# COMMERCIAL BANK OF IRAQ
# (PRIVATE SHAREHOLDING COMPANY)
## CONSOLIDATED FINANCIAL STATEMENTS
## 31 DECEMBER 2017

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: 4/1
Date: 26 March 2018

**INDEPENDENT AUDITOR'S REPORT**
**To the Shareholders of National Bank of Iraq**
**Baghdad – Iraq**
**Report on the audit of the consolidated financial statements**

## Opinion

We have audited the consolidated financial statements of Commercial Bank of Iraq and its subsidiary (the Bank), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, 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, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Opinion

We conducted our audit in accordance with Iraqi Auditing Standards and 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 opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 Iraqi Auditing standards and ISAs will always detect a material misstatement when it exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Iraqi Auditing Standards and ISAs, we exercise professional judgment and maintain professional skepticism 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 exist, 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.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

**Report on regulatory requirements**

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 594.1%
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, Al-Mansour, Al-Khulani and Al-Muaskar 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.

Azez Jafar Hassan

Chartered Public Accountant

Muhannad Fadhel Al-Assaf

Chartered Public Accountant

**COMMERCIAL BANK OF IRAQ**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | IQD (000) | IQD (000) |
| **ASSETS** | | | |
| Cash and balances with Central Bank | 3 | 83,598,660 | 102,849,878 |
| Due from banks and other Financial Institutions | 4 | 41,576,181 | 14,861,644 |
| Direct credit facilities , net | 5 | 10,789,288 | 9,903,977 |
| Financial assets at fair value through other comprehensive income | 6 | 467,452 | 649,865 |
| Financial assets at amortized cost | 7 | 316,904,200 | 290,669,048 |
| Property and equipment, net | 8 | 1,762,251 | 1,500,671 |
| Other assets | 9 | 5,518,279 | 3,384,178 |
| Total assets | | 460,616,311 | 423,819,261 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| LIABILITIES | | | |
| Due to banks and other Financial Institutions | 10 | 1,796 | 3,483,951 |
| Customers' accounts | 11 | 134,225,248 | 117,737,848 |
| Current tax liability | 12 | 1,502,972 | 967,731 |
| Other liabilities | 14 | 33,077,501 | 19,688,678 |
| Total liabilities | | 168,807,517 | 141,878,208 |
| **SHAREHOLDERS' EQUITY** | | | |
| Paid capital | 15 | 250,000,000 | 250,000,000 |
| Statutory reserve | 15 | 13,950,483 | 12,933,142 |
| Other reserves | | 149,163 | 149,163 |
| Fair value reserve | | (8,955) | 173,458 |
| Retained earnings | | 27,718,103 | 18,685,290 |
| Total shareholders' equity | | 291,808,794 | 281,941,053 |
| Total liabilities and shareholders' equity | | 460,616,311 | 423,819,261 |

