current and demand deposits	435	877,217	877,652
	435	877,217	877,652

11. CUSTOMERS' ACCOUNTS

	2016	2015
	IQD (000)	IQD (000)
Current and call deposits	83,578,654	54,469,154
Saving accounts	32,610,964	33,707,603
Term deposits	1,014,977	826,224
Cash margin	533,253	781,118
	117,737,848	89,784,099

12. CURRENT TAX LIABILITY

Income tax liability
The movement on income tax liability was as follows:

	2016	2015
	IQD (000)	IQD (000)
At January 1	897,349	6,105,538
Paid during the year	(864,491)	(6,077,829)
Adjustments during the year	12,944	-
Charge for the year	921,929	869,640
At December 31	967,731	897,349

The Bank paid the tax liabilities up to year 2015 but no clearance has been obtained yet.

The reconciliation between the tax profit and the accounting profit for the years ended 2016 and 2015 is as follows:

	2016	2015
	IQD (000)	IQD (000)
Accounting profit before income tax	8,499,841	8,229,974
Nontaxable income	(7,448,441)	(4,478,229)
Nondeductible expenses	5,094,796	2,045,855
Taxable profit	6,146,196	5,797,600
Current income tax at Iraqi statutory income tax rate of 15% (2015:15%)	921,929	869,640

Effective income tax rate for 2016 is 10.85% (2015: 10.57%).

13. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

	2016	2015
	IQD (000)	IQD (000)
Profit for the year	7,577,912	7,360,334
Weighted average number of shares during the Year (thousands)	250,000,000	250,000,000
	IQD/Fils	IQD/Fils
Basic and diluted earnings per share	0/030	0/029

14. OTHER LIABILITIES

	2016	2015
	IQD (000)	IQD (000)
Provisions	10,720,828	9,631,825
Other credit balances	7,227,232	5,151,435
Dividends	1,740,618	9,335,813
	19,688,678	24,119,073

15. PAID IN CAPITAL AND STATUTORY RESERVES

Paid in capital

Paid in capital comprises of 250 billion shares (2015: 250 billion shares) at a par value of 1 dinar per share (2015: 1 dinar per share).

Statutory reserve

The accumulated amount in this account represents 10% of the Bank's net income after income tax and provisions. This transfer will continue until the balance of this reserve equals to 50% of paid in share capital. The statutory reserve is not available for distribution to shareholders.

16. INTEREST INCOME

	2016	2015
	IQD (000)	IQD (000)
Financial assets at amortized cost	13,672,444	15,292,757
Loans and advances to customers	1,358,819	1,381,936
Due from banks	1,521,466	144,821
	16,552,729	16,819,514

17. INTEREST EXPENSE

	2016	2015
	IQD (000)	IQD (000)
Saving accounts	855,151	1,234,876
Time deposits	34,822	36,450
	889,973	1,271,326

18. NET FEES AND COMMISSIONS

	2016	2015
	IQD (000)	IQD (000)
Fees and commissions income	1,228,424	1,245,753
Fees and commissions expense	(214,397)	(156,238)
	1,014,027	1,089,515

19. OTHER OPERATING INCOME

	2016	2015
	IQD (000)	IQD (000)
Non trading foreign exchange gains	305,321	1,000,420
Other bank charges	223,883	285,135
Other*	764,669	-
Dividend Income	12,526	-
	1,306,399	1,285,555

*Represents amounts collected from customers against the penalty paid to CBI for currency auction operations conducted during 2013 and 2014.

