

CENTRAL BANK OF IRAQ

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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

We have audited the accompanying financial statements of Central Bank of Iraq (CBI), which comprise the balance sheet as at 31 December 2008 and the income statement, cash flow statement and statement of changes in deficit 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the paragraphs below from 1 to 8, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 the auditors' 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 (5) to the financial statements, the CBI's financial statements as of December 31, 2008 include old outstanding balances at foreign banks in the amount of IQD 1,885,604 million (2007: IQD 1,982,154 million). An impairment loss of IQD 1,885,604 million has been provided for as of 31 December 2008 (2007: IQD 1,982,152 million). Additionally, during the years 2005, 2006 and 2007 the CBI wrote off balances at

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

foreign banks totaling to IQD 1,071,942 million. The provided for and the written off accounts include balances for an amount of IQD 389,916 million (2007: IQD 404,443 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.

2. As explained in note (31) to the financial statements, CBI has outstanding off-balance sheet credit related commitment balances in the amount of IQD 130,251 million (2007: 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, 2008, if any, are uncertain and could not be quantified at this stage.
3. 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 3,355,197 million (2007: IQD 3,719,761 million). The final outcome of these lawsuits and effects on the CBI's financial statements as of December 31, 2008, 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, 2008, if any.
4. Reference to note (13) to the financial statements, we did not receive confirmations and reconciliations of certain local banks' current accounts at the CBI as of December 31, 2008. 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 3,038,876 million (2007: IQD 12,603,752 million). The 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.
5. 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 13,118,708 million (2007: IQD 6,954,558 million) and IQD 286,738 million (2007: IQD 173,926 million) respectively. Therefore, no reconciliations have been made for these balances as of December 31, 2008. We did not receive confirmations of these balances as of December 31, 2008 and we could not extend our audit procedures to ensure the completeness, valuation and accuracy of these balances as of December 31, 2008.

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

6. As of December 31, 2008 the CBI has an accumulated losses balance of IQD 2,311,087 million. In addition, the CBI's total liabilities as of December 31, 2008 exceed its total assets by IQD 2,017,544 million. As further discussed in note (20) to the financial statements, to the date of this report, the Ministry of Finance did not cover the CBI's accumulated losses.
7. Due to appointing us as auditors of the CBI after December 31, 2008, we were not able to attend the observation of the physical count of the cash on hand in foreign currencies of IQD 3,818,111 million and the Iraqi Dinar currency of IQD 3,543,793 million in the vaults of the Main Branch and Basrah and Mosul Branches as of December 31, 2008. We could not extend our audit procedures to ensure the existence and accuracy of these balances.
8. 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 658,436 million (2007: 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.
9. 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.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters mentioned in above in paragraphs from 1 to 8, and for the omission of the information referred to above in paragraph 9, the financial statements present fairly, in all material respects, the financial position of Central Bank of Iraq (CBI) as at December 31, 2008, and 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 (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

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

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, 2008. In addition, the CBI's liabilities as of December 31, 2008 include current accounts due to Sulaimaniyah and Erbil branches in the amount of IQD 1,096,061 million that have neither been reconciled nor confirmed by the branches.