**For Commercial Bank of Iraq-PSC**

Mohammed Hammeed Dragh Al-Dragh
Chairman of the Board of Directors

Nouri Mizal Saadoun El-Dubaisi
Chief Executive Officer

Mustafa Najm Kadhim Al-Furaiji
Finance Manager

Subject to our report number 4/1 and dated on 26/ 3 / 2018

Azez Jafar Hassan
Chartered Public Accountant

Muhannad Fadhel Al-Assaf
Chartered Public Accountant

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 IQD (000) | 2016 IQD (000) |
|---|---|---|---|
| Interest income | 17 | 20,751,400 | 16,552,729 |
| Interest expense | 18 | (687,357) | (889,973) |
| Net interest income | | 20,064,043 | 15,662,756 |
| Net fees and commissions | 19 | 1,938,379 | 1,014,027 |
| Other operating income | 20 | 1,861,726 | 1,306,399 |
| Non-interest income | | 3,800,105 | 2,320,426 |
| Total operating income | | 23,864,148 | 17,983,182 |
| Employees' expenses | 21 | (3,023,915) | (3,212,764) |
| Depreciation of property and equipment | 8 | (156,072) | (129,498) |
| Other operating expenses | 22 | (9,439,796) | (5,450,712) |
| Total operating expenses | | (12,619,783) | (8,792,974) |
| Operating profit before provision for credit losses | | 11,244,365 | 9,190,208 |
| Net recovery (provision) for credit losses and other | | 262,959 | (690,367) |
| Operating profit before tax | | 11,507,324 | 8,499,841 |
| Income tax expense | 12 | (1,457,170) | (921,929) |
| Net profit for the year | | 10,050,154 | 7,577,912 |
| | | IQD/Fils | IQD/Fils |
| Basic and diluted earnings per share | 13 | 0/040 | 0/030 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | 2017<br>IQD (000) | 2016<br>IQD (000) |
|---|---|---|
| Net profit for the year | 10,050,154 | 7,577,912 |
| Items that will not be reclassified subsequently to Consolidated statement of income | | |
| Change in fair value of financial assets at fair value through other comprehensive income | (182,413) | (76,158) |
| Other comprehensive income for the year | (182,413) | (76,158) |
| Total comprehensive income for the year | 9,867,741 | 7,501,754 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Paid capital | Statutory reserve | Other reserves | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| 2017 | IQD (000) | IQD (000) | IQD (000) | IQD (000) | IQD (000) | IQD (000) |
| At 1 January 2017 | 250,000,000 | 12,933,142 | 149,163 | 173,458 | 18,685,290 | 281,941,053 |
| Total comprehensive income for the year | - | - | - | (182,413) | 10,050,154 | 9,867,741 |
| Transfer to reserves | - | 1,017,341 | - | - | (1,017,341) | - |
| Balance at 31 December 2017 | 250,000,000 | 13,950,483 | 149,163 | (8,955) | 27,718,103 | 291,808,794 |
| 2016 | | | | | | |
| 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 |

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOW
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | IQD (000) | IQD (000) |
| **OPERATING ACTIVITIES** | | | |
| **Profit before income tax** | | 11,507,324 | 8,499,841 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 156,072 | 129,498 |
| Net (recovery) provision for credit losses and other | | (262,959) | 690,367 |
| Foreign currency exchange gain | | (1,750,203) | (305,321) |
| **Cash flow from operating activities before changes in operating assets and liabilities** | | 9,650,234 | 9,014,385 |
| **Changes in operating assets and liabilities:** | | | |
| (Increase) Decrease in direct credit facilities | | (632,032) | 14,624 |
| Increase in other assets | | (2,134,101) | (1,551,772) |
| Increase in Customers' accounts | | 18,237,603 | 28,259,070 |
| Increase (Decrease) in other liabilities | | 13,801,858 | (5,191,247) |
| Increase in mandatory reserve with CBI | | (4,392,435) | (660,652) |
| Deposits maturing more than 3 months | | (8,274,000) | - |
| **Net cash flows from operating activities before income tax** | | 26,257,127 | 29,884,408 |
| Income tax paid | | (921,929) | (864,491) |
| **Net cash flows from operating activities** | | 25,335,198 | 29,019,917 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of financial assets at amortized cost | | (161,331,644) | (239,585,411) |
| Matured financial assets at amortized cost | | 135,096,492 | 179,388,744 |
| Purchase of property and equipment | | (417,652) | (679,940) |
| **Net cash flows used in investing activities** | | (26,652,804) | (60,876,607) |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid | | (403,355) | - |
| **Net cash flows used in financing activities** | | (403,355) | - |
| Net decrease in cash and cash equivalents | | (1,720,961) | (31,856,690) |
| Cash and cash equivalents at beginning of the year | 24 | 102,562,280 | 134,418,970 |
| Cash and cash equivalents at end of the year | 24 | 100,841,319 | 102,562,280 |

The accompanying notes from 1 to 31 are 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 75% of its capital (2016: 64.7% of its capital). The consolidated financial statements are consolidated with the parent's consolidated financial statements.
The Bank has 100% (2016: 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. The Bank and its subsidiary collectively known as the ("Bank").

## 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 2017 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 (2016: IQD 200,000 thousand) of which the Bank owns 100% as at 31 December 2017 (2016: 100%).
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 ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

**IFRS 9 - Financial Instruments (effective for annual periods beginning on or after 1 January 2018)**

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with option to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

a. Classification and measurement
During 2012, the Bank early adopted the phase 1 of IFRS 9 - "Classification and Measurement".

b. Hedge accounting
Hedge accounting model introduced under IFRS 9 are designed to better align hedge accounting with risk management activities. It also has provided using more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. Moreover, it has removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained. IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project.

c. Impairment of financial assets
IFRS 9 will also fundamentally change the loan loss impairment methodology. The Standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach with the effect from 1 January 2018. The Bank will be required to record an allowance for ECL for all loans and other debt financial assets not held at fair value through profit or loss (FVTPL), together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.
The Bank has developed a framework to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all

## 2. ACCOUNTING POLICIES (CONTINUED)

## 2.3 NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

**IFRS 9 Financial Instruments (continued)**

cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and
- the cash flows that the Bank expects to receive, discounted at the effective interest rate of the financial instrument.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets. In addition, in Stage 3 the Bank recognises interest income on a receipt basis.

