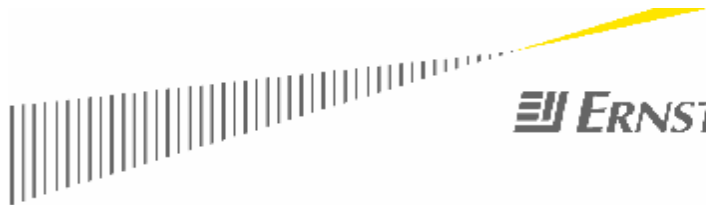


CENTRAL BANK OF IRAQ

FINANCIAL STATEMENTS

DECEMBER 31, 2007

**INDEPENDENT AUDITORS' REPORT TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ**

We were engaged to audit the accompanying financial statements of Central Bank of Iraq (CBI), which comprise the balance sheet at December 31, 2007, the income statement, statement of changes in deficit and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Basis for Disclaimer of Opinion

1. As further explained in note (1) to the financial statements, currently the CBI does not control the financial and administrative affairs of its Erbil and Sulaimaniyah branches, as these branches are technically reporting to the CBI and for all other matters they are reporting to Kurdistan Regional Government (KRG) and their operations are financed by KRG. In addition, the CBI did not receive the financial statements of its branches in Sulaimaniyah and Erbil and does not have access to their accounting records. Therefore, the accompanying financial statements do not include the financial statements of Sulaimaniyah and Erbil branches. The CBI does not have any information to quantify the significance of the branches financial statements and its effect on the CBI's financial statements as of December 31, 2007. In addition, the CBI's liabilities as of December 31, 2007 include current accounts due to Sulaimaniyah and Erbil branches in the amount of IQD 524,681 million that have neither been reconciled nor confirmed by the branches.
2. As further explained in note (5) to the financial statements, the CBI's financial statements as of December 31, 2007 include old outstanding balances at foreign banks in the amount of IQD 1,982,154 million (2006: IQD 2,017,436 million). An impairment loss of IQD 1,982,152 million has been provided for as of 31 December 2007 (2006: IQD 2,000,091 million). Additionally, during the years 2005, 2006 and 2007 the CBI wrote off balances at foreign banks totaling to IQD 1,071,942 million. The provided for and the written off accounts include balances for an amount of IQD 404,443 million (2006: IQD 440,437 million) that have been transferred from certain foreign banks to the Development Fund for Iraq (DFI) account as required by the United Nations Security Council Resolution (UNSCR) 1483 (2003). No confirmation from the Ministry of Finance to identify the amounts that could be refunded from the DFI to the CBI was received.

**INDEPENDENT AUDITORS' REPORT TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ (continued)**

3. As explained in note (31) to the financial statements, CBI has outstanding off-balance sheet credit related commitment balances in the amount of IQD 710,035 million, of which the CBI is the guarantor of the debt, letters of credit and letters of guarantees that are related to the CBI and other Governmental institutions. Due to inaccuracy of the off-balance sheet records and the unavailability of sufficient information, we could not extend our audit procedures to ensure the completeness and valuation of these balances. In addition, the effect of these off-balance sheet accounts on the CBI's financial statements as of December 31, 2007, if any, are uncertain and could not be quantified at this stage.
4. As further discussed in note (31) to the financial statements, there are lawsuits in different countries against the CBI for the settlement of past due debts of the CBI and other Iraqi governmental institutions amounting to IQD 3,719,761 million. The final outcome of these lawsuits and effects on the CBI's financial statements as of December 31, 2007, if any, is uncertain and have not been quantified and provided for. We did not receive confirmations from the CBI's legal advisors and due to the unavailability of sufficient information, we could not extend our audit procedures to ensure the completeness of these lawsuits and their effect on the financial statements as of December 31, 2007, if any.
5. Reference to note (13) to the financial statements, the CBI did not prepare reconciliations of certain local banks' current accounts at the CBI as of December 31, 2007. Due to weaknesses in the internal control system, we could not extend our audit procedures to ensure the completeness and accuracy of certain local banks current account balances amounting to IQD 12,603,752 million. Subsequent to the date of the accompanying financial statements, CBI has issued circulars to local banks that impose penalties over local banks that do not reconcile and confirm balances with CBI on a monthly basis. The CBI's management believes that follow up procedures on these circulars will result in expediting the reconciliation of local banks' accounts with CBI in the near future.
6. As further discussed in note (17) to the financial statements, the CBI's other liabilities as of December 31, 2006 include many un-reconciled suspense accounts in the amount of IQD 603,767 million where as of December 31, 2007, this balance was reduced to IQD 60,438 million due to the fact that CBI has transferred most of these balances to the Ministry of Finance's current account at the CBI, as the CBI believes it belongs to the Ministry of Finance. However, the Ministry of Finance did not confirm its balances as of 31 December 2007. Due to weaknesses in the CBI's internal control systems, we could not extend our audit procedures to determine the effect of the un-reconciled suspense accounts balances on the CBI's financial statements as of December 31, 2007.

**INDEPENDENT AUDITORS' REPORT TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ (continued)**

7. As further disclosed in note (10), the CBI's other assets as of December 31, 2006 include un-reconciled suspense accounts amounting to IQD 78,798 million that have been provided for in the financial statements, where as of December 31, 2007, this balance was reduced to IQD 4,500 million due to the fact that CBI has transferred most of these balances to the Ministry of Finance's current account at the CBI, as the CBI believes it belongs to the Ministry of Finance. However, the Ministry of Finance did not confirm its balances as of 31 December 2007. Due to weaknesses in the CBI's internal control systems, we could not extend our audit procedures to determine the effect of the un-reconciled suspense accounts balances on the CBI's financial statements as of December 31, 2007.
8. As further discussed in note (11) to the financial statements, during 2004, the CBI incurred a loss of IQD 1,026,327 million as a result of the withdrawal of the old Iraqi Dinar currency from circulation, and the issuance of the new Iraqi Dinar currency. To the date of this report, the reconciliation process of the currency replacement has not been finalized with certain local banks, while the loss was adjusted to be IQD 994,414 million as of December 31, 2007. The result of such reconciliations and its effect on the CBI's financial statements has not been determined. Due to weaknesses in the internal control systems, we could not extend our audit procedures to ensure the accuracy of the currency replacement losses and to ensure the completeness of the issued currency balance as of December 31, 2007. Subsequent to the financial statements' date, the Ministry of Finance has confirmed its liability to reimburse the CBI for an amount of IQD 884.7 billion associated with the currency replacement losses during 2008.
9. The CBI has un-reconciled difference amounting to USD 4,279,440 (equivalent to IQD 5,200 million) of interest income on Treasury bills between the Federal Reserve Bank of New York (FRBNY) confirmation and the CBI records, where FRBNY confirmation shows that Treasury bills interest income amounts to USD 772,824,011 (equivalent to IQD 938,981 million), CBI's records shows that Treasury bills interest income amounts to USD 777,103,451 (equivalent to IQD 944,181). The CBI did not perform reconciliation to validate this difference. We could not extend our audit procedures to ensure the completeness and accuracy of the interest income on Treasury bills balance as of December 31, 2007.
10. As further discussed in note (30) to the financial statements, the CBI maintains the cash payments and receipts records of the Development Fund for Iraq (DFI) and certain records related to the Memorandum of Understanding (MOU). The account balances related to the DFI and the MOU have been excluded from the CBI's financial statements. Details of differences are as follows:
 - Un-reconciled excess of assets over liabilities in the DFI balances amounting to IQD 11,823 million had been identified and provided for in prior years.
 - Un-reconciled excess of liabilities over assets in the MOU balances amounting to IQD 9,823 million (2006: IQD 9,810 million) had been adjusted through profit and loss in prior years.

