

TRADE BANK OF IRAQ
FINANCIAL STATEMENTS
DECEMBER 31, 2009

**Independent auditor's report
To the management of Trade Bank of Iraq
Baghdad – Republic of Iraq**

Report on the financial statements

We have audited the accompanying financial statements of Trade Bank of Iraq (the Bank) which comprise the statement of financial position as of December 31, 2009 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as of December 31, 2008 were audited by another auditors whose report dated June 3, 2009 expressed qualified opinion on reconciliations of Intra-branches and suspense accounts, customers' deposits confirmations, and internal control environment.

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. 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 auditor's 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 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion we draw attention to the following matters:

1. Due to the current context in Iraq, we did not receive sufficient responses on confirmation requests sent by the Bank to its customers to verify their deposits and cash margins balances as of December 31, 2009. Accordingly, no sufficient audit evidence was obtained from customers' confirmations. We have performed alternative audit procedures to validate the accuracy of these accounts.
2. During the course of our audit, we have identified some deficiencies related to the design and implementation of certain internal control environment elements. However, the Bank's management is currently developing a comprehensive plan to overcome these deficiencies.

PricewaterhouseCoopers "Jordan"

Amman - Jordan
June 30, 2010

TRADE BANK OF IRAQ
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

(In U.S. Dollars)

| | Notes | 2009 | 2008 |
|---|-------|-----------------------|-----------------------|
| | | | Restated (note 28) |
| <u>ASSETS</u> | | | |
| Cash and balances with Central Bank of Iraq | 3 | 3,985,158,486 | 2,857,510,186 |
| Balances and deposits at banks | 4 | 6,514,472,485 | 4,284,792,951 |
| Treasury bills held to maturity | 5 | 42,699,162 | 1,182,013,546 |
| Loans and advances to customers | 6 | 2,392,838,846 | 1,340,957,732 |
| Available for sale investments | | 20,537 | 20,537 |
| Premises and equipment, net | 7 | 8,824,770 | 6,835,317 |
| Other assets | 8 | 33,030,149 | 713,490,418 |
| Total assets | | 12,977,044,435 | 10,385,620,687 |
| <u>LIABILITIES AND EQUITY</u> | | | |
| LIABILITIES- | | | |
| Deposits from customers | 9 | 11,400,687,094 | 8,497,129,028 |
| Margin accounts | 10 | 267,601,087 | 268,682,557 |
| Other liabilities | 11 | 157,282,184 | 773,348,069 |
| Total liabilities | | 11,825,570,365 | 9,539,159,654 |
| EQUITY- | | | |
| Share capital | 12 | 427,350,000 | 427,350,000 |
| General reserve | | 3,500,000 | 3,500,000 |
| Retained earnings | 13 | 720,624,070 | 415,611,033 |
| Total equity | | 1,151,474,070 | 846,461,033 |
| Total liabilities and equity | | 12,977,044,435 | 10,385,620,687 |

The notes on pages from 1 to 34 are integral part of these financial statements

TRADE BANK OF IRAQ
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

(IN U.S. DOLLARS)

| | Notes | <u>2009</u> | <u>2008</u> Restated (note 28) |
|--|-------|---------------------|--------------------------------------|
| Interest income | 14 | 156,083,832 | 381,778,509 |
| Interest expense | | (6,154,013) | (55,738,761) |
| Net interest income | | 149,929,819 | 326,039,748 |
| Impairment loss on loans and advances to customers | 6 | (4,185,440) | (59,453,797) |
| Net interest income after loan impairment charges | | 145,744,379 | 266,585,951 |
| Fees and commission income | 15 | 66,319,797 | 82,576,577 |
| Income from dealing in foreign currencies | | 99,808,899 | 34,581,624 |
| Other income | | 25,634,872 | 322,637 |
| Total operating income | | 337,507,947 | 384,066,789 |
| Employees' salaries and benefits | | (9,102,875) | (6,572,477) |
| Other operating expenses | 16 | (21,778,555) | (20,375,130) |
| Depreciation | | (1,613,480) | (1,410,919) |
| Total expenses | | (32,494,910) | (28,358,526) |
| Profit for the year | | 305,013,037 | 355,708,263 |