Baghdad – Iraq

9 February 2010

Ernst + Young

CENTRAL BANK OF IRAQ

BALANCE SHEET

As of December 31, 2008

	Notes	2008 IQD Million	2007 IQD Million
ASSETS			
Gold reserve	3	191,458	191,943
Cash and balances with central banks	4	21,114,348	8,161,679
Due from banks	5	8,500,492	5,615,788
Treasury bills held to maturity	6	28,593,822	24,004,486
Due from Ministry of Finance	7	3,969,090	4,688,201
Foreign currencies investments at International Monetary Fund	8	2,313,054	2,448,770
Property and equipment	9	33,904	22,417
Other assets	10	49,320	11,896
TOTAL ASSETS		64,765,488	45,145,180
LIABILITIES AND DEFICIT			
LIABILITIES			
Currency issued	11	21,304,418	15,632,225
Treasury bills issued	12	2,223,931	2,745,675
Deposits of local banks	13	26,147,184	18,613,785
Due to foreign governments and banks	14	238,720	2,532,582
Due to International Monetary Fund	15	2,109,164	2,101,595
Due to governmental institutions	16	14,642,326	7,743,114
Other liabilities	17	117,289	289,494
		66,783,032	49,658,470
DEFICIT			
Capital	18	100,000	100,000
General reserve	19	2,100	2,100
Gold revaluation reserve	19	191,443	191,928
Accumulated losses	20	(2,311,087)	(4,807,318)
		(2,017,544)	(4,513,290)
TOTAL LIABILITIES AND DEFICIT		64,765,488	45,145,180



Dr. Sinan Shabibi
Governor of the Central Bank of Iraq



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

CENTRAL BANK OF IRAQ

INCOME STATEMENT

Year ended December 31, 2008

	Notes	2008 IQD Million	2007 IQD Million
REVENUES			
Interest income	21	1,305,400	1,459,158
Interest expense	22	(864,132)	(1,377,728)
Net interest income		441,268	81,430
Fee and commission income	23	615,085	454,942
Gold revaluation (loss) / gain	19	(485)	32,869
Recovery of provisions	24	977,528	44,745
Other income		8,292	15,935
		2,041,688	629,921
EXPENSES			
Staff expenses		18,915	8,915
Depreciation		1,001	653
Foreign currency translation loss		120,556	1,065,034
General and administrative expenses		63,896	22,957
Written off deposits at foreign banks	5	10	38
		204,378	1,097,597
Effect of derecognition of foreign creditors balances	14	658,436	9,044,072
NET INCOME FOR THE YEAR		2,495,746	8,576,396

Dr. Sinan Shabibi
Governor of the Central Bank of Iraq

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

CENTRAL BANK OF IRAQ

STATEMENT OF CHANGES IN DEFICIT

Year ended December 31, 2008

		<i>Capital</i>	<i>General</i>	<i>Gold</i>	<i>Accumulated</i>	<i>Total</i>
		<i>IQD</i>	<i>reserve</i>	<i>revaluation</i>	<i>losses</i>	<i>IQD</i>
		<i>Million</i>	<i>IQD</i>	<i>reserve</i>	<i>IQD</i>	<i>Million</i>
	<i>Notes</i>		<i>Million</i>	<i>IQD</i>	<i>Million</i>	
Balance at December 31, 2007		100,000	2,100	191,928	(4,807,318)	(4,513,290)
Net income for the year		-	-	-	2,495,746	2,495,746
Gold revaluation reserve for the year	19	-	-	(485)	485	-
Balance at December 31, 2008		100,000	2,100	191,443	(2,311,087)	(2,017,544)
Balance at January 1, 2007		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)

