

CENTRAL BANK OF IRAQ

Financial Statements

31 December 2010

(With Independent auditors' report Thereon)

CENTRAL BANK OF IRAQ

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Independent auditors' report

To the Ministry of Finance of Iraq and to the governor of the Central Bank of Iraq (CBI)

We have audited the accompanying financial statements of Central Bank of Iraq (CBI), which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

- 1 As further explained in note (8) to the financial statements, the CBI's financial statements as at 31 December 2010 include old outstanding balances at foreign banks in the amount of IQD 1,787,036 million (2009: 1,882,991 million) which are fully provided for as at 31 December 2010 and 2009. In addition, during the years 2005 2006 and 2007 the CBI wrote off balances at foreign banks totaling IQD 1,071,942 million. The provided for and the written off accounts include balances for an amount of IQD 401,310 million as at 31 December 2010 (2009: IQD 389,251 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 was received from the Ministry of Finance to identify the amounts that could be refunded from the DFI to the CBI.

Independent auditors' report (continued)

Basis for Qualified Opinion (continued)

- 2 As explained in note (28) to the financial statements, CBI has outstanding off-balance sheet credit related commitment balances in the amount of IQD 52,719 million (2009: IQD 52,960 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 at 31 December 2010, if any, are uncertain and could not be quantified at this stage.
- 3 As further discussed in note (28) 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 841,758 million (2009: IQD 2,602,797 million). The final outcome of these lawsuits and effects on the CBI's financial statements as at 31 December 2010, 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 at 31 December 2010, if any.
- 4 As further discussed in note (17) 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 13 million as at 31 December 2010 (2009: IQD 108 million) as a result of the derecognition, while CBI will derecognize the remainder of these balances in the future. The CBI believes that the balances due to foreign governments and banks amounting to IQD 153,455 million (2009: IQD 153,455 million) are the liability of the Ministry of Finance as part of the Iraqi sovereign debt. The Ministry of Finance confirmed the relief of the CBI from all liabilities related to the MoF; however we were unable to ensure the accuracy of these balances and whether these liabilities are an obligation against the CBI or against the MoF.
- 5 We did not receive confirmations and reconciliations for the due to foreign banks, overdraft accounts at the CBI, disclosed in note (17) to the financial statements amounting to IQD 85,851 million as at 31 December 2010, and we could not extend our audit procedures to ensure the completeness and accuracy of these balances as at 31 December 2010.
- 6 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 Financial Reporting Standard (IFRS) 7.

Independent auditors' report (continued)

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a Matter

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 (K.R.G) and their operations are financed by ICRG. 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 at 31 December 2010.

Other Matter

The financial statements of the CBI as at and for the year ended 31 December 2009 were audited by another auditor who expressed a qualified opinion on those statements on 20 June 2010 due to the following:

- 1 Not receiving confirmation from the Ministry of Finance to identify the amounts that could be refunded from the DFI to the CBI.
- 2 Due to the unavailability of sufficient information for the off-balance sheet records to ensure the completeness and valuation of these balances.
- 3 Not receiving confirmations from the CBIs legal advisors.
- 4 Not receiving confirmations and reconciliations of certain local banks current accounts at the CBI as at 31 December 2009.
- 5 Not receiving confirmations for balances due to the Ministry of Finance as at 31 December 2009.
- 6 The Ministry of finance did not confirm the relief of CBI's liabilities to foreign governments and banks.
- 7 The 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 as per IFRS 7.