Transition adjustments

The adoption of the final form of IFRS 9 issued in July 2014 is expected to result in certain differences in the classification and measurement of financial assets.

Transition adjustments are summarised below:

| | Attributable to owners | |
|---|---|---|
| | Retained earnings | Total equity |
| | *IQD thousands* | *IQD thousands* |
| Balance at 31 December 2017 | 27,718,103 | 291,808,794 |
| Expected credit losses under IFRS 9 for all loans and other debt financial assets together with loan commitments and financial guarantee contracts | (729,134) | (729,134) |
| Net impact of adoption of IFRS 9 as at 1 January 2018 | (729,134) | (729,134) |
| **Balance as at 1 January 2018 upon adoption of IFRS 9** | (26,988,969) | (291,079,660) |

Impact of IFRS 9 adoption on equity attributable to the owners 0.25%

2. ACCOUNTING POLICIES (CONTINUED)

2.3 NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue–Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted. The Bank does not expect any significant impact upon adoption of this standard

**IFRS 16 Leases**

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Bank does not expect any significant impact upon adoption of this standard.

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

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Critical accounting judgments and estimates (continued)**

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.

**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.

**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.

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

### 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.

***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.

2. ACCOUNTING POLICIES (CONTINUED)
2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
*Financial assets at fair value through other comprehensive income (continued)*

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

Dividend income is recognized in the statement of income.

*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.

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

*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.
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.

*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 designated as fair value through other comprehensive income 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.

*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.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Property and equipment (continued)*

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.

*Provisions*

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

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

*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.

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

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Cash on hand* | 5,826,516 | 6,429,958 |
| Accounts with Central Bank of Iraq: | | |
| Current accounts | 41,714,418 | 54,754,629 |
| Time deposits | 20,000,000 | 30,000,000 |
| Legal cash reserve ** | 14,411,747 | 11,665,291 |
| LGs margin reserve *** | 1,645,979 | - |
| | 77,772,144 | 96,419,920 |
| | 83,598,660 | 102,849,878 |

* Cash on hand includes foreign currency balances amounting to IQD 2,458,856 thousand as of 31 December 2017 (2016: IQD 2,408,505 thousand).

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

*** According to Central Bank of Iraq Instructions dated 2 May 2017, a reserve against letters of guarantee was established. These amounts are held at Central Bank of Iraq to face any deficit in covering claims against unpaid letters of guarantee and are not available for use in Bank's day-to-day operations.

## 4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2017 | | |
|---|---|---|---|
| | Inside Iraq | Outside Iraq | Total |
| | IQD (000) | IQD (000) | IQD (000) |
| Current accounts | 296,468 | 14,651,033 | 14,947,501 |
| Time deposits | - | 26,628,680 | 26,628,680 |
| | 296,468 | 41,279,713 | 41,576,181 |

| | 2016 | | |
|---|---|---|---|
| | Inside Iraq | Outside Iraq | Total |
| | IQD (000) | IQD (000) | IQD (000) |
| Current accounts | 335,558 | 5,070,086 | 5,405,644 |
| Time deposits | - | 9,456,000 | 9,456,000 |
| | 335,558 | 14,526,086 | 14,861,644 |

Current accounts with banks include foreign currency balances amounting to IQD 41,279,713 thousand as of 31 December 2017 (2016: IQD 14,526,086 thousand). The above due from banks and other financial institutions balance does not include any past due or impaired balances as 31 December 2017 and 2016.

## 5. DIRECT CREDIT FACILITIES, NET

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Retail | 7,986,765 | 7,230,708 |
| Corporate | 22,945,557 | 22,013,863 |
| Gross loans and advances | 30,932,322 | 29,244,571 |
| Less: allowance for impairment losses* | (10,195,408) | (10,462,550) |
| Less: suspended interest** | (9,947,626) | (8,878,044) |
| | 10,789,288 | 9,903,977 |

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

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Allowance for impairment losses: | | |
| At 1 January | 10,462,550 | 10,545,978 |
| Charge for the year | 325,445 | 1,199,125 |
| Recoveries | (592,587) | (1,282,553) |
| At 31 December | 10,195,408 | 10,462,550 |

Net recoveries for direct credit facilities were amounted to IQD 267,142 thousand and net provision for indirect credit facilities were amounted to IQD 4,183 thousand for the year 2017.