The notes from pages 1 to 34 are integral part of these financial statements

TRADE BANK OF IRAQ
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

(IN U.S. DOLLARS)

| | <u>Paid in capital</u> | <u>General reserve</u> | <u>Retained earnings</u> | <u>Total</u> |
|--|----------------------------|----------------------------|------------------------------|-----------------------------|
| Balance at January 1, 2009 | 427,350,000 | 3,500,000 | 415,611,033 | 846,461,033 |
| Profit for the year | - | - | 305,013,037 | 305,013,037 |
| Balance as of December 31, 2009 | <u>427,350,000</u> | <u>3,500,000</u> | <u>720,624,070</u> | <u>1,151,474,070</u> |
| Balance at January 1, 2008 | 96,100,000 | 3,500,000 | 391,152,770 | 490,752,770 |
| Capital increase | 331,250,000 | - | (331,250,000) | - |
| Profit for the year (restated, note 28) | - | - | 355,708,263 | 355,708,263 |
| Balance as of December 31, 2008 (restated, note 28) | <u>427,350,000</u> | <u>3,500,000</u> | <u>415,611,033</u> | <u>846,461,033</u> |

The notes from pages 1 to 34 are integral part of these financial statements

TRADE BANK OF IRAQ
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

(IN U.S. DOLLARS)

| | Note | <u>2009</u> | <u>2008</u> |
|---|------|------------------------------|-----------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Profit for the year | | 305,013,037 | 355,708,263 |
| Adjustments for non cash items: | | | |
| Impairment loss on loans and advances to customers | | 4,185,440 | 59,453,797 |
| Depreciation | | 1,613,480 | 1,410,919 |
| | | <u>310,811,957</u> | <u>416,572,979</u> |
| Loans and advances to customers | | (1,056,066,554) | (206,144,380) |
| Other assets | | 680,460,269 | (661,620,294) |
| Deposits from customers | | 2,903,558,066 | 3,505,176,319 |
| Margin accounts | | (1,081,470) | 210,022,339 |
| Other liabilities | | (616,065,885) | 457,677,106 |
| Due to banks | | - | (267,199,581) |
| | | <u>2,221,616,383</u> | <u>3,454,484,488</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Purchase of available for sale investments | | - | (20,537) |
| Treasury bills held to maturity | | 1,139,314,384 | 302,017,503 |
| Purchase of premises and equipment | | (3,602,933) | (1,189,527) |
| | | <u>1,135,711,451</u> | <u>300,807,439</u> |
| Net cash generated from investing activities | | <u>1,135,711,451</u> | <u>300,807,439</u> |
| Net increase in cash and cash equivalents | | <u>3,357,327,834</u> | <u>3,755,291,927</u> |
| Cash and cash equivalents, beginning of the year | | <u>7,142,303,137</u> | <u>3,387,011,210</u> |
| Cash and cash equivalents, end of the year | 17 | <u><u>10,499,630,971</u></u> | <u><u>7,142,303,137</u></u> |

The notes from pages 1 to 34 are integral part of these financial statements

TRADE BANK OF IRAQ
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

(IN U.S. DOLLARS)

(1) GENERAL

Trade Bank of Iraq (the Bank) was established as an independent governmental entity on July 17, 2003 in accordance with the Coalition Provisional Authority (CPA) Order number (20) of 2003. The Bank was granted the banking license by the Central Bank of Iraq on January 19, 2006.

The Bank provides its banking services through its head office located in Baghdad Al-Yarmouk district, and through a network of 8 branches.

During 2008 the Bank's capital was increased to USD 427,350,000 by capitalizing part of the retained earnings amounted to USD 331,250,000 in accordance with Iraqi Council of Ministers' resolution.

The purpose of the Bank is to provide financial and banking services to facilitate the importation and exportation of goods and services to and from Iraq in order to benefit the economy of Iraq.

The financial statements and notes on page 1 to 33 were authorized for issue by the Bank's Board of Directors on June 30, 2010.

(2) SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The accompanying financial statements for the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations (IFRICs), and in conformity with the applicable laws and regulations of the Central Bank of Iraq.

The financial statements are prepared on a historical cost basis, except for available-for-sale investments.

The financial statements have been presented in U.S Dollar (USD) which is the functional currency of the Bank.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for that, the Bank has adopted the following newly issued standards:

IAS 1 (revised), 'Presentation of financial statements'

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of income statement. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the income statement. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

IFRS 8, 'Operating segments'

IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Bank's accounting period beginning on January 1, 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Bank's external segment reporting will be based on the internal reporting to the Bank executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Bank but has an impact on segment disclosure and on the measurement bases within segments.

The adoption of these amendments results in additional disclosures but does not have an impact on the financial position or the income statement of the Bank.