Beirut - Lebanon
30 August 2011

Central Bank of Iraq

Statement of financial position


As at 31 December 2010

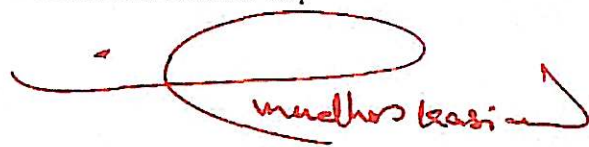
In millions of IQD

	Note	2010	2009
Assets			
Gold reserve	6	311,611	243,941
Cash and balances with central banks	7	8,147,719	18,022,171
Balances with banks	8	12,035,213	12,440,309
Held to maturity investment securities	9	35,814,046	18,741,265
Due from Ministry of Finance	10	3,969,090	3,969,090
Foreign currencies investments at International Monetary Fund	11	4,246,693	4,307,174
Property and equipment	13	86,226	84,299
Other assets	12	432,270	149,572
Total Assets		65,012,868	57,957,821
Liabilities and equity			
Liabilities			
Currency issued	14	27,507,328	24,169,401
Treasury bills issued	15	396,499	1,184,350
Deposits of local and governmental banks	16	30,617,212	25,553,451
Due to foreign governments and banks	17	243,697	240,410
Due to International Monetary Fund	18	3,844,215	3,863,689
Balances due to governmental institutions	19	2,146,691	1,502,912
Other liabilities	20	63,169	96,241
Total liabilities		64,815,811	56,610,454
Equity			
Capital	21	100,000	100,000
General reserve	21	803,173	2,100
Emergency reserve	21	200,268	-
Gold revaluation reserve	21	311,596	243,926
(Accumulated losses) retained earnings	21	(1,217,980)	1,001,341
Total equity		197,057	1,347,367
Total liabilities and equity		65,012,868	57,957,821

The notes on pages 8 to 33 are an integral part of these financial statements.

The financial statements were authorized for issue by the Governor of the Central Bank of Iraq on 30 August 2011.


Haifa Peter
Head of accounting department


Acting Governor of the Central Bank of Iraq

Central Bank of Iraq

Statement of comprehensive income

Year ended 31 December 2010

In millions of IQD

	Note	2010	2009
Revenues			
Interest income	22	476,651	859,408
Interest expense	23	(138,855)	(418,743)
Net interest income		337,796	440,665
Net fee and commission income	24	747,137	458,838
Gold revaluation gain	21	67,670	52,483
Recovery of provisions		21,958	1,224
(Loss) gain on translation of foreign currency		(2,259,725)	2,474,055
Effect of derecognition of foreign creditors balances	17	13	108
Other income		1,369	1,764
(Loss) profit from operations		(1,083,782)	3,429,137
Personnel expenses		(22,277)	(20,062)
Depreciation		(2,173)	(1,368)
General and administrative expenses		(42,078)	(42,796)
(Loss) profit for the year		(1,150,310)	3,364,911
Total comprehensive income for the year		(1,150,310)	3,364,911

The notes on pages 8 to 33 are an integral part of these financial statements.

Central Bank of Iraq
Statement of changes in equity
Year ended 31 December 2010

In millions of IQD

	Notes	Capital	General reserve	Emergency reserve	Gold revaluation reserve	(Accumulated losses) retained earnings	Total
Balance at 1 January 2009		100,000	2,100	—	191,443	(2,311,087)	(2,017,544)
Total comprehensive income for the year							
Profit for the year		—	—	—	—	3,364,911	3,364,911
Total comprehensive income for the year		—	—	—	—	3,364,911	3,364,911
Gold revaluation reserve for the year	21	—	—	—	52,483	(52,483)	—
Balance at 31 December 2009		100,000	2,100	—	243,926	1,001,341	1,347,367
Balance at 1 January 2010		100,000	2,100	—	243,926	1,001,341	1,347,367
Total comprehensive income for the year							
Loss for the year		—	—	—	—	(1,150,310)	(1,150,310)
Total comprehensive income for the year		—	—	—	—	(1,150,310)	(1,150,310)
Transfers							
Transfer to general reserve	21	—	801,073	—	—	(801,073)	—
Transfer to emergency reserve	21	—	—	200,268	—	(200,268)	—
Gold revaluation reserve for the year	21	—	—	—	67,670	(67,670)	—
Total transfers		—	801,073	200,268	67,670	(1,069,011)	—
Balance at 31 December 2010		100,000	803,173	200,268	311,596	(1,217,980)	197,057

The notes on pages 8 to 33 are an integral part of these financial statements.

Central Bank of Iraq

Statement of cash flows

Year ended 31 December 2010

In millions of IQD

	Notes	2010	2009
Cash flows from operating activities			
(Loss) profit for the year		(1,150,310)	3,364,911
Adjustments for:			
Effect of derecognition of foreign creditors balances	17	(13)	(108)
Depreciation		2,173	1,368
Revaluation of gold reserve		(67,670)	(52,483)
Recovery of provision		—	(2,343)
		(1,215,820)	3,311,345
Change in balances with banks		2,013	4,451
Change in other assets		(282,698)	(100,252)
Change in currency issued		3,337,927	2,864,983
Change in deposits of local banks		5,063,761	(593,733)
Change in due to foreign governments and banks		3,287	(308)
Change in due to International Monetary Fund		(22,474)	1,754,525
Change in balances due to governmental institutions		643,779	(13,139,414)
Change in other liabilities		(33,072)	(19,050)
Net cash flows from (used in) operating activities		7,496,703	(5,917,453)
Cash flows from investing activities			
Held to maturity investment securities		(17,072,781)	9,852,557
Foreign currencies investments at IMF		90,481	(1,994,120)
Purchase of property and equipment		(4,429)	(51,763)
Proceeds from disposal of property and equipment		329	—
Net cash flows (used in) from investing activities		(16,986,400)	7,806,674
Cash flows from financing activities			
Treasury bills issued		(787,851)	(1,039,581)
Net cash flows used in financing activities		(787,851)	(1,039,581)
Net (decrease) increase in cash and cash equivalents		(10,277,548)	849,640
Cash and cash equivalents as at 1 January		30,460,480	29,610,840
Cash and cash equivalents as at 31 December	25	20,182,932	30,460,480