Due to absence of proper reconciliations for these records, the financial effect on the CBI financial position has not been determined. We could not extend our audit procedures to evaluate the outcomes of reconciling these records.

**INDEPENDENT AUDITORS' REPORT TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ (continued)**

11. The CBI did not receive statements of account for balances due to the Ministry of Finance and certain governmental entities disclosed in note (16) to the financial statements amounting to IQD 6,954,558 million and IQD 173,926 million respectively. Therefore, no reconciliations have been made for these balances as of December 31, 2007. We did not receive confirmations of these balances as of December 31, 2007 and we could not extend our audit procedures to ensure the completeness, valuation and accuracy of these balances as of December 31, 2007.
12. As of December 31, 2007 the CBI has an accumulated losses balance of IQD 4,807,318 million. In addition, the CBI's total liabilities as of December 31, 2007 exceed its total assets by IQD 4,513,290 million. As further discussed in note (20) to the financial statements, to the date of this report, the only capital contribution made by the Ministry of Finance to cover the CBI's accumulated losses amounted to IQD 99,500 million.
13. Due to the absence of risk management function and framework at the CBI and due to weaknesses in the internal control systems, the accompanying financial statements lack certain disclosures required under International Financial Reporting Standards (IFRS) relating to credit risk, liquidity risk, foreign currency risk, interest rate risk and other risks that should have been disclosed under International Accounting Standards (IAS) 32 and International Financial Reporting Standards (IFRS) 7.
14. Due to the security situation in Iraq, we were not able to visit Basrah and Mousel branches to observe the physical count of the cash on hand in foreign currencies of IQD 191,025 million and the Iraqi Dinar currency in the vaults of Basrah and Mosul Branches of IQD 237,054 million as of December 31, 2007. We could not extend our audit procedures to ensure the existence and accuracy of these balances at Basrah and Mosul Branches.
15. As further discussed in note (14) to the financial statements, the CBI resolved to derecognize certain old outstanding balances due to foreign governments and banks in its records. The CBI has recognized revenue amounting to IQD 9,044,072 million as a result of the derecognition, while CBI will derecognize the remainder of these balances in the future. The CBI believes that these balances are the liability of the Ministry of Finance as part of the Iraqi sovereign debt. As of the date of the accompanying financial statements, the Ministry of Finance did not confirm the relief of CBI from these liabilities.
16. Included in note (12) to the financial statements; Treasury bills issued for an amount of IQD 2,745,675 million could not be verified and traced to supporting documentation due to the fact that these were burned. In absence of purchasing banks' confirmation, we could not extend our audit procedures to ensure existence, completeness, and valuation of this amount as of 31 December 2007.
17. We have not been provided with minutes of the CBI's Board of Directors meetings for 2007.

**INDEPENDENT AUDITORS' REPORT TO THE MINISTRY OF FINANCE
GOVERNMENT OF IRAQ (continued)**

Disclaimer of Opinion

Because of the significance of the matters discussed in the preceding paragraphs, we do not express an opinion on the financial statements.

Ernst & Young

Emphasis of a Matter

We draw attention that subsequent to the accompanying financial statements' date, the CBI headquarters in Baghdad was damaged due to the fire incident which occurred on 28 January 2008. The amount of financial losses associated with the fire in relation to building impairment and post fire maintenance are not quantified yet. Following the fire incident the bank conducted a physical count for its cash and gold located at the vaults. However, no losses have been reported over monetary assets available at CBI vaults.

Baghdad - Iraq
29 June 2008

Ernst & Young

BALANCE SHEET

As of December 31, 2007

	Notes	2007 IQD Million	2006 IQD Million
ASSETS			
Gold reserve	3	191,943	159,073
Cash and balances with central banks	4	8,161,679	4,858,618
Due from banks	5	5,615,788	360,296
Treasury bills held to maturity	6	24,004,486	20,033,353
Due from Ministry of Finance	7	4,688,201	5,407,472
Foreign currencies investments at International Monetary Fund	8	2,448,770	2,950,235
Property and equipment	9	22,417	22,014
Other assets	10	11,896	8,670
TOTAL ASSETS		45,145,180	33,799,731
LIABILITIES AND DEFICIT			
LIABILITIES			
Currency issued	11	15,632,225	11,916,555
Treasury bills issued	12	2,745,675	1,632,300
Deposits of local banks	13	18,613,785	11,148,851
Due to foreign governments and banks	14	2,532,582	12,498,102
Due to International Monetary Fund	15	2,101,595	2,756,529
Due to governmental institutions	16	7,743,114	6,304,768
Other liabilities	17	289,494	731,812
		49,658,470	46,988,917
DEFICIT			
Capital	18	100,000	500
General reserve	19	2,100	2,100
Gold revaluation reserve	19	191,928	159,059
Accumulated losses	20	(4,807,318)	(13,350,845)
		(4,513,290)	(13,189,186)
TOTAL LIABILITIES AND DEFICIT		45,145,180	33,799,731

Dr. Sinan Shabibi

Governor of the Central Bank of Iraq

*Ahmad S. Mahamad**Acting Governor 2008/06/29*

The attached notes 1 to 31 form part of these financial statements.