Summary of significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Premises and equipment

Buildings comprise mainly branches and offices. All premises and equipment used by the Bank are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate premises and equipment cost to their residual values over their estimated useful lives, depreciation rates used as follows:

| | <u>%</u> |
|-------------------------|----------|
| Buildings | 4 |
| Equipment and furniture | 100 |
| Vehicles | 100 |
| Computers | 100 |
| Others | 100 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at December 31, 2009 and 2008

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

Provisions

Provisions are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Bank executive board as its chief operating decisionmaker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Bank has the following business segments: Retail banking, corporate banking, and treasury.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2009.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(a) Impairment over assets carried at amortised cost

When objective evidence for impairment exists 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (hold to maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Impairment over assets classified as available for sale

When objective evidence for impairment exists over equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

(a) Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) Those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) Those that the Bank upon initial recognition designates as available for sale;
or
- (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'impairment loss on loans and advances to customers'.

- Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

- (a) Those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) Those that the Bank designates as available for sale; and
- (c) Those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'. Held-to-maturity investments are treasury bills.

- Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'Dividend income' when the Bank's right to receive payment is established.

- Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Fair value

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For financial instruments where there is no active market fair value is normally based on one of the following methods:

- Comparison with the current market value of a highly similar financial instrument.
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.
- Option pricing models.
- Recent market transactions.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortized cost and any impairment in the value is recorded in the income statement.

Foreign currencies

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

Monetary assets and liabilities in foreign currencies are translated into respective functional currencies at rates of exchange prevailing at the balance sheet date as issued by Central Bank of Iraq. Any gains or losses are taken to the income statement.

Translation gains or losses on non-monetary items carried at fair value (such as stocks) through equity are included in equity as part of the cumulative changes in fair value. For non-monetary items carried at fair value through profit and loss, such gains and losses are taken to the income statement.

Contingencies

Contingent liabilities are not recognized in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements, but are disclosed when an inflow of economic benefits is probable.

TRADE BANK OF IRAQ
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009
(IN U.S. DOLLARS)

(3) CASH AND BALANCES WITH CENTRAL BANK OF IRAQ

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Cash on hand | 138,059,283 | 111,157,809 |
| Checks under collection | 58,667 | 20,341 |
| Balances at Central Bank of Iraq | | |
| Term deposits at Central Bank of Iraq | 85,470,085 | 639,931,740 |
| Cash at Central Bank of Iraq | <u>3,761,570,451</u> | <u>2,106,400,296</u> |
| | <u>3,985,158,486</u> | <u>2,857,510,186</u> |

According to the Central Bank of Iraq (CBI) regulations, all banks operating in Iraq should maintain a legal reserve at CBI equivalent to 20% of total customers' deposits. The deposits at CBI include a legal reserve of USD 797,433,019 (2008: USD 586,834,945).

Non interest bearing balances at Central Bank of Iraq amounts to USD 3,761,570,451 as of 31 December 2009 (2008: USD 2,106,400,296).

(4) BALANCES AND DEPOSITS AT BANKS

| | <u>2009</u> | <u>2008</u> |
|---------------------------|----------------------|----------------------|
| Deposits at local banks | 86,100,187 | 22,316,583 |
| Deposits at foreign banks | <u>6,428,372,298</u> | <u>4,262,476,368</u> |
| | <u>6,514,472,485</u> | <u>4,284,792,951</u> |

Non interest bearing balances at banks and financial institutions amounts to USD 116,485,876 as of 31 December 2009 (2008: USD 41,897,552).

(5) TREASURY BILLS HELD TO MATURITY

| | <u>2009</u> | <u>2008</u> |
|----------------------|-------------------|----------------------|
| Face value | 42,735,043 | 1,232,056,314 |
| Unamortized discount | <u>(35,881)</u> | <u>(50,042,768)</u> |
| | <u>42,699,162</u> | <u>1,182,013,546</u> |

Treasury bills are debt securities issued by the Iraqi Ministry of Finance. The treasury bills have original maturities range between 91 days to 364 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 TBI intends to hold all Treasury bills until maturity dates.