The notes on pages 8 to 33 are an integral part of these financial statements.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(1) Activities

The Central Bank of Iraq ("CBI" - also referred to in these financial statements as "the Bank") 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 at 31 December 2009 and 2010.

(2) Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) except for: the financial statements do not include certain disclosures relating to liquidity risk, foreign currency risk, interest rate risk and other disclosures related to the financial instruments that should be disclosed in the financial statements as required by International Financial Reporting Standard (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.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(2) Basis of preparation (continued)

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the gold which is measured at fair value.

c) Functional and presentation currency

The financial statements are presented in Iraqi Dinar (IQD), which is the Bank's functional currency. All financial information presented in IQD has been rounded to the nearest million.

d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in notes 4 and 5.

(3) Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

b) Gold

Gold is stated on the basis of the closing price in London gold market (USD 1,410.25 per ounce) as at 31 December 2010. The CBI maintains the gold as part of its foreign reserve management and does not have a present intent to dispose of it. The gains or losses on the revaluation of gold at market prices are recorded in the statement of comprehensive income. The cumulative gain on the gold revaluation is then transferred to a special reserve account and is disclosed in a separate component in equity.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

c) Financial assets and liabilities

Recognition

The Bank initially recognizes loans, deposits and debt securities on the date that they are originated. Regular way purchases and sales of financial assets are recognized at the trade date at which the Bank commits to purchase or sell the assets. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset, and the sum of (1) the consideration received (including any new asset obtained less any new liability assumed) and (2) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set-off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set-off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activities.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

c) Financial assets and liabilities (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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 fair value of the balances due to foreign governments and banks and from governmental institutions which cannot be reliably measured due to the unavailability of sufficient information.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A Financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount and their estimated recoverable amount based on management best estimates. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

d) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

All the Bank's investment securities are classified as held to maturity.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- sales or reclassifications after the Group has collected substantially all of the asset's original principal.
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

e) Loans and due from banks

Loans and due from banks are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market or classified as financial assets held for sale or for trading or financial assets designated at fair value through profit or loss. After initial measurement, amounts due from banks and loans are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement as credit loss expenses.

f) Interest

Interest income and expense are recognized in the profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument. The calculation of the effective interest rate includes discounts or premiums that are an integral part of the effective interest rate.

Interest income and expense presented in the statement of the comprehensive income include:

- Interest on treasury bills and bonds,
- Interest on due from banks and due from Ministry of Finance,
- Interest on treasury bills issued.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

g) Fees and commissions

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and other finance fees on loans are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

h) Recognition of income

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.

i) Local banks reserves and deposits

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

j) 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 amortised cost as at 31 December 2010.

k) Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

l) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

l) Property and equipment (continued)

Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

- | | |
|---------------------------------|-------------|
| • Buildings | 20 years |
| • Vehicles | 5 years |
| • Furniture and other equipment | 3 – 5 years |

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

n) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by using management best estimates to the risk specific to the liability.

o) Fiduciary assets

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

p) 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.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(3) Significant accounting policies (continued)

q) 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.

r) New standards and interpretations not yet adopted

Standards, amendment and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

1. IFRS 9, "Financial instruments", issued in November 2009. This standard is the first step in the process to replace IAS 39, "Financial instruments: recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Key impacts are as follows:
 - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
 - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features").
 - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss.
2. Revised IAS 24 (revised), "Related party disclosures", issued in November 2009. It supersedes IAS 24, "Related party disclosures", issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. When the revised standard is applied, the Bank and the parent will need to disclose any transactions between its subsidiaries and its associates.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The CBI does not have a formal risk management function or department. 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.

a) 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 maximum credit risk of the CBI is limited to the amounts reported in the statement of financial position in addition to commitments disclosed in note (28). However, the CBI does not have formal risk assessment policies.