**The movement of the suspended interest is as follows:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Suspended interest: | | |
| At 1 January | 8,878,044 | 7,953,138 |
| Additions during the year | 1,071,108 | 1,011,350 |
| Recoveries during the year | (1,526) | (86,444) |
| At 31 December | 9,947,626 | 8,878,044 |

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Quoted equities | 422,452 | 604,865 |
| Unquoted equities | 45,000 | 45,000 |
| | 467,452 | 649,865 |

## 7. FINANCIAL ASSETS AT AMORTIZED COST

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Treasury bills* | 146,359,017 | 163,648,617 |
| Government bonds** | 170,545,183 | 127,020,431 |
| | 316,904,200 | 290,669,048 |

(*) Treasury bills are issued by Central Bank of Iraq (CBI) and Ministry of Finance with an average interest rate 3.22% and are maturing within one year.

(**) Government bonds are issued by Iraq government with an average yield of 8.97% maturing between 2018 and 2028.

## 8. PROPERTY AND EQUIPMENT

| 2017 | Land IQD (000) | Buildings IQD (000) | Equipment And 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 | 659,593 | 113,563 | 1,135,887 | 763,515 | 4,313,812 | 11,374,308 |
| Additions | - | 211,413 | 39,633 | - | 25,545 | 56,413 | 52,116 | 385,120 |
| At 31 December | 274,022 | 4,325,329 | 699,226 | 113,563 | 1,161,432 | 819,928 | 4,365,928 | 11,759,428 |
| Accumulated depreciation: | | | | | | | | |
| At 1 January | - | 3,719,664 | 388,252 | 92,476 | 1,085,380 | 583,804 | 4,107,210 | 9,976,786 |
| Charge of the year | - | 41,529 | 34,898 | 6,432 | 11,929 | 32,786 | 28,498 | 156,072 |
| At 31 December | - | 3,761,193 | 423,150 | 98,908 | 1,097,309 | 616,590 | 4,135,708 | 10,132,858 |
| Net book value at 31 December 2017 | 274,022 | 564,136 | 276,076 | 14,655 | 64,123 | 203,338 | 230,220 | 1,626,570 |
| Work in Progress* | - | 135,681 | - | - | - | - | - | 135,681 |
| **Net book value at 31 December 2017 including Work in Progress** | 274,022 | 699,817 | 276,076 | 14,655 | 64,123 | 203,338 | 230,220 | 1,762,251 |

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

## 8. PROPERTY AND EQUIPMENT (CONTINUED)

| 2016 | Land IQD (000) | Buildings IQD (000) | Equipment and 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.

## 9. OTHER ASSETS

| | 2017<br>IQD (000) | 2016<br>IQD (000) |
|---|---|---|
| Inter branch balances * | 6,999,815 | 6,999,815 |
| Accrued interest | 5,214,176 | 3,031,782 |
| Others | 304,103 | 352,396 |
| | 12,518,094 | 10,383,993 |
| Provisions allowance for inter branch balances * | (6,999,815) | (6,999,815) |
| | 5,518,279 | 3,384,178 |

* During 2011, the Bank booked a provision allowance of IQD 6,999,815 thousand (2016: IQD 6,999,815 thousand) against fraud detected in 2010.

## 10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2017 | | |
|---|---|---|---|
| | Inside Iraq<br>IQD (000) | Outside Iraq<br>IQD (000) | Total<br>IQD (000) |
| Current and demand deposits | 410 | 1,386 | 1,796 |
| | 410 | 1,386 | 1,796 |

| | 2016 | | |
|---|---|---|---|
| | Inside Iraq<br>IQD (000) | Outside Iraq<br>IQD (000) | Total<br>IQD (000) |
| Current and demand deposits | 421 | 3,483,530 | 3,483,951 |
| | 421 | 3,483,530 | 3,483,951 |

## 11. CUSTOMERS' ACCOUNTS

| | 2017<br>IQD (000) | 2016<br>IQD (000) |
|---|---|---|
| Current and call deposits | 84,938,952 | 83,578,654 |
| Saving accounts | 31,789,428 | 32,610,964 |
| Cash margin | 16,390,369 | 533,253 |
| Term deposits | 1,106,499 | 1,014,977 |
| | 134,225,248 | 117,737,848 |

## 12. CURRENT TAX LIABILITY

**Income tax liability**

The movement on income tax liability was as follows:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| At January 1 | 967,731 | 897,349 |
| Paid during the year | (921,929) | (864,491) |
| Adjustments during the year | - | 12,944 |
| Charge for the year | 1,457,170 | 921,929 |
| At December 31 | 1,502,972 | 967,731 |

The Bank paid the tax liabilities up to year 2016; final tax clearances are not yet obtained.