20. EMPLOYEES' EXPENSES

	2016	2015
	IQD (000)	IQD (000)
Salaries and wages	3,039,699	3,105,730
Social security	173,065	161,840
	3,212,764	3,267,570

21. OTHER EXPENSES

	2016	2015
	IQD (000)	IQD (000)
Penalties imposed by central Bank of Iraq (CBI)*	1,454,659	1,440,614
Professional Fees and administrative expenses	1,337,499	1,773,461
Others	1,498,873	1,340,266
Lawsuits and court expenses	1,100,000	-
Audit fees	59,681	38,700
	5,450,712	4,593,041

* According to Board decision of the Central Bank of Iraq No.13294 Dated 18 September 2016, it is decided to impose a penalty on the Commercial Bank of Iraq by an amount of IQD 983 million & IQD 379 million related to the currency auction operations conducted during 2012 and 2013. The Bank provided provision in full amount as of 31 December 2016.

As referred under Note 19, the amount of IQD 765 million relates to recovery of penalties from customers, which were levied in the prior years. Further recovery efforts are in progress.

22. DIVIDENDS

According to the general assembly's resolutions dated 8 January 2015 and 8 December 2015 dividends have been declared for the years 2013 and 2014 as 3.7% and 3.3% of Share Capital, respectively.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments, with the exception of non-trading investment that are carried at amortized cost, approximate their carrying values.

The Bank primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are re-priced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

24. CASH AND CASH EQUIVALENTS

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

	2016	2015
	IQD (000)	IQD (000)
Cash and balances with Central Bank	102,849,878	111,814,431
Add: Due from banks	14,861,644	34,486,830
Less: Due to banks	(3,483,951)	(877,652)
	114,227,571	145,423,609

25. RELATED PARTIES TRANSACTIONS

The Bank enters into business transactions in the ordinary course of business with the parent bank. There are no loans and advances to related parties.

The following related party balances and transactions took place during the year:

	2016	2015
	IQD (000)	IQD (000)
Statement of financial position:		
Due from banks and other financial Institutions	14,283,147	33,969,947
Due to banks and other financial institutions	3,483,530	877,217
Other liabilities	1,630,025	8,671,610
Off balance items:		
Letters of guarantee	372,604	4,301,952
Income statements items		
Interest and commission income	84,879	-
Interest and commission expense	-	-
Management fees	825,040	804,985

All related parties transactions are with the major shareholder, and no transactions are with the board of directors.

Compensation of the key management personnel is as follows:

	2016	2015
	IQD (000)	IQD (000)
Executive managers' salaries	489,499	488,515
Board of Directors remuneration	-	25,000
	489,499	513,515

26. RISK MANAGEMENT

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The bank's policy is to monitor those business risks through the bank's strategic planning process.

A. Credit Risk

Credit risk is the risk that one party to the financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers and groups of borrowers and for geographical and industry segments in accordance with Central Bank of Iraq regulations. The Bank also monitors credit exposures, and continually assesses the credit worthiness of counterparties. In addition, the Bank obtains security where appropriate, and limits the duration of exposure.

The Bank's risk management policy includes formation of a Credit Committee for reviewing the credit facilities.

This committee is responsible for the facilities control process that includes granting, classification and following up on the credit facilities.

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

26. RISK MANAGEMENT (CONTINUED)

A. Credit Risk (Continued)

	Gross maximum exposure	
	2016	2015
	IQD (000)	IQD (000)
Cash and Balances with Central Bank	102,849,878	111,814,431
Due from banks and other financial institutions	14,861,644	34,486,830
Direct credit facilities, net	9,903,977	9,835,172
Financial assets at fair value through other comprehensive income	649,865	726,023
Financial assets at amortized cost	290,669,048	230,472,381
Other assets	3,384,178	1,832,407
Total	422,318,590	389,167,244
Contingent liabilities	1,864,217	12,320,693
Gross maximum credit risk exposure before consideration of credit risk mitigation	424,182,807	401,487,937
Gross maximum credit risk exposure after consideration of credit risk mitigation	373,346,188	335,897,064
Credit related commitments		
Letters of guarantee	1,864,217	12,320,693
	1,864,217	12,320,693
Credit risk mitigation		
Mortgage loans	50,730,619	65,455,723
Pledged shares	106,000	135,150
	50,836,619	65,590,873