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 area which is Iraq. The current political instability in the area increases the risk of carrying out business and could adversely affect the CBI's activities.
- As at 31 December 2010, 91% (2009: 87%) of the local banks compulsory reserves and deposits at the CBI are related to governmental banks.

As at 31 December 2010 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 (28).

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

a) Credit risk (continued)

The maximum exposure to credit risk without taking into account any collateral or other credit enhancements is as per the schedule below:

In millions of IQD

	Gross maximum exposure	
	2010	2009
Balances with central banks	6,614,641	16,110,435
Balances with banks	12,035,213	12,440,309
Held to maturity investment securities	35,814,046	18,741,265
Due from Ministry of Finance	3,969,090	3,969,090
Foreign currencies investments at International Monetary Fund	4,216,693	4,307,174
Other assets	432,270	149,572
Total	63,081,953	55,717,845
Commitments	52,719	52,960
Total credit risk exposure	63,134,672	55,770,805

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

31 December 2010

In millions of IQD

	Assets	Liabilities	Credit Commitments
Local - Iraq	5,815,959	60,697,292	—
Other countries	59,196,909	4,118,519	52,719
	65,012,868	64,815,811	52,719

31 December 2009

In millions of IQD

	Assets	Liabilities	Credit Commitments
Local - Iraq	6,146,136	52,436,037	—
Other countries	51,811,685	4,174,417	52,960
	57,957,821	56,610,454	52,960

Impaired loans and advances

Impaired loans are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. Interest on the impaired loans is suspended and a provision for impairment loss is recognized in the income statement according to management best estimates taking into consideration collaterals if any.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

a) Credit risk (continued)

Write-off policy

The Bank writes off a loan or an investment in a debt security balance and any related allowances for impairment losses, when the Bank determines that the loan or security is uncollectible.

This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

b) Liquidity risk

Liquidity risk is the risk that the CBI will not 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 at 31 December 2010 and 31 December 2009. 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:

31 December 2010

In millions of IQD

	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
Held to maturity investment securities	312	16,997,229	2,249,314	16,567,191	35,814,046
Due from Ministry of Finance	—	—	—	3,969,090	3,969,090
	<u>312</u>	<u>16,997,229</u>	<u>2,249,314</u>	<u>20,536,281</u>	<u>39,783,136</u>

31 December 2009

In millions of IQD

	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
Held to maturity investment securities	197,094	3,267,930	1,691,756	13,584,485	18,741,265
Due from Ministry of Finance	—	—	—	3,969,090	3,969,090
	<u>197,094</u>	<u>3,267,930</u>	<u>1,691,756</u>	<u>17,553,575</u>	<u>22,710,355</u>

All the CBI liabilities as at 31 December 2010 and 31 December 2009 do not have specific maturity dates except the local banks time deposits which have original maturities of 7 days. The repayment dates and the amount that may be repaid from due to foreign governments and banks balance of IQD 241,699 million are uncertain.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

c) Market risk

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

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 possible mismatches of interest rate re-pricing of assets and liabilities.

The Bank did not set interest price risk and did not set the amount of the interest rate gaps as at 31 December 2010. During 2010 the CBI decreased the interest rate of time deposit, whereas the average interest rate on time deposits of local banks with CBI is around 4% for a 7 days deposit (2009: 5%, for a 7 day deposit).

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

Following are the interest rate gaps as at 31 December 2010:

In millions of IQD

Assets	Less than month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	Non interest items	Total
Gold reserve	—	—	—	—	—	311,611	311,611
Cash and balances with central banks	6,614,641	—	—	—	—	1,533,078	8,147,719
Balances with banks	—	12,035,213	—	—	—	—	12,035,213
Held to maturity investment securities	—	312	16,997,229	2,249,314	16,567,191	—	35,814,046
Due from Ministry of Finance	—	—	—	—	3,955,519	13,571	3,969,090
Foreign currencies investments at IMF	—	2,383,722	—	—	—	1,832,971	4,216,693
Property and equipment	—	—	—	—	—	86,226	86,226
Other assets	—	—	—	—	—	432,270	432,270
Total Assets	6,614,641	14,419,247	16,997,229	2,249,314	20,522,710	4,209,727	65,012,868
Liabilities							
Currency issued	—	—	—	—	—	27,507,328	27,507,328
Treasury bills issued	—	396,499	—	—	—	—	396,499
Deposits of local banks	1,065,600	—	—	—	—	29,551,612	30,617,212
Due to foreign governments and banks	—	—	—	—	—	243,697	243,697
Due to International Monetary Fund	—	1,519,308	—	—	—	2,321,907	3,841,215
Balances due to governmental institutions	—	—	—	—	—	2,146,691	2,146,691
Other liabilities	—	—	—	—	—	63,169	63,169
Total liabilities	1,065,600	1,915,807	—	—	—	61,834,404	64,815,811
Total equity	—	—	—	—	—	197,057	197,057
Total liabilities and equity	1,065,600	1,915,807	—	—	—	62,031,461	65,012,868
Item gap	5,549,041	12,503,440	16,997,229	2,249,314	20,522,710	(57,821,734)	—
Accumulated gap	5,549,041	18,052,481	35,049,710	37,299,024	57,821,734	—	—