INCOME STATEMENT

Year ended December 31, 2007

	Notes	2007 IQD Million	2006 IQD Million
REVENUES			
Interest income	21	1,459,158	1,091,676
Interest expense	22	(1,377,728)	(462,307)
Net interest income		81,430	629,369
Net fee and commission income	23	454,942	157,976
Gold revaluation gain	19	32,869	16,172
Other income		15,935	63,234
		585,176	866,751
EXPENSES			
Staff expenses		8,915	12,255
Depreciation		653	397
Foreign currency translation loss		1,065,034	677,255
General and administrative expenses		22,957	103,579
Written off deposits at foreign banks	5	38	56,114
Recovery of provisions	24	(44,745)	(141,435)
		1,052,852	708,165
Effect of derecognition of foreign creditors balances	14	9,044,072	-
NET INCOME FOR THE YEAR		8,576,396	158,586

Dr. Sinan Shabibi

Governor of the Central Bank of Iraq

Ahmad S. Mohamad
Acting Governor

2008/06/29

The attached notes 1 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN DEFICIT

Year ended December 31, 2007

		Capital	General reserve	Gold revaluation reserve	Accumulated losses	Total
		IQD Million	IQD Million	IQD Million	IQD Million	IQD Million
	Notes					
Balance at December 31, 2006		500	2,100	159,059	(13,350,845)	(13,189,186)
Net income for the year		-	-	-	8,576,396	8,576,396
Gold revaluation reserve for the year	19	-	-	32,869	(32,869)	-
Increase in capital	18	99,500	-	-	-	99,500
Balance at December 31, 2007		100,000	2,100	191,928	(4,807,318)	(4,513,290)
Balance at January 1, 2006		500	2,100	142,887	(13,493,259)	(13,347,772)
Net income for the year		-	-	-	158,586	158,586
Gold revaluation reserve for the year	19	-	-	16,172	(16,172)	-
Balance at December 31, 2006		500	2,100	159,059	(13,350,845)	(13,189,186)

Dr. Sinan Shabibi
Governor of the Central Bank of Iraq

Almad S. Mahamad
Acting Governor
2008/06/29

The attached notes 1 to 31 form part of these financial statements.

CASH FLOW STATEMENT

Year ended December 31, 2007

		2007	2006
	Notes	IQD Million	IQD Million
OPERATING ACTIVITIES			
Net Income		8,576,396	158,586
Adjustments for:			
Effect of derecognition of foreign creditors balances	14	(9,044,072)	-
Depreciation		653	397
Revaluation of Gold Reserve		(32,869)	(16,171)
Written off deposits at foreign banks		38	56,114
Recovery of provision for impairment		(98,412)	(348,427)
Operating Profit before changes in operating assets and liabilities		(598,266)	(149,501)
Changes in assets and liabilities			
Due from Banks		(5,231,415)	583,902
Due to foreign governments and banks		(921,448)	(1,497,610)
Due from Ministry of Finance		719,271	(13,582)
Other assets		71,070	71,139
Other liabilities		(442,318)	(88,807)
Deposits of local banks		7,464,934	4,335,473
Currency issued		3,715,670	1,660,044
Due to International Monetary Fund		(654,934)	(162,296)
Due to Governmental institutions		1,438,346	2,077,641
Net cash from operating activities		5,560,910	6,816,403
INVESTING ACTIVITIES			
Held to maturity investments		(3,971,133)	(9,136,574)
Foreign currencies investments at IMF		501,465	174,027
Purchase of property and equipment		(1,056)	(1,436)
Net cash used in investing activities		(3,470,724)	(8,963,983)
FINANCING ACTIVITIES			
Treasury bills issued		1,113,375	1,632,300
Paid in capital		99,500	-
Net cash flow from financing activities		1,212,875	1,632,300
Net decrease in cash and cash equivalents		3,303,061	(515,280)
Cash and cash equivalent beginning of the year		4,858,618	5,373,898
CASH AND CASH EQUIVALENTS, END OF YEAR	4	8,161,679	4,858,618

Dr. Sinan Shabibi

Governor of the Central Bank of Iraq

Ahmad S. Mahamad
Acting Governor

2008/06/29

The attached notes 1 to 31 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

1 ACTIVITIES

The Central Bank of Iraq (CBI) is a governmental entity that was established under the Central Bank of Iraq Law Number 43 of 1947 as amended, and carrying out its activities under the Central Bank Law of 2004 issued by the Coalition Provisional Authority Order Number 56.

The primary objectives of the CBI are to achieve and maintain domestic price stability and to foster and maintain a stable and competitive market-based financial system. Subject to these objectives, the CBI shall promote sustainable growth, employment and prosperity in Iraq.

In accordance with the Central Bank Law, the main functions of the CBI in achieving its objectives include the following:

- a. Formulate and implement monetary policy, including exchange rate policy.
- b. Hold and manage all official foreign reserves of Iraq, other than working balances of the Government of Iraq.
- c. Hold gold and manage the Government of Iraq reserves of gold.
- d. Provide liquidity services to banks.
- e. Issue and manage Iraqi currency.
- f. Establish, oversee and promote sound and efficient payment systems.
- g. Issue licenses or permits to banks and to regulate and supervise banks.

The CBI's head office is located in Baghdad with four branches in Basrah, Mosul, Erbil and Sulaimaniyah. However, currently the CBI does not control the financial and administrative affairs of Erbil and Sulaimaniyah branches, as these branches are technically reporting to the CBI and for all other issues they are reporting to Kurdistan Regional Government (KRG) and they are financed by KRG.

As a result, the CBI does not have access to the accounting records of its Erbil and Sulaimaniyah branches. Therefore, the accompanying financial statements do not include the financial statements of Sulaimaniyah and Erbil branches. The CBI does not have any information to quantify the significance of the branches financial statements and its effect on the CBI's financial statements as of December 31, 2007 and 2006.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared under the historical cost basis except for gold reserve that has been measured at fair value.

The financial statements have been presented in Iraqi Dinar "IQD", which is the functional and presentation currency of the CBI. All amounts in the financial statements are rounded to the nearest million IQD unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2 ACCOUNTING POLICIES (continued)**2.1.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) except for the following:

- The financial statements of Sulaimaniyah and Erbil branches have not been included in the CBI financial statements.
- The financial statements do not include certain disclosures relating to liquidity risk, foreign currency risk, interest rate risk and other risks that should be disclosed in the financial statements as required by International Accounting Standard (IAS) 32.
- The financial statements do not include certain disclosures relating to the bank's financial instruments as required by International Financial Reporting Standards (IFRS) 7. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the bank's financial instruments and the nature and extent of risks arising from those financial instruments.
- The balances due to foreign governments and banks are carried at cost, as these balances cannot be reliably measured at amortized cost using the effective interest method as required by IAS 39.

2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

2.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

2.3.1 Impairment losses on loans and advances

The Bank reviews its substandard loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4 Summary of significant accounting policies

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

2.4.1. Foreign currency translation

The financial statements of the CBI are presented in Iraqi Dinar (IQD) which is the CBI's functional currency.

Foreign currency transactions are recorded in IQD at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities in foreign currencies are translated into IQD at rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the income statement.

2.4.2. Gold

Gold is stated on the basis of the closing price in London gold market as of December 31, 2007. The CBI maintains the gold as part of its foreign reserve management and does not have a present intent to dispose it. The gains or losses on the revaluation of gold at market price are taken to the income statement. The cumulative gain revaluation reserve is disclosed in a separate component in deficit.

2.4.3. Financial instruments – initial recognition and subsequent measurement

- ***Held-to-maturity financial investments***

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognized in the income statement line 'Impairment losses on financial investments'.