- Credit quality by class of financial assets is as follows:

Financial assets neither past due nor impaired:

	2016		
	High standard grade	Standard grade	Total
	IQD (000)	IQD (000)	IQD (000)
Banks and other financial institutions	266,498,495	14,861,644	281,360,139
Trading and manufacturing	-	649,865	649,865
Government - public sector	-	127,020,431	127,020,431
	266,498,495	142,531,940	409,030,435

26. RISK MANAGEMENT (CONTINUED)

A. Credit Risk (Continued)

Financial assets neither past due nor impaired:

	2015		
	High standard grade	Standard	Total
	IQD (000)	IQD (000)	IQD (000)
Banks and other financial institutions	279,901,865	34,486,830	314,388,695
Trading and manufacturing	-	726,023	726,023
Government - public sector	-	62,384,946	62,384,946
	279,901,865	97,597,799	377,499,664

Impaired financial assets

	2016		
	Total	**Provision**	**Collateral fair value**
	IQD (000)	**IQD (000)**	**IQD (000)**
Corporate	**19,468,024**	**19,340,594**	**50,836,619**
	19,468,024	**19,340,594**	**50,836,619**

	2015		
	Total	Provision	Collateral fair value
	IQD (000)	IQD (000)	IQD (000)
Corporate	19,270,784	18,499,116	65,590,873
	19,270,784	18,499,116	65,590,873

Collateral repossessed

During the year, the Bank did not take possession over any collateral against credit facilities.

B. Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is managed and monitored based on a Value-at-Risk (VaR) methodology that reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

26. RISK MANAGEMENT (CONTINUED)

C. Interest rate risk

Shown below is the sensitivity of the Bank's statement of comprehensive income to a reasonably possible increase and decrease in market rates of interests, based on floating rate financial assets and liabilities held at 31 December.

	Up to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Carrying amount
	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
2016					
Assets					
Cash and balances with Central Bank	30,000,000	-	-	72,849,878	102,849,878
Due from banks and other financial institutions	9,456,000	-	-	5,405,644	14,861,644
Direct credit facilities, net	1,101,428	2,340,600	6,461,949	-	9,903,977
Financial assets at fair value through other comprehensive income	-	-	-	649,865	649,865
Financial assets at amortized cost	-	216,914,022	73,755,026	-	290,669,048
Property and equipment, net	-	-	-	1,500,671	1,500,671
Other assets	3,031,807	352,371	-	-	3,384,178
Total Assets	43,589,235	219,606,993	80,216,975	80,406,058	423,819,261
Liabilities					
Due to banks and other financial institutions	-	-	-	3,483,951	3,483,951
Customers' accounts	33,363,078	262,862	-	84,111,908	117,737,848
Current tax liabilities	-	-	-	967,731	967,731
Other liabilities	-	-	-	19,688,678	19,688,678
Total Liabilities	33,363,078	262,862	-	108,252,268	141,878,208
Interest rate sensitivity gap	10,226,157	219,344,131	80,216,975	(27,846,210)	281,941,053
2015					
Assets					
Cash and balances with Central Bank	-	-	-	111,814,431	111,814,431
Due from banks and other financial institutions	-	-	-	34,486,830	34,486,830
Direct credit facilities, net	7,366,534	2,239,108	229,530	-	9,835,172
Financial assets at fair value through other comprehensive income	-	-	-	726,023	726,023
Financial assets at amortized cost	109,664,262	58,423,173	62,384,946	-	230,472,381
Property and equipment, net	-	-	-	950,228	950,228
Other assets	-	-	-	1,832,407	1,832,407
Total Assets	117,030,796	60,662,281	62,614,476	149,809,919	390,117,472
Liabilities					
Due to banks and other financial institutions	-	-	-	877,652	877,652
Customers' accounts	34,207,603	326,224	-	55,250,272	89,784,099
Current tax liabilities	-	-	-	897,349	897,349
Other liabilities	-	-	-	24,119,073	24,119,073
Total Liabilities	34,207,603	326,224	-	81,144,346	115,678,173
Interest rate sensitivity gap	82,823,193	60,336,057	62,614,476	68,665,573	274,439,299