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

Following are the interest rate gaps as at 31 December 2009:

In millions of IQD

Assets	Less than month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	Non interest items	Total
Gold reserve	-	-	-	-	-	243,941	243,941
Cash and balances with central banks	16,110,435	-	-	-	-	1,911,736	18,022,171
Balances with banks	-	12,438,309	-	-	-	2,000	12,440,309
Held to maturity investment securities	-	197,094	3,267,930	1,691,756	13,584,485	-	18,741,265
Due from Ministry of Finance	-	-	-	-	3,955,519	13,571	3,969,090
Foreign currencies investments at IMF	-	2,441,245	-	-	-	1,865,929	4,307,174
Property and equipment	-	-	-	-	-	84,299	84,299
Other assets	-	-	-	-	-	149,572	149,572
Total Assets	16,110,435	15,076,648	3,267,930	1,691,756	17,540,004	4,271,048	57,957,821
Liabilities							
Currency issued	-	-	-	-	-	24,169,401	24,169,401
Treasury bills issued	-	-	1,184,350	-	-	-	1,184,350
Deposits of local banks	2,802,550	-	-	-	-	22,750,901	25,553,451
Due to foreign governments and banks	-	-	-	-	-	240,410	240,410
Due to International Monetary Fund	-	2,080,888	-	-	-	1,782,801	3,863,689
Balances due to governmental institutions	-	-	-	-	-	1,502,912	1,502,912
Other liabilities	-	-	-	-	-	96,241	96,241
Total liabilities	2,802,550	2,080,888	1,184,350	-	-	50,542,666	56,610,454
Total equity	-	-	-	-	-	1,347,367	1,347,367
Total liabilities and equity	2,802,550	2,080,888	1,184,350	-	-	51,890,033	57,957,821
Item gap	13,307,885	12,995,760	2,083,580	1,691,756	17,540,004	(47,618,985)	-
Accumulated gap	13,307,885	26,303,645	28,387,225	30,078,981	47,618,985	-	-

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(4) Financial risk management (continued)

c) Market risk (continued)

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. The Bank did not compute the amounts of the foreign currency positions as at 31 December 2010.

(5) Use of estimates and judgments

Management is responsible for the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(c).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the recoverable amounts that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of amounts considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(6) Gold reserve

In millions of IQD

Gold reserve in CBI vault
Gold reserve at the Bank for International Settlements
Gold coins at CBI vault

2010	2009
226,710	177,477
84,478	66,132
423	332
<u>311,611</u>	<u>243,941</u>

(7) Cash and balances with central banks

In millions of IQD

Cash on hand
Current account with Federal Reserve Bank of New York
Time deposits with Federal Reserve Bank of New York
Current account with Central Bank of United Arab Emirates
Current account with Banque De France
Time deposits with Banque De France
Current account with Banca D'Italia
Time deposits with Bank of England
Time deposits with De Nederlandsche Bank N.V.
Current account with De Nederlandsche Bank N.V.

2010	2009
1,533,078	1,911,736
5,731	257
3,974,139	8,330,164
256	442,371
5,796	2,331
—	4,686,415
1,200	327
2,532,595	2,648,570
93,225	—
1,699	—
<u>8,147,719</u>	<u>18,022,171</u>

(8) Balances with banks

In millions of IQD

Due from local governmental banks
Current accounts with foreign banks
Time deposits with foreign banks
Frozen deposits with foreign banks

Note	2010	2009
26	7,769	10,427
	79,685	79,066
	11,955,528	12,359,243
	1,787,036	1,882,991
	<u>13,830,018</u>	<u>14,331,727</u>
26	(7,769)	(8,427)
	<u>(1,787,036)</u>	<u>(1,882,991)</u>
	<u>12,035,213</u>	<u>12,440,309</u>

Allowance for impairment losses of due from local governmental banks

Allowance for impairment losses of frozen deposits with foreign banks

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(8) Balances with banks (continued)

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).