Dr. Sinan Shabibi
Governor of the Central Bank of Iraq

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

CENTRAL BANK OF IRAQ**CASH FLOW STATEMENT**

Year ended December 31, 2008

		2008	2007
	<i>Notes</i>	<i>IQD Million</i>	<i>IQD Million</i>
OPERATING ACTIVITIES			
Net Income		2,495,746	8,576,396
Adjustments for:			
Effect of derecognition of foreign creditors balances	14	(658,436)	(9,044,072)
Depreciation		1,001	653
Revaluation of Gold Reserve		485	(32,869)
Written off deposits at foreign banks		10	38
Recovery of provision for impairment		(97,262)	(98,412)
Operating Profit before changes in operating assets and liabilities		1,741,544	(598,266)
Changes in assets and liabilities			
Due from Banks		(2,787,452)	(5,231,415)
Due to foreign governments and banks		(1,635,426)	(921,448)
Due from Ministry of Finance		719,111	719,271
Other assets		(37,424)	71,070
Other liabilities		(172,205)	(442,318)
Deposits of local banks		7,533,399	7,464,934
Currency issued		5,672,193	3,715,670
Due to International Monetary Fund		7,569	(654,934)
Due to Governmental institutions		6,899,212	1,438,346
Net cash from operating activities		17,940,521	5,560,910
INVESTING ACTIVITIES			
Held to maturity investments		(4,589,336)	(3,971,133)
Foreign currencies investments at IMF		135,716	501,465
Purchase of property and equipment		(12,488)	(1,056)
Net cash used in investing activities		(4,466,108)	(3,470,724)
FINANCING ACTIVITIES			
Treasury bills issued		(521,744)	1,113,375
Paid in capital		-	99,500
Net cash flow (used in) / from financing activities		(521,744)	1,212,875
Net increase in cash and cash equivalents		12,952,669	3,303,061
Cash and cash equivalents beginning of the year		8,161,679	4,858,618
CASH AND CASH EQUIVALENTS, END OF YEAR	4	21,114,348	8,161,679

Dr. Sinan Shabibi
Governor of the Central Bank of Iraq

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

CENTRAL BANK OF IRAQ

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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 of December 31, 2008 and 2007.

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.

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 Financial Reporting Standard (IFRS) 7.
- The financial statements do not include certain disclosures relating to the bank's financial instruments 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.
- 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:

2.2.1 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.

2.2.2 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.

2.3 Summary of significant accounting policies

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

2.3.1. 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.

2.3.2. Gold

Gold is stated on the basis of the closing price in London gold market as of December 31, 2008. 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 price are taken to the income statement. The cumulative gain revaluation reserve is disclosed in a separate component in deficit.

2.3.3. 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'.

- ***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'.

2.3.4. 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.

2.3.5. 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 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.

2.3.6. 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 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'.

2.3.7. 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.

2.3.8. 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 is accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

2.3.9. 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.

2.3.10. 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 depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

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.

2.3.11. 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.

2.3.12. 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.

2.3.13. Fiduciary Assets

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

2.3.14. 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.

2.3.15. Local banks reserves and deposits

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

2.3.16. 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, 2008.

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3 GOLD RESERVE

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Gold reserve in CBI vault	139,294	139,646
Gold reserve at the Bank for International Settlements	51,904	52,036
Gold coins at CBI vault	260	261
	191,458	191,943

4 CASH AND BALANCES WITH CENTRAL BANKS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Cash on hand	3,818,111	1,657,215
Current account with Federal Reserve Bank of New York	324	288
Overnight deposits with Federal Reserve Bank of New York	6,101,934	6,060,993
Current account with Central Bank of United Arab Emirates	6,292,931	443,183
Current account with Banque De France	7,127	-
Time deposits with Banque De France	4,893,921	-
	21,114,348	8,161,679

5 DUE FROM BANKS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Due from local banks	12,157	15,643
Current accounts with foreign banks	78,899	672,673
Time deposits with foreign banks	8,417,593	4,936,341
Frozen and old outstanding deposits with foreign banks	1,885,604	1,982,154
	10,394,253	7,606,811
Provision for impairment losses of due from local banks	(8,157)	(8,871)
Provision for impairment losses of deposits with foreign banks	(1,885,604)	(1,982,152)
	8,500,492	5,615,788

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

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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 UNSCR 1483 (2003). To the financial statements issuance date, the MOF has not confirmed the amounts of IQD 389,916 million equivalent US Dollar 333 million (2007: IQD 404,443 million equivalent US Dollar 330 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, 2008.

6 TREASURY BILLS HELD TO MATURITY

	2008	2007
	<i>IQD Million</i>	<i>IQD Million</i>
The Federal Reserve Bank of New York (FRBNY)*:		
Face value	27,211,496	24,224,670
Unamortized discount	(48,390)	(220,184)
	27,163,106	24,004,486
Banque De France**:		
Face value	1,438,813	-
Unamortized discount	(8,097)	-
	1,430,716	-
	28,593,822	24,004,486

*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 38 days to 183 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.