- ***Available-for-sale financial investments***

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.3. Financial instruments – initial recognition and subsequent measurement (continued)

income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the income statement as ‘Other operating income’ when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in ‘Impairment losses on financial investments’ and removed from the available-for-sale reserve.

- ***Due from banks and loans***

‘Due from banks’ and ‘Loans’ are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as ‘Financial assets held for trading’, designated as ‘Financial investment – available-for-sale’ or ‘Financial assets designated at fair value through profit or loss’. After initial measurement, amounts due from banks and loans are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in ‘Interest and similar income’ in the income statement. The losses arising from impairment are recognized in the income statement in ‘Credit loss expense’.

- ***Debt issued and other borrowed funds***

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under ‘Debt issued and other borrowed funds’, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.4. De-recognition of financial assets and liabilities

- ***Financial assets***

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

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; 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.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

- ***Financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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.

2.4.5. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the balance sheet. The corresponding cash received, including accrued interest, is recognized on the balance sheet as a "Cash collateral on securities lent and repurchase agreements", reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Where the transferee has the right to

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

sell or pledge the asset, the asset is recorded on the balance sheet as 'Financial assets held for trading pledged as collateral'.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the balance sheet. The corresponding cash paid, including accrued interest, is recognized on the balance sheet as a 'Cash collateral on securities borrowed and reverse repurchase agreements'. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

2.4.6. Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- ***Due from banks and loans***

For amounts due from banks and loans carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or

reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.6. Impairment of financial assets (Continued)

the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- ***Held-to-maturity financial investments***

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

- ***Available-for-sale financial investments***

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.6. Impairment of financial assets (Continued)

and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.4.7. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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, and the related assets and liabilities are presented gross in the balance sheet.

2.4.8. Recognition of income and expense

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 and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

- ***Fee and commission income***

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period.

These fees include commission income and asset management, custody and other management and advisory fees.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.9. Cash and cash equivalents

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

2.4.10. 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. 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:

Buildings	20 years
Motor Vehicles	5 years
Other furniture and equipment	3 to 5 years

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 (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' or 'Other operating expenses' in the income statement in the year the asset is derecognized.

2.4.11. Impairment of non-financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

2.4.12. 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.

2.4.13. Fiduciary Assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

2.4.14. Issued currency

The liability of the CBI towards banknotes and coins issued as a legal tender in Iraq under the Central Bank of Iraq Law of 2004 is stated at the face value. The issued banknotes and coins that are returned to the CBI are reduced from the issued currency balance. Any un-issued and returned banknotes and coins kept in the CBI vaults are not reflected in the financial statements. The cost of printing the banknotes and melting of coins is recorded in the income statement when incurred.

2.4.15. Local banks reserves and deposits

All local banks reserves and deposits are carried at cost, less amounts repaid.

2.4.16. Due to foreign governments and banks

All due to foreign governments and banks balances are carried at cost, less amounts repaid, as these balances could not be reliably measured at amortized cost as of December 31, 2007.

3 GOLD RESERVE

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Gold reserve in CBI vault	139,646	115,733
Gold reserve at Bank for International Settlements	52,036	43,124
Gold coins at CBI vault	261	216
	<u>191,943</u>	<u>159,073</u>

NOTES TO THE FINANCIAL STATEMENTS

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4 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Cash on hand	1,657,215	3,906,310
Current account with Federal Reserve Bank of New York	288	269
Overnight deposits with Federal Reserve Bank of New York	6,060,993	952,039
Current account with Central Bank of United Arab Emirates	443,183	-
	<u>8,161,679</u>	<u>4,858,618</u>

5 DUE FROM BANKS

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Due from local banks	15,643	20,566
Current accounts with foreign banks	672,673	51,925
Time deposits with foreign banks	4,936,341	290,226
Frozen and old outstanding deposits with foreign banks	1,982,154	2,017,436
	<u>7,606,811</u>	<u>2,380,153</u>
Provision for impairment losses of due from local banks	(8,871)	(19,766)
Provision for impairment losses of deposits with foreign banks	(1,982,152)	(2,000,091)
	<u>5,615,788</u>	<u>360,296</u>

The United Nations Security Council (UNSC) decided in its Resolution 1483 (2003), that all member states in which there are funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of May 22, 2003 shall freeze those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall cause their transfer to the Development Fund for Iraq (DFI).

During 2007 the CBI wrote off balances at foreign banks in the amount of IQD 38 million (2006: IQD 56,114 million).

On November 22, 2005, the Iraqi Council of Ministers requested the Ministry of Finance (MOF) to make the necessary arrangements to refund all CBI balances at foreign banks that have been transferred to the DFI as required by UNSCR 1483 (2003). To the financial statements issuance date, the MOF has not confirmed the amounts of IQD 404,443 million equivalent US Dollar 330 million (2006: IQD 440,437 million equivalent US Dollar 332 million) that may be refunded from the DFI to the CBI.

Due to the absence of the details, the CBI did not prepare reconciliations of certain frozen and old outstanding deposits at foreign banks as of December 31, 2007.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

6 TREASURY BILLS HELD TO MATURITY

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Face value	24,224,670	20,269,320
Unamortized discount	(220,184)	(235,967)
	<u>24,004,486</u>	<u>20,033,353</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the Federal Reserve Bank of New York (FRBNY). The Treasury bills have original maturities of 115 days to 182 days. The Treasury bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back at maturity or when sold prior to maturity. The CBI intends to hold all Treasury bills until maturity dates.

Interest received on matured Treasury bills is disclosed in Note (21) to the financial statements.

7 DUE FROM MINISTRY OF FINANCE

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Due from Ministry of Finance	4,674,704	5,393,890
Accrued interest	13,497	13,582
	<u>4,688,201</u>	<u>5,407,472</u>

On February 21, 2006, a restructuring agreement was signed between the CBI and the MOF for the settlement of the total balance of IQD 5,393,890 million due to the CBI as of December 31, 2005. The balance will be settled over 7.5 years starting on March 31, 2006, through 30 equal quarterly installments of IQD 179,796 million each. An annual interest rate of 5% will be charged on the outstanding balance (the same interest rate of 2005).

The MOF will finance the quarterly repayments by issuing one year Treasury bills every quarter bearing an annual interest rate of 5%, which CBI could then auction to local banks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

8 FOREIGN CURRENCIES INVESTMENTS AT IMF

	<i>2007</i>		<i>2006</i>	
	<i>SDR</i>	<i>IQD Million</i>	<i>SDR</i>	<i>IQD Million</i>
International Monetary Fund (IMF)				
Quota Subscription	1,188,400,000	2,279,177	1,188,400,000	2,368,873
Special Drawing Rights (SDR)				
Holdings with IMF	88,428,615	169,593	291,653,681	581,362
	<u>1,276,828,615</u>	<u>2,448,770</u>	<u>1,480,053,681</u>	<u>2,950,235</u>
				=

The foreign currency investments at IMF are considered as available for sale investments.