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 UNSC Resolution 1483 (2003). As of the date the financial statements were authorized for issuance, the MOF has not confirmed the amounts of IQD 401,310 million, equivalent to US Dollar 343 million (2009: IQD 389,251 million, equivalent to US Dollar 333 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 at 31 December 2010.

(9) Held-to-maturity investment securities

In millions of IQD

	2010	2009
The Federal Reserve Bank of New York	17,155,710	3,393,000
Unamortized discount	(6,848)	(646)
	17,148,862	3,392,354
Banque De France - Bills and bonds	7,598,061	8,603,493
Banca D'Italia - Bonds	4,701,278	6,745,418
De Nederlandsche Bank N.V. - Bonds	6,365,845	—
	35,814,046	18,741,265

(10) Due from Ministry of Finance

In millions of IQD

	Note	2010	2009
Due from Ministry of Finance		3,955,519	3,955,519
Accrued interest		13,571	13,571
	26	3,969,090	3,969,090

On 21 February 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 should be settled over 7.5 years starting on 31 March 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.

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(10) Due from Ministry of Finance (continued)

The MOF shall 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.

The MOF did not settle installments related to the year 2008 that should be settled and paid to the CBI in 2009 amounting to IQD 719,184 million. On 24 December 2009, the CBI and the MOF agreed to reschedule the remaining balance due to the CBI, amounting to IQD 3,955,519 and to start making payments to the CBI from 1 March 2011, through equal quarterly installments of IQD 100,000 million each.

(11) Foreign currencies investments at IMF

	2010		2009	
	SDR	IQD Million	SDR	IQD Million
International Monetary Fund				
Quota Subscription	1,184,000,000	2,141,259	1,188,400,000	2,179,760
Special Drawing Rights				
Holdings with IMF	1,151,866,958	2,075,434	1,159,861,188	2,127,414
	<u>2,335,866,958</u>	<u>4,216,693</u>	<u>2,348,261,188</u>	<u>4,307,174</u>

(12) Other assets

In millions of IQD

	2010	2009
Interest receivable	431,839	245,552
Suspense accounts	—	4,275
Loans to employees	6	942
Others	425	261
	<u>432,270</u>	<u>251,030</u>
Allowance for impairment	—	(101,458)
	<u>432,270</u>	<u>149,572</u>

As at 31 December 2010, other assets that are provided for comprise the following:

In millions of IQD

	2010	2009
Interest receivable	—	97,183
Suspense accounts	—	4,275
	<u>—</u>	<u>101,458</u>

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(13) Property and equipment

In millions of IQD

	Land	Buildings	Fixtures and fittings	Vehicles	Under construction	Total
Cost						
Balance at 31 December 2009	74,159	2,461	6,101	3,922	1,255	87,898
Balance at 1 January 2010	74,159	2,461	6,101	3,922	1,255	87,898
Additions	1,854	328	1,790	2	455	4,429
Disposals	—	—	(30)	—	(329)	(359)
Balance at 31 December 2010	76,013	2,789	7,861	3,924	1,381	91,968
Depreciation						
Balance at 31 December 2009	—	(137)	(2,438)	(1,024)	—	(3,599)
Balance at 1 January 2010	—	(137)	(2,438)	(1,024)	—	(3,599)
Depreciation for the year	—	(139)	(1,298)	(736)	—	(2,173)
Disposals	—	—	30	—	—	30
Balance at 31 December 2010	—	(276)	(3,706)	(1,760)	—	(5,742)
Carrying amounts						
At 31 December 2009	74,159	2,324	3,663	2,898	1,255	84,299
At 1 January 2010	74,159	2,324	3,663	2,898	1,255	84,299
At 31 December 2010	76,013	2,513	4,155	2,164	1,381	86,226

(14) Currency issued

In millions of IQD

Banknotes

	2010	2009
Banknotes	27,507,328	24,169,401

(15) Treasury bills issued

In millions of IQD

Face value

Unamortized discount

	2010	2009
Face value	400,030	1,200,060
Unamortized discount	(3,531)	(15,710)
	396,499	1,184,350

The discounted treasury bills are auctioned off to local banks with interest rates that range between 5% and 7% (2009: interest rates range between 5% and 7%) in accordance with the instructions issued by CBI.