**Treasury bills are debt securities purchased through Banque De France. The treasury bills have original maturities of 87 days to 144 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.

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7 DUE FROM MINISTRY OF FINANCE

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Due from Ministry of Finance	3,955,519	4,674,704
Accrued interest	13,571	13,497
	<u>3,969,090</u>	<u>4,688,201</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.

8 FOREIGN CURRENCIES INVESTMENTS AT IMF

	2008 <i>SDR</i>	<i>IQD Million</i>	2007 <i>SDR</i>	<i>IQD Million</i>
International Monetary Fund (IMF)				
Quota Subscription	1,188,400,000	2,145,295	1,188,400,000	2,279,177
Special Drawing Rights (SDR)				
Holdings with IMF	92,931,442	167,759	88,428,615	169,593
	<u>1,281,331,442</u>	<u>2,313,054</u>	<u>1,276,828,615</u>	<u>2,448,770</u>

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9 PROPERTY AND EQUIPMENT

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Cost:		
Land	20,494	20,494
Buildings	458	458
Furniture and equipment	4,009	4,149
Motor vehicles	1,280	847
Premises and equipment cost	26,241	25,948
Accumulated depreciation	(2,232)	(3,650)
Project in progress	9,895	119
Net book value	33,904	22,417

10 OTHER ASSETS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Interest receivable	142,710	113,183
Suspense accounts	4,137	4,500
Loans to employees	2,669	4,863
Others	280	273
	149,796	122,819
Provision for impairment	(100,476)	(110,923)
	49,320	11,896

As of December 31, 2008, other assets that are provided for comprise:

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Interest receivable	96,339	106,423
Suspense accounts	4,137	4,500
	100,476	110,923

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11 CURRENCY ISSUED

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Coins	5,371	5,421
Banknotes	21,299,047	15,626,804
	<u>21,304,418</u>	<u>15,632,225</u>

12 TREASURY BILLS ISSUED

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Face value	2,315,780	2,875,481
Unamortized discount	(91,849)	(129,806)
	<u>2,223,931</u>	<u>2,745,675</u>

The discounted treasury bills are auctioned off to local banks with interest rates ranges between 7% and 16% 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 2008 amounted to IQD 2,315,780 million.

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

13 DEPOSITS OF LOCAL BANKS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Current accounts	23,352,744	14,189,450
Time deposits	2,770,809	4,400,508
Others	23,631	23,827
	<u>26,147,184</u>	<u>18,613,785</u>

According to the CBI regulations, all banks operating in Iraq should maintain a compulsory reserve at the CBI equivalent to 25% of total customers' deposits in Iraqi Dinar and foreign currencies except for the Iraqi governmental banks that should maintain a compulsory reserve at the CBI of 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 19,993,801 million as of December 31, 2008 (2007: IQD 12,084,441 million). Compulsory reserve represents a non-interest bearing liability.

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The local banks reserves and deposits balance as of December 31, 2008 includes balances in US Dollars for an amount of US Dollar 1,543,131,722 (equivalent to IQD 1,805,464 million) (2007: US Dollar 1,526,441,576 equivalent to IQD 1,877,522 million).

14 DUE TO FOREIGN GOVERNMENTS AND BANKS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Due to foreign governments and financial institutions*	153,719	2,107,721
Overdraft accounts	82,190	423,686
Others	2,811	1,175
	238,720	2,532,582

* During 2007 and 2008, 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 658,436 million (2007: 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.