9 PROPERTY AND EQUIPMENT

	<i>2007</i>	<i>2006</i>
	<i>IQD Million</i>	<i>IQD Million</i>
Land	20,494	20,494
Buildings	458	458
Furniture and equipment	4,149	3,334
Motor vehicles	847	613
	<u>25,948</u>	<u>24,899</u>
Premises and equipment cost	25,948	24,899
Accumulated depreciation	(3,650)	(2,997)
Project in progress	119	112
	<u>22,417</u>	<u>22,014</u>
Net book value	<u>22,417</u>	<u>22,014</u>

10 OTHER ASSETS

	<i>2007</i>	<i>2006</i>
	<i>IQD Million</i>	<i>IQD Million</i>
Interest receivable	113,183	110,358
Suspense accounts	4,500	78,798
Loans to employees	4,863	4,465
Others	273	269
	<u>122,819</u>	<u>193,890</u>
Provision for impairment	(110,923)	(185,220)
	<u>11,896</u>	<u>8,670</u>

NOTES TO THE FINANCIAL STATEMENTS

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As of December 31, 2007, other assets that are provided for comprise:

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Interest receivable	106,423	106,423
Suspense accounts	4,500	78,797
	<u>110,923</u>	<u>185,220</u>

11 CURRENCY ISSUED

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Coins	5,421	5,456
Banknotes	15,626,804	11,911,099
	<u>15,632,225</u>	<u>11,916,555</u>

During 2004, the CBI incurred a loss of IQD 1,026,327 million as a result of the withdrawal of the old Iraqi Dinar currency from circulation and the issuance of the new Iraqi Dinar currency. To the financial statements date, the reconciliation process of the currency replacement has not been finalized with certain local banks, while the loss was adjusted to be IQD 994,414 million as of December 31, 2007.

Subsequent to the financial statements' date, the Ministry of Finance has confirmed its liability to reimburse the CBI for an amount of IQD 884.7 billion associated with the currency replacement losses during 2008.

12 TREASURY BILLS ISSUED

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Face value	2,875,481	1,720,000
Unamortized discount	(129,806)	(87,700)
	<u>2,745,675</u>	<u>1,632,300</u>

The discounted treasury bills are auctioned off to local banks with interest rates ranges between 9% and 17% in accordance with the instructions issued by CBI.

Treasury bills are issued with two original maturities; six months and one year. Total treasury bills issued during the year 2007 amounted to IQD 2,875,481 million.

The purpose of issuing these Treasury bills is to ensure proper control over market liquidity is maintained.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

13 DEPOSITS OF LOCAL BANKS

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Current accounts	14,189,450	4,671,415
Overnight deposits	-	1,962,303
Time deposits	4,400,508	4,492,927
Others	23,827	22,206
	<u>18,613,785</u>	<u>11,148,851</u>

According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at the CBI equivalent to 20% of total customers' deposits in Iraqi Dinar and foreign currencies except for the Iraqi governmental banks that should maintain 75% of total customers' deposits in Iraqi Dinar and foreign currencies. The local banks current accounts at the CBI include a compulsory reserve of IQD 12,084,441 million as of December 31, 2007 (2006: IQD 2,024,056 million). Compulsory reserve represents a non-interest bearing liability.

The local banks reserves and deposits balance as of December 31, 2007 includes balances in US Dollars for an amount of US Dollar 1,526,441,576 (equivalent to IQD 1,877,522 million) (2006: US Dollar 1,386,921,161 equivalent to IQD 1,837,671 million).

14 DUE TO FOREIGN GOVERNMENTS AND BANKS

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Due to foreign Governments and financial institutions*	2,107,721	10,594,687
Foreign banks deposits*	-	1,484,282
Overdraft accounts	423,686	417,733
Others	1,175	1,400
	<u>2,532,582</u>	<u>12,498,102</u>

* During 2007, the CBI resolved to derecognize certain old outstanding balances due to foreign governments and banks in its records. The CBI has recognized revenue amounting to IQD 9,044,072 million as a result of the derecognition, while CBI will derecognize the remainder of these balances in the future. The CBI believes that these balances are the liability of the Ministry of Finance as part of the Iraqi sovereign debt. As of the date of the accompanying financial statements, the Ministry of Finance did not confirm the relief of CBI from these liabilities.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

15 DUE TO INTERNATIONAL MONETARY FUND

	<i>2007 SDR</i>	<i>2007 IQD Million</i>	<i>2006 SDR</i>	<i>2006 IQD Million</i>
SDR allocations	68,463,800	131,304	68,463,800	136,471
IMF securities	1,015,649,429	1,967,070	1,015,649,429	2,024,524
Currency Holdings:				
IMF EPCA loan	-	-	297,100,000	592,218
IMF No. 1 Account including Currency Valuation Adjustments	1,650,571	3,197	1,650,571	3,290
IMF No. 2 Account including Currency Valuation Adjustments	12,580	24	12,991	26
	<u>1,085,776,380</u>	<u>2,101,595</u>	<u>1,382,876,791</u>	<u>2,756,529</u>

The balance of Special Drawing Rights (SDR) 68,463,800 represents an allocation of SDRs by the International Monetary Fund (IMF) to Iraq. SDRs are allocated by the IMF to members that are participants in the IMF's SDR Department at the time of allocation in proportion to their quotas in the IMF.

As of December 31, 2006 the Currency Holdings include an Emergency Post Conflict Assistance (EPCA) long term loan of IQD 592,218 million (SDR 297,100,000) granted by the IMF to the CBI during 2004. (EPCA) long term loan was settled in full during 2007.

16 DUE TO GOVERNMENTAL INSTITUTIONS

	<i>2007 IQD Million</i>	<i>2006 IQD Million</i>
Due to Ministry of Finance	6,954,558	3,941,818
Due to other governmental institutions	203,177	1,808,938
Due to Sulaimaniyah and Erbil branches	524,681	485,714
Loan from local governmental bank	4,375	6,875
Others	56,323	61,423
	<u>7,743,114</u>	<u>6,304,768</u>

The CBI did not receive statement of accounts of the balances due to the Ministry of Finance and Sulaimaniyah and Erbil branches as of December 31, 2007. In addition, the CBI did not receive statement of accounts for part of the balance due to other governmental institutions in the amount of IQD 101,217 million. Therefore, no reconciliations have been made to these accounts as of December 31, 2007.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

17 OTHER LIABILITIES

	<i>2007 IQD Million</i>	<i>2006 IQD Million</i>
Interest payable	242,459	168,059
Accounts payable	5,748	4,122
Intra-branch balances	(32,109)	(63,640)
Suspense balances*	60,438	603,767
Sundry provisions	10,026	16,995
Others	2,932	2,509
	<u>289,494</u>	<u>731,812</u>

* These balances represent liability balances that have not been reconciled as of December 31, 2007. Therefore, the effects of the reconciliation of these balances on the financial statements as of December 31, 2007 have not been determined.