The reconciliation between the tax profit and the accounting profit for the years ended 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Accounting profit before income tax | 11,507,324 | 8,499,841 |
| Nontaxable income | (7,663,820) | (7,448,441) |
| Nondeductible expenses | 5,870,963 | 5,094,796 |
| Taxable profit | 9,714,467 | 6,146,196 |
| Current income tax at Iraqi statutory income tax rate of 15% (2016:15%) | 1,457,170 | 921,929 |

Effective income tax rate for 2017 is 12.66% (2016: 10.85%).

## 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.

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Profit for the year | 10,050,154 | 7,577,912 |
| Weighted average number of shares during the year (thousand) | 250,000,000 | 250,000,000 |
| | IQD/Fils | IQD/Fils |
| Basic and diluted earnings per share | 0/040 | 0/030 |

## 14. OTHER LIABILITIES

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Miscellaneous accruals | 14,951,494 | 10,720,828 |
| Transfers for the purpose of currency auction | 9,798,020 | 613,429 |
| Management service payable to parent company | 2,848,312 | 1,646,376 |
| Dividends | 1,337,263 | 1,740,618 |
| Other credit balances | 4,142,412 | 4,967,425 |
| | 33,077,501 | 19,688,678 |

## 15. PAID IN CAPITAL AND STATUTORY RESERVES

### Paid in capital

Paid in capital comprises of 250 billion shares (2016: 250 billion shares) at a par value of 1 Iraqi Dinar per share (2016: 1 Iraqi 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. PROPOSED DIVIDENDS

On 8 August 2017, the General Assembly on its ordinary meeting had approved the distribution of the cash dividends to the shareholders equivalent to 2.6% of the shares par value on 2015 profits. On 6 February 2018, the Bank has received legal approval to proceed with the dividends distribution, in accordance with the prevailing laws in Iraq.

## 17. INTEREST INCOME

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Financial assets at amortized cost | 18,797,414 | 13,672,444 |
| Loans and advances to customers | 1,489,373 | 1,358,819 |
| Due from banks | 464,613 | 1,521,466 |
| | 20,751,400 | 16,552,729 |

## 18. INTEREST EXPENSE

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Saving accounts | 662,109 | 855,151 |
| Time deposits | 25,248 | 34,822 |
| | 687,357 | 889,973 |

## 19. NET FEES AND COMMISSIONS

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Fees and commissions income | 2,167,635 | 1,228,424 |
| Fees and commissions expense | (229,256) | (214,397) |
| | 1,938,379 | 1,014,027 |

## 20. OTHER OPERATING INCOME

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Non trading foreign exchange gains | 1,750,203 | 305,321 |
| Other bank charges | 111,523 | 223,883 |
| Other* | - | 764,669 |
| Dividend Income | - | 12,526 |
| | 1,861,726 | 1,306,399 |

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

## 21. EMPLOYEES' EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Salaries and wages | 2,837,943 | 3,039,699 |
| Social security | 185,972 | 173,065 |
| | 3,023,915 | 3,212,764 |

## 22. OTHER OPERATING EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Miscellaneous accruals | 4,803,383 | - |
| Professional Fees and administrative expenses | 2,152,831 | 1,337,499 |
| Others | 2,222,037 | 1,498,873 |
| Audit fees | 62,200 | 59,681 |
| Penalties imposed by Central Bank of Iraq (CBI)* | 198,345 | 1,454,659 |
| Lawsuits expenses | - | 1,100,000 |
| | 9,439,796 | 5,450,712 |

* IQD 1,454,659 thousand is for 2016 represents penalties imposed by Central Bank of Iraq (CBI) relating to currency auction operations conducted up to 2013. As referred under Note 20, 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.

IQD 198,345 thousand is for 2017 represents penalties imposed by Central Bank of Iraq (CBI) for various matters. Subsequently the CBI waived a substantial part of the fine and returned IQD 180,000 thousand to the Bank.