15 DUE TO INTERNATIONAL MONETARY FUND

	2008 <i>SDR</i>	2008 <i>IQD</i> <i>Million</i>	2007 <i>SDR</i>	2007 <i>IQD</i> <i>Million</i>
SDR allocations	68,463,800	123,591	68,463,800	131,304
IMF securities	1,014,329,000	1,979,750	1,015,649,429	1,967,070
Currency Holdings:				
IMF No. 1 Account including				
Currency Valuation Adjustments	2,971,000	5,799	1,650,571	3,197
IMF No. 2 Account including				
Currency Valuation Adjustments	12,580	24	12,580	24
	1,085,776,380	2,109,164	1,085,776,380	2,101,595

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.

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16 DUE TO GOVERNMENTAL INSTITUTIONS

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Due to Ministry of Finance	13,118,708	6,954,558
Due to other governmental institutions	371,352	203,177
Due to Sulaimaniyah and Erbil branches	1,096,061	524,681
Loan from local governmental bank	1,875	4,375
Others	54,330	56,323
	14,642,326	7,743,114

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, 2008. 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 286,738 million. Therefore, no reconciliations have been made to these accounts as of December 31, 2008.

17 OTHER LIABILITIES

	2008 <i>IQD</i> <i>Million</i>	2007 <i>IQD</i> <i>Million</i>
Interest payable	43,686	242,459
Accounts payable	1,746	5,748
Intra-branch balances	6,020	(32,109)
Suspense balances*	49,004	60,438
Sundry provisions	10,026	10,026
Others	6,807	2,932
	117,289	289,494

* These balances represent liability balances that have not been reconciled as of December 31, 2008. Therefore, the effects of the reconciliation of these balances on the financial statements as of December 31, 2008 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.

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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 191,443 million which represents the cumulative unrealized gain on the revaluation of gold at market prices.

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Gold revaluation reserve, beginning of year	191,928	159,059
Gold revaluation gain (loss) for the year	(485)	32,869
Gold revaluation reserve, end of year	191,443	191,928

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

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Treasury bills	697,066	937,329
Due from banks	291,539	155,927
Due from Ministry of Finance	220,780	256,049
Overnight deposits	82,020	82,721
Others	13,995	27,132
	1,305,400	1,459,158

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22 INTEREST EXPENSE

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Local banks time deposits and overnight accounts	465,752	752,576
Loans issued from foreign governments and financial institutions	-	73,285
Treasury bills	388,303	502,258
Others	10,077	49,609
	<u>864,132</u>	<u>1,377,728</u>

23 FEE AND COMMISSION INCOME

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Fee and commission income	615,085	454,942
	<u>615,085</u>	<u>454,942</u>

Fee and commission income for the year 2008 includes the commission income of IQD 494,112 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)

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Recovery of provision from Ministry of Finance*	(871,614)	-
Others	(105,914)	(44,745)
	<u>(977,528)</u>	<u>(44,745)</u>

* This amount represents the recovery of a provision amounting to IQD 871,614 million from the Ministry of Finance related to losses incurred during 2004 as a result of the withdrawal of old Iraqi Dinar currency from circulation and issuance of the new Iraqi Dinar currency.

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.

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, 2008, 87% (2007: 96%) 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	
		2008	2007
		<i>IQD Million</i>	<i>IQD Million</i>
Cash and balances with central banks (Excluding cash on hand)	4	17,296,237	6,504,464
Due from banks	5	8,500,492	5,615,788
Treasury bills	6	28,593,822	24,004,486
Due from Ministry of Finance	7	3,969,090	4,688,201
Foreign currencies investments at International Monetary Fund	8	2,313,054	2,448,770
Other assets	10	49,320	11,896
Total		60,722,015	43,273,605
Commitments	31	130,251	710,035
Total		130,251	710,035
Total credit risk exposure		60,852,266	43,983,640

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, 2008 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:

	2008		
	Assets	Liabilities	Credit
	IQD	IQD	Commitments
	Million	Million	IQD
			Million
Local - Iraq	7,967,608	64,340,075	-
Other countries	56,797,880	2,442,957	130,251
	64,765,488	66,783,032	130,251