18 CAPITAL

According to Article 5 of the Central Bank of Iraq Law of 2004, the authorized capital of the CBI shall be IQD 100,000 million and shall be fully paid by the Republic of Iraq in exchange for 100% of the CBI's capital stock. The authorized capital stock of the CBI shall be held solely by the Republic of Iraq, shall not pay any dividend and shall not be transferable or subject to any encumbrances.

During January 2007 the Ministry of Finance covered CBI's unpaid capital by an amount of IQD 99,500 million as required by the Central Bank of Iraq Law of 2004.

19 RESERVES

According to Article 5 of the Central Bank of Iraq Law of 2004, the CBI shall hold a general reserve account, an unrealized profit reserve account and other reserves required by International Financial Reporting Standards.

The CBI has a gold revaluation gain reserve in the amount of IQD 191,928 million which represents the cumulative unrealized gain on the revaluation of gold at market prices.

	<i>2007 IQD Million</i>	<i>2006 IQD Million</i>
Gold revaluation reserve, beginning of year	159,059	142,887
Gold revaluation gain for the year	32,869	16,172
	<u>191,928</u>	<u>159,059</u>

NOTES TO THE FINANCIAL STATEMENTS

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20 ACCUMULATED LOSSES

According to Article 5 of the Central Bank of Iraq Law of 2004, if the CBI incurs a net operating loss for any financial year, that loss shall first be charged to the general reserve and subsequently to the capital. However, to the financial statements date, there is no resolution from the CBI's Board of Directors to charge the accumulated losses to the general reserve and capital. The general reserve and capital balances do not cover the accumulated loss balance.

According to Article 5 of the Central Bank of Iraq Law of 2004, in the event that the audited annual balance sheet of the CBI shows that the value of its assets falls below the sum of its liabilities and unimpaired authorized capital, the CBI's Board of Directors shall assess the situation and prepare a report on the causes and extent of the shortfall. If the board determines that a capital contribution is required, the board shall consult with the Minister of Finance and request a capital contribution be made on behalf of the Republic of Iraq. Upon the receipt of this request, the Minister of Finance shall, within a period of no more than two months, make a request to the authorized governmental party for the approval of the capital contribution for the CBI over such period and in such amount as is necessary to remedy the shortfall.

21 INTEREST INCOME

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Treasury bills	937,329	717,080
Due from banks	155,927	13,317
Due from Ministry of Finance	256,049	269,694
Overnight deposits	82,721	58,230
Others	27,132	33,355
	<u>1,459,158</u>	<u>1,091,676</u>

22 INTEREST EXPENSE

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Local banks time deposits and overnight accounts	752,576	328,224
Loans from issued foreign governments and financial institutions	73,285	42,824
Treasury bills	502,258	40,536
Others	49,609	50,723
	<u>1,377,728</u>	<u>462,307</u>

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23 NET FEE AND COMMISSION INCOME

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Fee and commission income	454,942	157,976
	<u>454,942</u>	<u>157,976</u>

Fee and commission income for the year 2007 includes the commission income of IQD 405,311 million earned from the transfers transactions ordered by the Ministry of Finance from the Development Fund For Iraq account. CBI buys the dollars from the Ministry of Finance with a commission equivalent to 1% of the exchange rate applied to translate the amounts ordered into Iraqi Dinar.

24 OTHER PROVISIONS (RECOVERY OF PROVISIONS)

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Provision for DFI accounts (Note 30)	-	(74,240)
Provision for MOU accounts (Note 30)	-	(1,985)
Others	(44,745)	(65,210)
	<u>(44,745)</u>	<u>(141,435)</u>

25 TAXES

According to Article 44 of the Central Bank Law of 2004, the CBI is exempted from taxes on income or profit and certain other taxes and customs as stated in the Law.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of on balance sheet financial instruments are not materially different from their carrying amounts in the financial statements, except for:

- The balance due from Ministry of Finance which fair value is measured using an appropriate discount rate.
- The fair value of the balances due to foreign governments and banks and from Governmental institutions cannot be reliably measured due to the unavailability of sufficient information.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

27 RISK MANAGEMENT**27.1 Introduction**

The CBI does not have a formal risk management function. This risk management function should provide for an independent framework for reporting, monitoring and controlling all aspects of risk, valuing exposures, assessing performance, imposing, monitoring and enforcing position and other limits, stress testing and contingency planning.

27.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the CBI's performance to developments affecting a particular industry or geographic location.

- The CBI operates in one geographic market; Iraq. The current political instability in the area increases the risk of carrying out business and could adversely affect the CBI's activities.
- Significant part of CBI's assets in foreign currencies are maintained in one currency; US Dollars.
- The CBI invests a significant portion of its foreign currency assets in one country; United States.
- As of December 31, 2007, 96% (2006: 84%) of the local banks compulsory reserves and deposits at the CBI are related to Governmental banks.

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27.2 Credit risk (Continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

	<i>Notes</i>	Gross maximum exposure	
		2007	2006
		<i>IQD Million</i>	<i>IQD Million</i>
Cash and balances with central banks (Excluding cash on hand)	4	6,504,463	952,308
Due from banks	5	5,615,788	360,296
Treasury bills	6	24,004,486	20,033,353
Due from Ministry of Finance	7	4,688,201	5,407,472
Foreign currencies investments at International Monetary Fund	8	2,448,770	2,950,235
Other assets	10	11,896	8,670
Total		43,273,604	29,712,334
 Commitments	 31	 710,035	 3,933,699
Total		710,035	3,933,699
Total credit risk exposure		43,983,639	33,646,033

The maximum credit risk of the CBI is limited to the amounts on the balance sheet in addition to commitments disclosed in note (31). However, the CBI does not have formal risk assessment policies.

As of December 31, 2007 the contingent liabilities, if any, are uncertain and could not be quantified and provided for, due to the unavailability of sufficient information as further disclosed in note (31).

The distribution of assets, liabilities, and off-balance sheet items by geographic location was as follows:

	2007		
	<i>Assets</i>	<i>Liabilities</i>	<i>Credit</i>
	<i>IQD</i>	<i>IQD</i>	<i>Commitments</i>
	<i>Million</i>	<i>Million</i>	<i>IQD</i>
			<i>Million</i>
Local - Iraq	6,519,649	44,755,429	-
Other countries	38,625,531	4,913,527	710,035
	45,145,180	49,668,956	710,035

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27.2 Credit risk (continued)

	<i>2006</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Credit</i>
	<i>IQD</i>	<i>IQD</i>	<i>Commitments</i>
	<i>Million</i>	<i>Million</i>	<i>IQD</i>
			<i>Million</i>
Local - Iraq	9,457,278	31,734,286	-
Other countries	24,342,453	15,254,631	3,933,699
	<u>33,799,731</u>	<u>46,988,917</u>	<u>3,933,699</u>

27.3 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The CBI did not set limits on the value of risk that may be accepted.