Treasury bills are issued with original maturity of six and three months. Total treasury bills issued during the year 2010 amounted to IQD 1,663,070 million (2009: IQD 2,400,150 million).

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

Central Bank of Iraq

Notes to the financial statements

31 December 2010

(16) Deposits of local and governmental banks

In millions of IQD

	2010	2009
Current accounts	29,527,981	22,727,270
Time deposits	1,065,600	2,802,550
Others	23,631	23,631
	<u>30,617,212</u>	<u>25,553,451</u>

According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at the CBI equivalent to 10% of total customers' deposits in Iraqi Dinar and 15% of total customers' deposits in foreign currencies and to keep cash in their books equivalent to 5% of total customers' deposits in Iraqi Dinar (in 2009, the Iraqi governmental banks had to maintain a compulsory reserve at the CBI of 25% of total customers' deposits). Compulsory reserve represents a non-interest bearing liability.

The deposits of local banks as at 31 December 2010 includes compulsory reserve deposited in the CBI amounted to IQD 993,664 million and a balance in USD amounted to USD 610,692,308 equivalent to IQD 714,510 million.

(17) Due to foreign governments and banks

In millions of IQD

	2010	2009
Due to foreign governments and financial institutions *	153,455	153,455
Overdraft accounts	85,851	82,148
Balances for international institutions	4,391	2
Others	—	4,805
	<u>243,697</u>	<u>240,410</u>

* During 2007, 2008, 2009 and 2010, 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 13 million (2009: IQD 108 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. The Ministry of Finance confirmed the relief of the CBI from all liabilities related to the MoF; however we were unable to ensure whether these liabilities are an obligation against the CBI or against the MoF.

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Notes to the financial statements

31 December 2010

(18) Due to international monetary fund

	2010		2009	
	SDR	IQD	SDR	IQD
	Million		Million	
SDR allocations	1,134,495,508	2,044,134	1,134,495,508	2,080,888
IMF securities	1,014,329,000	1,791,811	1,014,329,000	1,777,572
Currency Holdings:				
IMF no. 1 account including currency valuation adjustments	2,971,000	5,248	2,971,000	5,207
IMF no. 2 account including currency valuation adjustments	12,580	22	12,580	22
	<u>2,151,808,088</u>	<u>3,841,215</u>	<u>2,151,808,088</u>	<u>3,863,689</u>

The balance of Special Drawing Rights (SDR) 1,134,495,508 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.

(19) Balances due to governmental institutions

In millions of IQD

Note	2010	2009
Due to Ministry of Finance	1,479,454	939,061
Due to other governmental institutions	445,576	276,955
Due to Sulaimaniyah and Erbil branches	167,423	232,658
Others	54,238	54,238
26	<u>2,146,691</u>	<u>1,502,912</u>

(20) Other liabilities

In millions of IQD

	2010	2009
Interest payable	35,605	35,935
Accounts payable	3,261	1,864
Intra-branch balances	(5,457)	(9,938)
Suspense balances *	7,999	44,723
Sundry provisions	9,926	9,926
Canceled coins	4,881	5,371
Others	6,954	8,360
	<u>63,169</u>	<u>96,241</u>

* These balances represent liability balances that have not been reconciled as at 31 December 2010. The effects of the reconciliation of these balances on the financial statements have not been determined as at 31 December 2010.

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Notes to the financial statements

31 December 2010

(21) Equity

In millions of IQD

	2010	2009
Capital (a)	100,000	100,000
General reserve (b)	803,173	2,100
Emergency reserve (b)	200,268	–
Gold revaluation reserve (c)	311,596	243,926
(Accumulated losses) retained earnings (d)	(1,217,980)	1,001,341
	<u>197,057</u>	<u>1,347,367</u>

a) 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.

b) 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.

c) Gold revaluation reserve

The CBI has a gold revaluation gain reserve in the amount of IQD 311,596 million which represents the following:

In millions of IQD

	2010	2009
Gold revaluation reserve, beginning of year	243,926	191,443
Gold revaluation gain for the year	67,670	52,483
Gold revaluation reserve, end of year	<u>311,596</u>	<u>243,926</u>

d) (Accumulated losses) retained earnings

According to Article 6 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. In 2008, there was no resolution from the CBI's Board of Directors to charge the accumulated losses to the general reserve and capital and the general reserve and capital balances did not cover the accumulated loss balance.

According to Article 9 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.

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(21) Equity (continued)

d) (Accumulated losses) retained earnings (continued)

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. On 15 March 2010 the Central Bank of Iraq sent a letter to the Ministry of Finance requesting the Ministry to cover the deficit incurred in 2008.