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27.2 Credit risk (continued)

	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	44,744,943	-
Other countries	38,625,531	4,913,527	710,035
	<u>45,145,180</u>	<u>49,658,470</u>	<u>710,035</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 2008 the CBI decreased the interest rate of time deposit, whereas the interest rate of time deposit averages 13%, 14% and 15% for the deposit of 7 days, 14 days and 30 days respectively. Following are the interest rate gaps as of December 31, 2008:

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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	-	-	-	-	-	191,458	191,458
Cash and balances with central banks	17,296,236	-	-	-	-	3,818,112	21,114,348
Due from banks	-	8,496,492	-	-	-	4,000	8,500,492
Treasury bills	-	3,185,398	25,408,424	-	-	-	28,593,822
Due from Ministry of Finance	-	179,796	179,796	359,593	3,236,334	13,571	3,969,090
Foreign currencies investments at IMF	-	476,628	-	-	-	1,836,426	2,313,054
Property and equipment	-	-	-	-	-	33,904	33,904
Other assets	-	-	-	-	-	49,320	49,320
TOTAL ASSETS	17,296,236	12,338,314	25,588,220	359,593	3,236,334	5,946,791	64,765,488
LIABILITIES							
Currency issued	-	-	-	-	-	21,304,418	21,304,418
Treasury bills issued	-	-	1,835,276	388,655	-	-	2,223,931
Deposits of local banks	959,534	-	-	-	-	25,187,650	26,147,184
Due to foreign governments and banks	-	82,190	-	-	-	156,530	238,720
Due to International Monetary Fund	-	129,413	-	-	-	1,979,751	2,109,164
Due to governmental institutions	-	1,875	-	-	-	14,640,451	14,642,326
Other liabilities	-	-	-	-	-	117,289	117,289
TOTAL LIABILITIES	959,534	213,478	1,835,276	388,655	-	63,386,089	66,783,032
TOTAL DEFICIT	-	-	-	-	-	(2,017,544)	(2,017,544)
TOTAL LIABILITIES AND DEFICIT	959,534	213,478	1,835,276	388,655	-	61,368,545	64,765,488
ITEM GAP	16,336,702	12,124,836	23,752,944	(29,062)	3,236,334	(55,421,754)	-
ACCUMULATED GAP	16,336,702	28,461,538	52,214,482	52,185,420	55,421,754	-	-

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27.4 INTEREST RATE RISK (continued)

Following are the interest rate gaps as of December 31, 2007:

	<i>Less than month IQD Million</i>	<i>1 month to 3 months IQD Million</i>	<i>3 months to 6 months IQD Million</i>	<i>6 months to 1 year IQD Million</i>	<i>More than 1 year IQD Million</i>	<i>Non interest items IQD Million</i>	<i>Total 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	<u>6,504,464</u>	<u>7,232,588</u>	<u>11,317,182</u>	<u>12,280,652</u>	<u>3,955,519</u>	<u>3,854,775</u>	<u>45,145,180</u>
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	<u>2,529,855</u>	<u>2,433,239</u>	<u>2,394,182</u>	<u>351,493</u>	<u>-</u>	<u>41,949,701</u>	<u>49,658,470</u>
TOTAL DEFICIT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,513,290)</u>	<u>(4,513,290)</u>
TOTAL LIABILITIES AND DEFICIT	<u>2,529,855</u>	<u>2,433,239</u>	<u>2,394,182</u>	<u>351,493</u>	<u>-</u>	<u>37,436,411</u>	<u>45,145,180</u>
ITEM GAP	<u>3,974,609</u>	<u>4,799,349</u>	<u>8,923,000</u>	<u>11,929,159</u>	<u>3,955,519</u>	<u>(33,581,636)</u>	<u>-</u>
ACCUMULATED GAP	<u>3,974,609</u>	<u>8,773,958</u>	<u>17,696,958</u>	<u>29,626,117</u>	<u>33,581,636</u>	<u>-</u>	<u>-</u>