TRADE BANK OF IRAQ
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2009
 (IN U.S. DOLLARS)

(6) LOANS AND ADVANCES TO CUSTOMERS

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Advance to Ministry of Electricity | - | 679,551,359 |
| Advance to Ministry of Trade | 1,463,675,214 | - |
| Loans and advances to private sector | <u>1,020,989,283</u> | <u>748,189,139</u> |
| Total | <u>2,484,664,497</u> | <u>1,427,740,498</u> |
| Impairment loss on loans and advances to customers * | (89,133,635) | (84,948,195) |
| Suspended interest | <u>(2,692,016)</u> | <u>(1,834,571)</u> |
| | <u>2,392,838,846</u> | <u>1,340,957,732</u> |

* The movement on specific impairment loss on loans and advances to customers is as follows:

| | <u>2009</u> | <u>2008</u> |
|-----------------------|-------------------|-------------------|
| At January 1 | 84,948,195 | 25,494,398 |
| Charge for the year | <u>4,185,440</u> | <u>59,453,797</u> |
| At December 31 | <u>89,133,635</u> | <u>84,948,195</u> |

At December 31, 2009, non-performing loans and advances to customers amounted to USD 166,877,305 (2008: USD 131,242,274), representing 6.72% (2008: 9.19%) of gross facilities granted.

At December 31, 2009, non-performing loans and advances to customers; net of suspended interest, amounted to USD 164,185,289 (2008: USD 129,407,703), representing 6.61% (2008: 9.06%) of gross facilities granted after excluding the suspended interest.

At December 31, 2009, loans and advances granted to the Government of Iraq amounted to USD 1,463,675,214 (2008: USD 679,551,359), representing 58.91% (2008: 47.60%) of gross facilities granted.

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(7) PREMISES AND EQUIPMENT, NET

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|-------------------------|-------------------------|
| Buildings | 8,506,926 | 7,589,414 |
| Electrical generators | 741,467 | 741,467 |
| Motor vehicles | 658,424 | 658,424 |
| Furniture and fixtures | 68,735 | 40,570 |
| Office equipment and tools | 2,769,923 | 1,716,084 |
| Software | 2,207,712 | 2,207,712 |
| Projects under construction | 1,727,992 | 533,268 |
| Others | 560,298 | 151,605 |
| | <u>17,241,477</u> | <u>13,638,544</u> |
| Impairment of premises and equipment | (4,902,414) | (4,902,414) |
| Accumulated depreciation | <u>(3,514,293)</u> | <u>(1,900,813)</u> |
| Net book value | <u><u>8,824,770</u></u> | <u><u>6,835,317</u></u> |

(8) OTHER ASSETS

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|--------------------|
| Letters of guarantee commission receivables | 6,404,162 | 2,372,431 |
| Prepaid expenses | 498,358 | 754,835 |
| Advances to employees | 747,134 | 581,379 |
| Accrued revenues | 7,111,264 | 11,805,612 |
| Intra-branch balances, net | 2,230,116 | - |
| Suspense account | - | 694,056,871 |
| Others | 16,039,115 | 3,919,290 |
| | <u>33,030,149</u> | <u>713,490,418</u> |

(9) CUSTOMERS' DEPOSITS

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-----------------------|----------------------|
| Current accounts | 4,689,420,029 | 4,097,996,514 |
| Call deposits | 35,170,732 | 31,972,857 |
| Saving accounts | 50,103,007 | 26,053,103 |
| Deposits against credit cards issued | 5,894,872 | 5,256,448 |
| Customer deposits against LCs and LGs | 6,620,098,454 | 4,335,850,106 |
| | <u>11,400,687,094</u> | <u>8,497,129,028</u> |

- Governmental institutions' deposits amounted to USD 7,970,114,219 as of December 31, 2009 (2008: USD 6,897,979,511) representing 69.91% (2008: 81.18%) of total customers' deposits.

- Non-interest bearing deposits amounted to USD 11,309,518,483 as of December 31, 2009 (2008: USD 8,433,846,620) representing 99.20% (2008: 99.26%) of total deposits.

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(10) MARGIN ACCOUNTS

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Margin accounts against letters of credit | 201,702,024 | 223,242,973 |
| Margin accounts against letters of guarantee | 65,899,063 | 45,439,584 |
| | <u>267,601,087</u> | <u>268,682,557</u> |

(11) OTHER LIABILITIES

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|--------------------|--------------------|
| Deferred commission income | 51,020,931 | 19,006,076 |
| Stamp fees payable | 6,015,064 | 13,521,173 |
| Certified checks | 9,848,571 | 4,629,812 |
| Provisions for employees income taxes | 989,316 | 987,628 |
| Accrued expenses | 1,212,057 | 2,248,457 |
| Bills of exchange | 360,563 | 837,615 |
| Creditors | 68,008,659 | 61,035,035 |
| Internal bills of exchange | 206,522 | 547,851 |
| Provision for legal cases | 1,250,000 | 1,250,000 |
| Intra-Branches account | - | 662,235,338 |
| Others | 18,370,501 | 7,049,084 |
| | <u>157,282,184</u> | <u>773,348,069</u> |

(12) SHARE CAPITAL

The authorized and paid in capital of the Bank as of December 31, 2009 amounts to USD 427,350,000.