26. RISK MANAGEMENT (CONTINUED)

D. Currency risk

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank did not have significant net currency exposure towards any other currencies, based on foreign currency assets and liabilities held at 31 December 2016. Hence, sensitivity of the Bank's consolidated statement of comprehensive income to a reasonably possible change in the exchange rate between the Iraqi Dinar and various other currencies were not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Bank's profit before tax due to changes in the carrying value of monetary assets and liabilities. The impact on equity is the same as the impact on profit before tax

Increase/decrease foreign exchange rate	**Effect on profit before tax for the year ended 31 December 2016 Increase/(Decrease)**	Effect on profit before tax for the year ended 31 December 2015 Increase/(Decrease)
	IQD (000)	IQD (000)
+5%	**4,096,367**	3,281,182
-5%	**(4,096,367)**	(3,281,182)

E. Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. Most of the Bank's financial assets at fair value through other comprehensive income are listed on the Iraq Stock Exchange. The effect of a 10% increase or decrease in these shares will result in an IQD 64,987 thousand (2015: IQD 72,602 thousand) increase or decrease in the fair value reserve.

26. RISK MANAGEMENT (CONTINUED)

F. Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

The Bank has committed lines of credit that it can access to meet liquidity needs. In addition the Bank maintains a statutory deposit with the Central Bank of Iraq. Net liquid assets consists of cash, short term deposit and liquid debt securities available for immediate sale, less deposits for banks and financial institutions due to mature within three months.

The table below shows an analysis of financial liabilities based on contractual undiscounted repayment obligations:

2016	Up to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
Financial liabilities					
Due to banks and other financial institutions	3,483,951	-	-	-	3,483,951
Customers' accounts	117,366,781	154,779	237,940	-	117,759,500
Total Liabilities	120,850,732	154,779	237,940	-	121,243,451

2015	Up to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
Financial liabilities					
Due to banks and other financial institutions	877,652	-	-	-	877,652
Customers' accounts	89,430,122	81,887	289,845	-	89,801,854
Total Liabilities	90,307,774	81,887	289,845	-	90,679,506

26. RISK MANAGEMENT (CONTINUED)

F. Liquidity Risk (Continued)

The table below summarizes the expected maturity profile of the Bank's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled.

2016	Up to 3 months IQD (000)	3 to 6 months IQD (000)	6 to 12 months IQD (000)	More than 12 months IQD (000)	Total IQD (000)
Assets					
Cash and balances with central bank	102,849,878	-	-	-	102,849,878
Due from banks and other financial institutions	14,861,644	-	-	-	14,861,644
Direct credit facilities, net	1,101,428	1,084,715	1,255,885	6,461,949	9,903,977
Financial assets at fair value through other comprehensive income	-	-	-	649,865	649,865
Financial assets at amortized cost	-	71,186,272	145,727,750	73,755,026	290,669,048
Property and equipment, net	-	-	-	1,500,671	1,500,671
Other assets	3,031,807	-	352,371	-	3,384,178
Total assets	121,844,757	72,270,987	147,336,006	82,367,511	423,819,261
Liabilities and shareholders' equity					
Due to banks and other financial institutions	3,483,951	-	-	-	3,483,951
Customers' accounts	117,349,928	153,957	233,963	-	117,737,848
Current tax liability	-	967,731	-	-	967,731
Other liabilities	9,387,367	10,301,311	-	-	19,688,678
Shareholders' Equity	-	-	-	281,941,053	281,941,053
Total liability and shareholders' equity	130,221,246	11,422,999	233,963	281,941,053	423,819,261
Net liquidity gap	(8,376,489)	60,847,988	147,102,043	(199,573,542)	