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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, 2008 is maintained in US Dollars. Following are the foreign currencies positions as of December 31, 2008:

	2008	2007
	IQD	IQD
	Million	Million
US Dollar	38,200,724	24,580,577
SDR	203,890	347,175
Euro	11,656,477	3,617,806
Others	1,493,322	1,359,686
	51,554,413	29,905,244

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, 2008 and December 31, 2007. 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, 2008:

	Up to 1	1 to 3	3 to 6	6 months	Over 1	Total
	month	Months	months	to 1 year	Year	Total
	IQD	IQD	IQD	IQD	IQD	IQD
	Million	Million	Million	Million	Million	Million
Treasury bills	-	3,185,398	25,408,424	-	-	28,593,822
Due from Ministry of Finance	-	193,293	179,796	359,593	3,236,408	3,969,090
	-	3,378,691	25,588,220	359,593	3,236,408	32,562,912

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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, 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>

All the CBI liabilities as of December 31, 2008 and December 31, 2007 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 238,720 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><u>Iraq</u> <u>2008</u> <u>IQD</u> <u>Million</u></i>	<i><u>Foreign Countries</u> <u>2008</u> <u>IQD</u> <u>Million</u></i>	<i><u>Total</u> <u>2008</u> <u>IQD</u> <u>Million</u></i>
Revenues	<u>1,715,772</u>	<u>1,848,969</u>	<u>3,564,741</u>
Total Assets	<u>7,967,608</u>	<u>56,797,880</u>	<u>64,765,488</u>
Total Liabilities	<u>64,340,075</u>	<u>2,442,957</u>	<u>66,783,032</u>

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

	<i>Iraq</i>	<i>Foreign Countries</i>	<i>Total</i>
	<i>2007</i>	<i>2007</i>	<i>2007</i>
	<i>IQD</i>	<i>IQD</i>	<i>IQD</i>
	<i>Million</i>	<i>Million</i>	<i>Million</i>
Revenues	288,968	10,762,753	11,051,721
Total Assets	6,519,649	38,625,531	45,145,180
Total Liabilities	44,744,943	4,913,527	49,658,470

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>2008 IQD Million</i>	<i>2007 IQD Million</i>
Balance Sheet		
ASSETS		
Cash at local governmental banks	-	771
Due from Ministry of Finance	3,969,090	4,688,201
Due from a governmental bank	8,156	8,871
	<u>3,977,246</u>	<u>4,697,843</u>
LIABILITIES		
Governmental local banks reserves and deposits	23,298,103	16,983,420
Due to Ministry of Finance	13,118,708	6,954,557
Due to governmental institutions	2,305,924	794,668
Al Rafidain bank loan	1,875	4,375
	<u>38,724,610</u>	<u>24,737,020</u>
Off balance sheet commitments on behalf of Government of Iraq	<u>130,251</u>	<u>710,035</u>
Income statement		
Interest income from Ministry of Finance	<u>220,780</u>	<u>256,049</u>
Interest expenses on governmental banks deposits	<u>627,327</u>	<u>627,327</u>

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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.

During 2008, 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 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 9,810 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, 2008, if any, are uncertain and the CBI's management could not quantify their effect at this stage.

NOTES TO THE FINANCIAL STATEMENTS

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31 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The CBI has the following credit related commitments:

	2008 <i>IQD Million</i>	2007 <i>IQD Million</i>
Commitments on behalf of Government of Iraq:		
Loans guaranteed by CBI	34,905	36,185
Letters of guarantees and acceptance	95,346	22,119
Letters of credit	-	651,731
	<u>130,251</u>	<u>710,035</u>

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 3,355,197 million as of December 31, 2008 (2007: IQD 3,719,761 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, 2008, 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, 2008.

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.