However, for the year 2009 the CBI's net income exceeded the accumulated losses, and equity as at 31 December 2009 amounted to IQD 1,347,367 million.

On 30 June 2010, the CBI's board of directors has decided to transfer the remaining profits of 2009 which amounted to IQD 1,001,341 million as per the following:

- IQD 801,073 million to general reserves.
- IQD 200,268 million to emergency reserves.

(22) Interest income

In millions of IQD

Note	2010	2009
Treasury bills and bonds	224,089	364,395
Due from banks	40,358	287,962
Due from Ministry of Finance	197,776	197,776
Overnight deposits	5,404	5,552
Others	9,025	3,723
	<u>476,652</u>	<u>859,408</u>

(23) Interest expense

In millions of IQD

	2010	2009
Local banks time deposits	86,191	257,419
Treasury bills	42,152	158,254
Others	10,512	3,070
	<u>138,855</u>	<u>418,743</u>

(24) Net fee and commission income

In millions of IQD

	2010	2009
Fee and commission income	749,525	460,572
Fee and commission expense	(2,388)	(1,734)
	<u>747,137</u>	<u>458,838</u>

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(24) Net fee and commission income (continued)

Fee and commission income for the year 2010 includes the commission income of IQD 479,700 million (2009: IQD 298,350 million) earned from the transfers transactions ordered by the Ministry of Finance from the Development Fund of Iraq account. The 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.

(25) Cash and cash equivalents

In millions of IQD

	2010	2009
Cash and balances with central banks	8,147,719	18,022,171
Current accounts with foreign banks	79,685	79,066
Time deposits with foreign banks	11,955,528	12,359,243
	<u>20,182,932</u>	<u>30,460,480</u>

(26) 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 statement of financial position and income statement are as follows:

In millions of IQD

	Note	2010	2009
(A) Assets			
Due from Ministry of Finance	10	3,969,090	3,969,090
Due from local governmental banks	8	7,769	8,427
Allowance for impairment losses of due from local governmental banks	8	(7,769)	(8,427)
		<u>3,969,090</u>	<u>3,969,090</u>
(B) Liabilities			
Governmental local banks reserves and deposits	16	28,066,903	22,211,182
Balances due to governmental institutions	19	2,146,691	1,502,912
		<u>30,213,594</u>	<u>23,714,094</u>
(C) Off balance sheet			
Off balance sheet commitments on behalf of Government of Iraq		52,719	52,960
(D) Related party transactions			
Interest income from Ministry of Finance		197,776	197,776
Interest expenses on governmental banks deposits		84,569	378,961

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(27) 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 Ministry of Finance (MOF). As at 31 December 2007 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 at 31 December 2007.

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

During 2009, un-reconciled excess of assets over liabilities in the DFI balances amounted to IQD 5,418 million.

The CBI maintains certain accounts related to the Memorandum of Understanding (MOU) signed on 20 May 1996 between the Secretariat of the United Nations and the government of Iraq on the implementation of Security Council Resolution 986 (1995). As at 31 December 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 9,810 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.

(28) Commitments and contingent liabilities

a) 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 at 31 December 2010, 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:

In millions of IQD

Commitments on behalf of government of Iraq:

Loans guaranteed by CBI

Letters of guarantees and acceptance

2010	2009
34,845	34,845
17,874	18,115
52,719	52,960

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(28) Commitments and contingent liabilities (continued)

b) 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 841,758 million as at 31 December 2010 (2009: IQD 2,602,797 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 at 31 December 2010, 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 at 31 December 2010.

The CBI Management believes that these commitments, if any, would be the liability of Ministry of Finance and not the CBI. On 30 September 2010, the Ministry of Finance confirmed its commitment to pay the outcomes of these lawsuits up to the date of these financial statements.

(29) Off-balance sheet

The Central Bank of Iraq, in its role as the banker of the Ministry of Finance and the fiscal agent of the Government of Iraq, as stipulated in the Central Bank Law of Iraq (Article 4, section 1.d), holds promissory notes in its off balance sheet amounting to IQD 524,826 million, which represent the International Monetary Fund financing to Iraq for budget support and therefore for the use of the Ministry of Finance.

Glossary

CBI: Central Bank of Iraq

MOF: Ministry of Finance

IMF: International Monetary Fund

KRG: Kurdistan Regional Government

IQD: Iraqi Dinar

DFI: Development Fund for Iraq

SDR: Special Drawing Rights

MOU: Memorandum of Understanding