26. RISK MANAGEMENT (CONTINUED)
F. Liquidity Risk (Continued)

2015	Up to 3 months IQD (000)	3 to 6 months IQD (000)	6 to 12 months IQD (000)	More than 12 months IQD (000)	Total IQD (000)
Assets					
Cash and balances with central bank	111,814,431	-	-	-	111,814,431
Due from banks and other financial institutions	34,486,830	-	-	-	34,486,830
Direct credit facilities, net	7,366,534	1,139,467	1,099,641	229,530	9,835,172
Financial assets at fair value through other comprehensive income	-	-	-	726,023	726,023
Financial assets at amortized cost	109,664,261	58,423,173	-	62,384,947	230,472,381
Property and equipment, net	-	-	-	950,228	950,228
Other assets	1,719,224	113,183	-	-	1,832,407
Total assets	265,051,280	59,675,823	1,099,641	64,290,728	390,117,472
Liabilities and shareholders' equity					
Due to banks and other financial institutions	877,652	-	-	-	877,652
Customers' accounts	89,422,709	80,883	280,507	-	89,784,099
Current tax liability	-	897,349	-	-	897,349
Other liabilities	15,758,361	8,360,712	-	-	24,119,073
Shareholders' Equity	-	-	-	274,439,299	274,439,299
Total liability and shareholders' equity	106,058,722	9,338,944	280,507	274,439,299	390,117,472
Net liquidity gap	158,992,558	50,336,879	819,134	(210,148,571)	

G. Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

H. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Within 12 months	After 12 months	Total
2016	IQD (000)	IQD (000)	IQD (000)
Assets			
Cash and balances with central bank	102,849,878	-	102,849,878
Due from banks and other financial institutions	14,861,644	-	14,861,644
Direct credit facilities, net	3,442,028	6,461,949	9,903,977
Financial assets at fair value through other comprehensive income	-	649,865	649,865
Financial assets at amortized cost	216,914,022	73,755,026	290,669,048
Property and equipment	-	1,500,671	1,500,671
Other assets	3,384,178	-	3,384,178
Total assets	341,451,750	82,367,511	423,819,261
Liabilities			
Due to banks	3,483,951	-	3,483,951
Customers deposits	117,737,848	-	117,737,848
Current tax liability	967,731	-	967,731
Other liabilities	19,688,678	-	19,688,678
Total liabilities	141,878,208	-	141,878,208
Net	199,573,542	82,367,511	281,941,053

	Within 12 months	After 12 months	Total
2015	IQD (000)	IQD (000)	IQD (000)
Assets			
Cash and balances with central bank	111,814,431	-	111,814,431
Due from banks and other financial institutions	34,486,830	-	34,486,830
Direct credit facilities, net	9,605,642	229,530	9,835,172
Financial assets at fair value through other comprehensive income	-	726,023	726,023
Financial assets at amortized cost	168,087,435	62,384,946	230,472,381
Property and equipment	-	950,228	950,228
Other assets	1,832,407	-	1,832,407
Total assets	325,826,745	64,290,727	390,117,472
Liabilities			
Due to banks	877,652	-	877,652
Customers deposits	89,784,099	-	89,784,099
Current tax liability	897,349	-	897,349
Other liabilities	24,119,073	-	24,119,073
Total liabilities	115,678,173	-	115,678,173
Net	210,148,572	64,290,727	274,439,299

28. SEGMENT INFORMATION

For management purposes the Bank is organized into three major business segments as following:

Retail banking: Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities;

Corporate banking: Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Treasury: Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

These segments are the basis on which the Bank reports its primary segment information.