## 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:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Cash and balances with Central Bank | 83,598,660 | 102,849,878 |
| Add: Due from banks | 41,576,181 | 14,861,644 |
| Less: Due to banks | (1,796) | (3,483,951) |
| Less: Mandatory reserve with Central Bank | (16,057,726) | (11,665,291) |
| Less: Deposits maturing more than 3 months | (8,274,000) | - |
| | 100,841,319 | 102,562,280 |

## 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:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Statement of financial position: | | |
| Due from banks and other financial Institutions | 41,219,434 | 14,283,147 |
| Due to banks and other financial institutions | 1,386 | 3,483,530 |
| Other liabilities | 2,848,312 | 1,630,025 |
| Off balance items: | | |
| Letters of guarantee | 2,448,211 | 372,604 |
| Income statements items | | |
| Interest and commission income | 209,892 | 84,879 |
| Management fees | 1,102,675 | 825,040 |

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

Compensation of the key management personnel is as follows:

| | 2017 | 2016 |
|---|---|---|
| | IQD (000) | IQD (000) |
| Executive managers' salaries | 476,161 | 489,499 |
| | 476,161 | 489,499 |

## 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 | |
|---|---|---|
| | 2017 | 2016 |
| | IQD (000) | IQD (000) |
| Balances with Central Bank | 77,772,144 | 96,419,920 |
| Due from banks and other financial institutions | 41,576,181 | 14,861,644 |
| Direct credit facilities, net | 10,789,288 | 9,903,977 |
| Financial assets at amortized cost | 316,904,200 | 290,669,048 |
| Other assets | 5,267,753 | 3,092,610 |
| **Total** | 452,309,566 | 414,947,199 |
| Contingent liabilities | 19,296,796 | 1,864,217 |
| Gross maximum credit risk exposure before consideration of credit risk mitigation | 471,606,362 | 416,811,416 |
| Gross maximum credit risk exposure after consideration of credit risk mitigation | 431,853,182 | 365,974,797 |
| **Credit related commitments** | | |
| Letters of guarantee | 19,296,796 | 1,864,217 |
| | 19,296,796 | 1,864,217 |
| **Credit risk mitigation** | | |
| Mortgage loans | 39,488,180 | 50,730,619 |
| Pledged shares | 265,000 | 106,000 |
| | 39,753,180 | 50,836,619 |

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

*Financial assets neither past due nor impaired:*

| | 2017 | | |
|---|---|---|---|
| | High standard grade | Standard grade | Total |
| | IQD (000) | IQD (000) | IQD (000) |
| Banks and other financial institutions | 224,131,161 | 41,576,181 | 265,707,342 |
| Government - public sector | - | 170,545,183 | 170,545,183 |
| | 224,131,161 | 212,121,364 | 436,252,525 |

## 26. RISK MANAGEMENT (CONTINUED)

### A. Credit Risk (Continued)

*Financial assets neither past due nor impaired:*

| | 2016 | | |
|---|---|---|---|
| | High standard grade | Standard | Total |
| | IQD (000) | IQD (000) | IQD (000) |
| Banks and other financial institutions | 260,068,537 | 14,861,644 | 274,930,181 |
| Government - public sector | - | 127,020,431 | 127,020,431 |
| | 260,068,537 | 141,882,075 | 401,950,612 |

*Impaired financial assets*

| | 2017 | | |
|---|---|---|---|
| | Total | Provision | Collateral fair value |
| | IQD (000) | IQD (000) | IQD (000) |
| Retail | 1,624,658 | 1,033,795 | 4,535,300 |
| Corporate | 8,991,576 | 8,954,243 | 1,157,000 |
| | 10,616,234 | 9,988,038 | 5,692,300 |

| | 2016 | | |
|---|---|---|---|
| | Total | Provision | Collateral fair value |
| | IQD (000) | IQD (000) | IQD (000) |
| Retail | 2,314,703 | 1,172,302 | 7,693,080 |
| Corporate | 10,565,078 | 9,127,017 | 5,882,029 |
| | 12,879,781 | 10,299,319 | 13,575,109 |