27.4 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The CBI is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. During 2007 the CBI significantly increased the interest rate of overnight investment and time deposit, whereas the interest rate of overnight investment is 18% and time deposit ranges between 19% - 20% for the deposit of 14 days and 30 days respectively. Following are the interest rate gaps as of December 31, 2007:

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27.4 INTEREST RATE RISK (continued)

	<i>Less than month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 months to 1 year</i>	<i>More than 1 year</i>	<i>Non interest items</i>	<i>Total</i>
	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>
ASSETS							
Gold reserve	-	-	-	-	-	191,943	191,943
Cash and balances with central banks	6,504,464	-	-	-	-	1,657,215	8,161,679
Due from banks	-	5,609,014	-	-	-	6,774	5,615,788
Treasury bills	-	946,040	11,137,387	11,921,059	-	-	24,004,486
Due from Ministry of Finance	-	179,796	179,795	359,593	3,955,519	13,498	4,688,201
Foreign currencies investments at IMF	-	497,738	-	-	-	1,951,032	2,448,770
Property and equipment	-	-	-	-	-	22,417	22,417
Other assets	-	-	-	-	-	11,896	11,896
TOTAL ASSETS	6,504,464	7,232,588	11,317,182	12,280,652	3,955,519	3,854,775	45,145,180
LIABILITIES							
Currency issued	-	-	-	-	-	15,632,225	15,632,225
Treasury bills issued	-	-	2,394,182	351,493	-	-	2,745,675
Deposits of local banks	2,529,855	1,870,653	-	-	-	14,213,277	18,613,785
Due to foreign governments and banks	-	423,686	-	-	-	2,108,896	2,532,582
Due to International Monetary Fund	-	134,525	-	-	-	1,967,070	2,101,595
Due to governmental institutions	-	4,375	-	-	-	7,738,739	7,743,114
Other liabilities	-	-	-	-	-	289,494	289,494
TOTAL LIABILITIES	2,529,855	2,433,239	2,394,182	351,493	-	41,949,701	49,658,470
TOTAL DEFICIT	-	-	-	-	-	(4,513,290)	(4,513,290)
TOTAL LIABILITIES AND DEFICIT	2,529,855	2,433,239	2,394,182	351,493	-	37,436,411	45,145,180
ITEM GAP	3,974,609	4,799,349	8,923,000	11,929,159	3,955,519	(33,581,636)	-
ACCUMULATED GAP	3,974,609	8,773,958	17,696,958	29,626,117	33,581,636	-	-

Central Bank of Iraq

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Following are the interest rate gaps as of December 31, 2006:

	<i>Less than month</i>	<i>1 month to 3 months</i>	<i>3 months to 6 months</i>	<i>6 months to 1 year</i>	<i>More than 1 year</i>	<i>Non interest items</i>	<i>Total</i>
	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>	<i>IQD Million</i>
ASSETS							
Gold reserve	-	-	-	-	-	159,073	159,073
Cash and balances with central banks	952,308	-	-	-	-	3,906,310	4,858,618
Due from banks	-	359,497	-	-	-	799	360,296
Treasury bills	754,051	1,407,454	17,871,848	-	-	-	20,033,353
Due from Ministry of Finance	-	179,796	179,796	359,592	4,674,706	13,582	5,407,472
Foreign currencies investments at IMF	-	922,421	-	-	-	2,027,814	2,950,235
Property and equipment	-	-	-	-	-	22,014	22,014
Other assets	-	-	-	-	-	8,670	8,670
TOTAL ASSETS	1,706,359	2,869,168	18,051,644	359,592	4,674,706	6,138,262	33,799,731
LIABILITIES							
Currency issued	-	-	-	-	-	11,916,555	11,916,555
Treasury bills issued	-	-	964,543	667,757	-	-	1,632,300
Deposits of local banks	6,455,231	-	-	-	-	4,693,620	11,148,851
Due to foreign governments and banks	-	417,733	-	1,484,282	-	10,596,087	12,498,102
Due to International Monetary Fund	-	728,689	-	-	-	2,027,840	2,756,529
Due to governmental institutions	-	6,785	-	-	-	6,297,983	6,304,768
Other liabilities	-	-	-	-	-	731,812	731,812
TOTAL LIABILITIES	6,455,231	1,153,207	964,543	2,152,039	-	36,263,897	46,988,917
TOTAL DEFICIT	-	-	-	-	-	(13,189,186)	(13,189,186)
TOTAL LIABILITIES AND DEFICIT	6,455,231	1,153,207	964,543	2,152,039	-	23,074,711	33,799,731
ITEM GAP	(4,748,872)	1,715,961	17,087,101	(1,792,447)	4,674,706	(16,936,449)	-
ACCUMULATED GAP	(4,748,872)	(3,032,911)	14,054,190	12,261,743	16,936,449	-	-

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27.5 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The CBI views the Iraqi Dinar as its functional currency. The CBI does not have a policy to set limits on positions by currency. Significant part of CBI's assets in foreign currencies as of December 31, 2007 is maintained in US Dollars. Following are the foreign currencies positions as of December 31, 2007:

	<i>2007 IQD Million</i>	<i>2006 IQD Million</i>
US Dollar	24,580,577	9,608,730
SDR	3,617,806	193,706
Euro	347,175	132,774
Others	1,359,686	128,645
	<u>29,905,244</u>	<u>10,063,855</u>

27.6 LIQUIDITY RISK

Liquidity risk is the risk that the CBI will be unable to meet its liabilities when they fall due. The CBI does not have a formal liquidity risk policy.

There is an arrangement between the CBI and the Ministry of Finance that enables the CBI to improve its liquidity in foreign currencies through the financing of the Ministry of Finance needs of local currency in exchange of US Dollars.