	Retail	Corporate	Treasury	Total 2016	Total 2015
	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
Total income	3,758,420	2,475,036	11,749,726	17,983,182	17,923,258
Provisions for credit losses and other	-	(690,367)	-	(690,367)	(1,245,230)
Segment results	3,758,420	1,784,669	11,749,726	17,292,815	16,678,028
Unallocated expenses	(1,286,492)	(1,209,866)	(6,296,616)	(8,792,974)	(8,448,054)
Profit before tax	2,471,928	574,803	5,453,110	8,499,841	8,229,974
Income tax	(171,542)	(87,798)	(662,589)	(921,929)	(869,640)
Net profit	2,300,386	487,005	4,790,521	7,577,912	7,360,334
Other information					
Segment assets	7,874,263	8,793,269	402,266,880	418,934,412	387,334,837
Unallocated assets	-	-	4,884,849	4,884,849	2,782,635
Total Assets	7,874,263	8,793,269	407,151,729	423,819,261	390,117,472
Segment liabilities	99,268,226	18,469,622	3,483,951	121,221,799	90,661,751
Unallocated liabilities	-	-	20,656,409	20,656,409	25,016,422
Total Liabilities	99,268,226	18,469,622	24,140,360	141,878,208	115,678,173
Capital expenditure	-	-	679,941	679,941	151,658
Depreciation and amortization	-	-	129,498	129,498	587,443

28. SEGMENT INFORMATION (CONTINUED)

Geographical Information

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

	Inside Iraq		Outside Iraq		Total	
	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)	IQD (000)
	2016	2015	2016	2015	2016	2015
Total Income	17,898,937	17,923,258	84,245	-	17,983,182	17,923,258
Total Assets	409,536,114	356,147,525	14,283,147	33,969,947	423,819,261	390,117,472
Total Liabilities	136,663,934	106,129,346	5,214,274	9,548,827	141,878,208	115,678,173

29. CAPITAL MANAGEMENT

The Bank manages its capital on a constant basis to cover the risks associated with its activities. This process includes measuring its capital adequacy according to the percentages set by the Central Bank of Iraq.

The main purpose of managing the Bank's capital is to ensure compliance with capital adequacy regulations and therefore, protect the shareholders' interests in the Bank's assets, and to support the operations of the Bank's various segments.

Central Bank of Iraq issued resolution number 9/3/1747 on 6 October 2010 which states that all banks operating in Iraq should increase their capital to be IQD 250 billion.

During the year 2016 there were no changes in the Bank's policies and regulations, and the methods used to manage capital.

	2016	2015
	IQD (000)	IQD (000)
Primary capital		
Paid capital	250,000,000	250,000,000
Statutory reserve	16,875,001	16,912,225
Other reserves	44,210	44,210
Retained earnings	7,244,864	-
Total Primary capital	274,164,075	266,956,435
Supplementary capital		
General provisions	15,513,998	10,795,415
Total Supplementary capital	15,513,998	10,795,415
Total primary and supplementary capital	289,678,073	277,751,850
Total risk weighted assets	39,749,605	51,834,724
Capital adequacy (%)	728.8%	535.8%

The Bank computed the capital adequacy as at 31 December 2016 according to Central Bank of Iraq regulations which are in line with Basel requirements.

The Bank computed the capital adequacy as at 31 December 2016 according to Central Bank of Iraq regulations which are in line with Basel requirements.

30. CONTINGENT LIABILITIES AND COMMITMENTS

The totals outstanding commitments and contingent liabilities are as follows:

	2016	2015
	IQD (000)	IQD (000)
Letters of guarantee	1,864,217	12,320,693
Unused credit ceiling	1,537,434	1,713,703
	3,401,651	14,034,396

31. LAWSUITS.

According to the Bank's management and legal counsel, there are no material lawsuits raised against the bank as of 31 December 2016 against which no provisions are made.

32. CONCENTRATION OF RISK IN GEOGRAPHIC AREA

The Bank is carrying out all of its activities in Iraq. The political and economic destabilization in the area increases the risk of carrying out business and may adversely affect the Bank's performance.