**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) |
| 2017 | | | | | |
| Assets | | | | | |
| Cash and balances with Central Bank | 20,000,000 | - | - | 63,598,660 | 83,598,660 |
| Due from banks and other financial institutions | 18,354,680 | 8,274,000 | - | 14,947,501 | 41,576,181 |
| Direct credit facilities, net | 1,058,416 | 1,968,340 | 7,762,532 | - | 10,789,288 |
| Financial assets at fair value through other comprehensive income | - | - | - | 467,452 | 467,452 |
| Financial assets at amortized cost | 105,099,771 | 85,618,648 | 126,185,781 | - | 316,904,200 |
| Property and equipment, net | - | - | - | 1,762,251 | 1,762,251 |
| Other assets | - | - | - | 5,518,279 | 5,518,279 |
| Total Assets | 144,512,867 | 95,860,988 | 133,948,313 | 86,294,143 | 460,616,311 |
| Liabilities | | | | | |
| Due to banks and other financial institutions | 1,796 | - | - | - | 1,796 |
| Customers' accounts | 32,569,804 | 326,123 | - | 101,329,321 | 134,225,248 |
| Current tax liabilities | - | - | - | 1,502,972 | 1,502,972 |
| Other liabilities | - | - | - | 33,077,501 | 33,077,501 |
| Total Liabilities | 32,571,600 | 326,123 | - | 135,909,794 | 168,807,517 |
| Interest rate sensitivity gap | 111,941,267 | 95,534,865 | 133,948,313 | (49,615,651) | 291,808,794 |
| 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 |

## 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 2017. 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 2017 Increase/(Decrease) | Effect on profit before tax for the year ended 31 December 2016 Increase/(Decrease) |
|---|---|---|
| | IQD (000) | IQD (000) |
| +5% | 6,111,316 | 4,096,367 |
| -5% | (6,111,316) | (4,096,367) |

### 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 46,745 thousand (2016: IQD 64,987 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 due to banks and financial institutions mature within three months.

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

| 2017 | 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 | 1,796 | - | - | - | 1,796 |
| Customers' accounts | 120,364,278 | 12,945,664 | 511,958 | 425,601 | 134,247,501 |
| Total Liabilities | 120,366,074 | 12,945,664 | 511,958 | 425,601 | 134,249,297 |

| 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 |

## 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.

| 2017 | Up to 3 months<br>IQD (000) | 3 to 6 months<br>IQD (000) | 6 to 12 months<br>IQD (000) | More than 12 months<br>IQD (000) | Total<br>IQD (000) |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and balances with central bank | 83,598,660 | - | - | - | 83,598,660 |
| Due from banks and other financial institutions | 33,302,181 | 8,274,000 | - | - | 41,576,181 |
| Direct credit facilities, net | 1,058,416 | 378,066 | 1,590,274 | 7,762,532 | 10,789,288 |
| Financial assets at fair value through other comprehensive income | - | - | - | 467,452 | 467,452 |
| Financial assets at amortized cost | 105,099,771 | 49,166,560 | 36,452,088 | 126,185,781 | 316,904,200 |
| Property and equipment, net | - | - | - | 1,762,251 | 1,762,251 |
| Other assets | 5,214,410 | 303,869 | - | - | 5,518,279 |
| Total assets | 228,273,438 | 58,122,495 | 38,042,362 | 136,178,016 | 460,616, 311 |
| Liabilities and shareholders' equity | | | | | |
| Due to banks and other financial institutions | 1,796 | - | - | - | 1,796 |
| Customers' accounts | 120,353,023 | 12,945,267 | 501,357 | 425,601 | 134,225,248 |
| Current tax liability | - | 1,502,972 | - | - | 1,502,972 |
| Other liabilities | 18,018,971 | 15,058,530 | - | - | 33,077,501 |
| Shareholders' Equity | - | - | - | 291,808,794 | 291,808,794 |
| Total liability and shareholders' equity | 138,373,790 | 29,506,769 | 501,357 | 292,234,395 | 460,616,311 |
| Net liquidity gap | 89,899,648 | 28,615,726 | 37,541,005 | (156,056,379) | |

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

| 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) | |

### 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 |
|---|---|---|---|
| 2017 | IQD (000) | IQD (000) | IQD (000) |
| Assets | | | |
| Cash and balances with central bank | 83,598,660 | - | 83,598,660 |
| Due from banks and other financial institutions | 41,576,181 | - | 41,576,181 |
| Direct credit facilities, net | 3,026,756 | 7,762,532 | 10,789,288 |
| Financial assets at fair value through other comprehensive income | - | 467,452 | 467,452 |
| Financial assets at amortized cost | 190,718,419 | 126,185,781 | 316,904,200 |
| Property and equipment | - | 1,762,251 | 1,762,251 |
| Other assets | 5,518,279 | - | 5,518,279 |
| Total assets | 324,438,295 | 136,178,016 | 460,616,311 |
| Liabilities | | | |
| Due to banks | 1,796 | - | 1,796 |
| Customers deposits | 133,799,647 | 425,601 | 134,225,248 |
| Current tax liability | 1,502,972 | - | 1,502,972 |
| Other liabilities | 33,077,501 | - | 33,077,501 |
| Total liabilities | 168,381,916 | 425,601 | 168,807,517 |
| Net | 156,056,379 | 135,752,415 | 291,808,794 |