The maturity profile of the CBI's assets and liabilities based on contractual repayment arrangements has not been quantified as of December 31, 2007 and December 31, 2006. However, all of the CBI's assets are either current or do not have a defined maturity period except the Treasury bills and the balance due from the Ministry of Finance which had the following maturity profile as at December 31, 2007:

	<i>Up to 1 month IQD Million</i>	<i>1 to 3 months IQD Million</i>	<i>3 to 6 months IQD Million</i>	<i>6 months to 1 year IQD Million</i>	<i>Over 1 Year IQD Million</i>	<i>Total IQD Million</i>
Treasury bills	3,638,098	8,477,873	11,888,515	-	-	24,004,486
Due from Ministry of Finance	-	193,293	179,796	359,593	3,955,519	4,688,201
	<u>3,638,098</u>	<u>8,671,166</u>	<u>12,068,311</u>	<u>359,593</u>	<u>3,955,519</u>	<u>28,692,687</u>

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27.6 LIQUIDITY RISK (continued)

Treasury bills and the balance due from the Ministry of Finance had the following maturity profile as at December 31, 2006:

	<i>Up to 1 month IQD Million</i>	<i>1 to 3 months IQD Million</i>	<i>3 to 6 months IQD Million</i>	<i>6 months to 1 year IQD Million</i>	<i>Over 1 Year IQD Million</i>	<i>Total IQD Million</i>
Treasury bills	754,051	1,407,454	17,871,848	-	-	20,033,353
Due from Ministry of Finance	-	193,378	179,796	359,592	4,674,706	5,407,472
	<u>754,051</u>	<u>1,600,832</u>	<u>18,051,644</u>	<u>359,592</u>	<u>4,674,706</u>	<u>25,440,825</u>

All the CBI liabilities as of December 31, 2007 and December 31, 2006 do not have specific maturity dates except the local banks time deposits which have original maturities of 7 to 30 days.

The repayment dates and the amount that may be repaid from due to foreign governments and banks balance of IQD 2,532,582 million are uncertain.

28 SEGMENTAL INFORMATION***Primary segment information***

Management does not organize the CBI operations in business segments.

Secondary segment information

The CBI operates in one geographic market; Iraq. However, the CBI has assets and liabilities in foreign countries. Following is a summary of the CBI's total assets and total liabilities in Iraq and in foreign countries and the total revenues generated in Iraq and in foreign countries:

	<i>Iraq 2007 IQD Million</i>	<i>Foreign Countries 2007 IQD Million</i>	<i>Total 2007 IQD Million</i>
Revenues	288,968	1,673,936	1,962,904
Total Assets	6,519,649	38,625,531	45,145,180
Total Liabilities	44,755,429	4,913,527	49,668,956

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28 SEGMENTAL INFORMATION (continued)*Secondary segment information (continued)*

	<i>Iraq</i>	<i>Foreign Countries</i>	<i>Total</i>
	<i>2006</i>	<i>2006</i>	<i>2006</i>
	<i>IQD</i>	<i>IQD</i>	<i>IQD</i>
	<i>Million</i>	<i>Million</i>	<i>Million</i>
Revenues	486,559	842,499	1,329,058
Total Assets	9,457,278	24,342,453	33,799,731
Total Liabilities	31,734,286	15,254,631	46,988,917

29 RELATED PARTY TRANSACTIONS

The CBI is a governmental entity and enters into transactions with Governmental banks, ministries and other Governmental institutions in the ordinary course of business at commercial interest and commission rates. Transactions with related parties included in the balance sheet and income statement are as follows:

	<i>2007 IQD Million</i>	<i>2006 IQD Million</i>
Balance Sheet		
ASSETS		
Cash at local governmental banks	771	800
Due from Ministry of Finance	4,688,201	5,407,472
Due from a governmental bank	8,871	-
	4,697,843	5,408,272
LIABILITIES		
Governmental local banks reserves and deposits	16,983,420	9,361,919
Due to Ministry of Finance	6,954,557	3,941,818
Due to Governmental institutions	794,668	2,356,075
Al Rafidain bank loan	4,375	6,875
	24,737,020	15,666,687
Off balance sheet commitments on behalf of Government of Iraq	710,035	3,933,699
Income statement		
Interest income from Ministry of Finance	256,049	269,695
Interest expenses on governmental banks deposits	627,327	275,708

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30 ACCOUNTS MANAGED ON BEHALF OF THE MOF

The CBI maintains the cash payments and receipts records of the Development Fund for Iraq (DFI), which was established during May 2003 and recognized by the United Nations Security Council Resolution (UNSCR) 1483 (2003). The DFI's bank accounts are managed by the CBI on behalf of the MOF. As of December 31, 2006 the DFI accounts have been excluded from the CBI's financial statements, which resulted in un-reconciled debit difference of IQD 11,823 million between the DFI assets balances and the related liability balances in the CBI records. This difference has been provided for in the CBI's financial statements as of December 31, 2006.

During 2007, CBI has excluded the DFI's accounts together with the provision taken as of December 31, 2006 from the CBI's records and financial statements.

The CBI maintains certain accounts related to the Memorandum of Understanding (MOU) signed on May 20, 1996 between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council Resolution 986 (1995). As of December 31, 2007, the balances of the MOU accounts have been excluded from the CBI's financial statements, which resulted in un-reconciled credit difference of IQD 9,823 million (2006: IQD 9,810 million) between the MOU assets balances and the related liability balances in the CBI records. However, the effect of this un-reconciled difference on the CBI's financial statements has not been determined yet.

31 COMMITMENTS AND CONTINGENT LIABILITIES***Credit-related commitments***

Credit-related commitments include standby letters of credit and guarantees which are designed to meet the requirements of the Iraqi ministries and other governmental institutions.

Letters of credit, guarantees (including standby letter of credit) and acceptances commit the CBI to make payments on behalf of the Iraqi ministries and other governmental institutions contingent upon the failure to perform under the terms of the contract.

There are outstanding off balance sheet balances of which the CBI is the guarantor of the debt, letters of credit and letters of guarantees of the CBI and the Iraqi ministries and other Governmental institutions. The off balance sheet accounting records are inaccurate and there is no sufficient evidence to support these accounts and to ensure the completeness and valuation of these balances. In addition, the effects of these off balance sheet accounts on the CBI's financial statements as of December 31, 2007, if any, are uncertain and the CBI's management could not quantify their effect at this stage.

The CBI has the following credit related commitments:

	<i>2007</i> <i>IQD Million</i>	<i>2006</i> <i>IQD Million</i>
Commitments on behalf of Government of Iraq:		
Loans guaranteed by CBI	36,185	39,462
Letters of guarantees and acceptance	22,119	22,119
Letters of credit	651,731	3,872,118
	<u>710,035</u>	<u>3,933,699</u>

NOTES TO THE FINANCIAL STATEMENTS

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31 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingent liabilities

There are lawsuits in different countries against the CBI for the settlement of past due debt of the CBI, Iraqi ministries and other governmental institutions for the amount of IQD 3,719,761 million as of December 31, 2007 (2006: IQD 4,409,711 million).

Many of the lawsuits may relate to debts reconciled or settled under the Government of Iraq's External Debt Reconciliation Project. However, to the financial statements issuance date, there are no sufficient information regarding the balances that have been reconciled /settled or exempted as of December 31, 2007, and the balances that will be reconciled and settled subsequent to year end.

Due to the unavailability of sufficient information, the final outcome of these lawsuits and its effect on the CBI's financial statements, if any, is uncertain and could not be quantified and provided for as of December 31, 2007.

The CBI Management believes that these commitments, if any, would be the liability of Ministry of Finance and not the CBI, however, the Ministry of Finance did not confirm its commitment to pay the outcomes of these lawsuits up to the date of these financial statements.