| | 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 |

## 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 2017 | Total 2016 |
|---|---|---|---|---|---|
| | IQD (000) | IQD (000) | IQD (000) | IQD (000) | IQD (000) |
| Total income | 3,698,850 | 3,346,258 | 16,819,040 | 23,864,148 | 17,983,182 |
| Net Recovery (Provisions) for credit losses and others | - | - | 262,959 | 262,959 | (690,367) |
| Segment results | 3,698,850 | 3,346,258 | 17,081,999 | 24,127,107 | 17,292,815 |
| Unallocated expenses | (2,110,704) | (2,318,818) | (8,190, 261) | (12,619,783) | (8,792,974) |
| Profit before tax | 1,588,146 | 1,027,440 | 8,891,738 | 11,507,324 | 8,499,841 |
| Income tax | (187,389) | (121,230) | (1,148,551) | 1,457,170 | (921,929) |
| Net profit | 1,400,757 | 906,210 | 7,743,187 | 10,050,154 | 7,577,912 |
| Other information | | | | | |
| Segment assets | 6,625,275 | 4,164,013 | 442,546,494 | 453,335,782 | 418,934,412 |
| Unallocated assets | - | - | 7,280,529 | 7,280,529 | 4,884,849 |
| Total Assets | 6,625,275 | 4,164,013 | 449,827,023 | 460,616,311 | 423,819,261 |
| Segment liabilities | 59,239,430 | 74,985,818 | 1,796 | 134,227,044 | 121,221,799 |
| Unallocated liabilities | - | - | 34,580,473 | 34,580,473 | 20,656,409 |
| Total Liabilities | 59,239,430 | 74,985,818 | 34,582,269 | 168,807,517 | 141,878,208 |
| Capital expenditure | - | - | 417,652 | 417,652 | 679,941 |
| Depreciation | - | - | 156,072 | 156,072 | 129,498 |

## 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 |
|---|---|---|---|
| 2017 | IQD (000) | IQD (000) | IQD (000) |
| Total Income | 23,799,113 | 65,035 | 23,864,148 |
| Total Assets | 426,196,306 | 34,420,005 | 460,616,311 |
| Total Liabilities | 166,071,708 | 2,735,809 | 168,807,517 |

| | Inside Iraq | Outside Iraq | Total |
|---|---|---|---|
| 2016 | IQD (000) | IQD (000) | IQD (000) |
| Total Income | 17,898,937 | 84,245 | 17,983,182 |
| Total Assets | 409,536,114 | 14,283,147 | 423,819,261 |
| Total Liabilities | 136,663,934 | 5,214,274 | 141,878,208 |

## 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 stated that all banks operating in Iraq should increase their capital to be IQD 250 billion.

During the year 2017 there were no changes in the Bank's policies and regulations, and the methods used to manage capital.

## 29. CAPITAL MANAGEMENT (CONTINUED)

| | 2017<br>IQD (000) | 2016<br>IQD (000) |
|---|---|---|
| Primary capital | | |
| Paid capital | 250,000,000 | 250,000,000 |
| Statutory reserve | 16,839,412 | 16,875,001 |
| Other reserves | 44,210 | 44,210 |
| Retained earnings | 14,751,001 | 7,244,864 |
| Total Primary capital | 281,634,623 | 274,164,075 |
| Supplementary capital | | |
| General provisions | 19,326,607 | 15,513,998 |
| Total Supplementary capital | 19,326,607 | 15,513,998 |
| Total primary and supplementary capital | 300,961,230 | 289,678,073 |
| Total risk weighted assets | 50,659,143 | 39,749,605 |
| Capital adequacy (%) | 594.1% | 728.8% |

The Bank computed the capital adequacy as at 31 December 2017 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:

| | 2017<br>IQD (000) | 2016<br>IQD (000) |
|---|---|---|
| Letters of guarantee | 19,296,796 | 1,864,217 |
| Unused credit ceiling | 957,934 | 1,537,434 |
| | 20,254,730 | 3,401,651 |

## 31. LAWSUITS

There is a lawsuit raised against the Bank in the normal course of business, and as a matter of prudence the Bank has booked a full provision for this lawsuit.