(13) RETAINED EARNINGS

According to the Bank's bylaws, profits generated by the operations of the Bank will be distributed to the Development Fund for Iraq (DFI) at the time determined by the Bank's President in consultation with the Administrator of the Coalition Provisional Authority. According to Coalition Provisional Authority order number (100) of 2004 all powers, authorities and responsibilities granted to the administrator were transferred to the Iraqi Prime Minister.

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(14) INTEREST INCOME

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Interest on overnight deposits at Central Bank of Iraq | 646,587 | 17,273,308 |
| Interest on loans and advances | 49,391,542 | 60,633,099 |
| Interest on treasury bills | 61,411,198 | 201,031,657 |
| Interest on balances at banks | 44,419,607 | 96,119,056 |
| Interest on letters of credit | 214,898 | 6,553,678 |
| Others | - | 167,711 |
| | <u>156,083,832</u> | <u>381,778,509</u> |

(15) FEES AND COMMISSION INCOME

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|
| Commission income on letters of credit | 47,124,863 | 61,538,849 |
| Commission income on letters of guarantee | 10,576,535 | 9,548,186 |
| Commission income on fund transfers | 7,165,968 | 10,466,836 |
| Other commissions | 1,452,431 | 1,022,706 |
| | <u>66,319,797</u> | <u>82,576,577</u> |

(16) OTHER OPERATING EXPENSE

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-------------------|-------------------|
| Operational support charges | 939,272 | 499,486 |
| Security | 5,309,560 | 3,735,478 |
| Capital expenditures | 68,009 | 1,287,333 |
| Fuel and lubricants | 391,272 | 567,378 |
| Research and consultancy services | 3,302,436 | 3,561,766 |
| Rent | 1,392,886 | 959,790 |
| Travel and transportation | 3,801,704 | 1,832,636 |
| Legal and professional fees | 1,004,093 | 1,677,097 |
| Prior year expenses | - | 1,123,398 |
| Maintenance | 781,936 | 802,008 |
| Provisions for employees income taxes | - | 72,534 |
| Office supplies | 338,695 | 326,776 |
| Stationery and printings | 364,641 | 210,493 |
| Taxes and governmental fees | 52,260 | 775,661 |
| Rewards | 298,598 | 166,130 |
| Advertising | 539,301 | 142,753 |
| Subscriptions, fees and licenses | 849,417 | 692,710 |
| Fairs expenses | 254,868 | 274,559 |
| Training and research | 85,751 | 53,725 |
| Others | 2,003,856 | 1,613,419 |
| | <u>21,778,555</u> | <u>20,375,130</u> |

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(17) CASH AND CASH EQUIVALENTS

Cash, and cash equivalents include the following for the purposes of the statement of cash flows:

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|----------------------|
| Cash and balances with Central Bank of Iraq | 3,985,158,486 | 2,857,510,186 |
| Balances and deposits at banks | <u>6,514,472,485</u> | <u>4,284,792,951</u> |
| | <u>10,499,630,971</u> | <u>7,142,303,137</u> |

Cash and cash equivalent balances include USD 3,071,579,443 and USD 1,271,192,442 as of December 31, 2009 and 2008 respectively designated by the Bank's management for the purpose of payment of letters of credit and guarantee cash margins to the corresponding banks.

(18) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank's principal financial instruments are cash and cash equivalents, treasury bills, loans and advances, treasury bills held to maturity, available for sale investments, due to banks, customers' deposits, cash margins and other liabilities.

The carrying amounts of these financial instruments approximate fair value.

(19) INCOME TAX

The Bank is a governmental entity and its income is exempted from income tax according to Iraqi Income Tax Law number (113) of 1982 and its subsequent amendments.

(20) RISK MANAGEMENT

20.1 Introduction

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a management under policies approved by the Board of Directors.

The risks arising from financial instruments to which the Bank is exposed are financial risks, credit risk, liquidity risk, market risk, and operational risk.

20.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from consumer and corporate loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit, endorsements and acceptances.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

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The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of collateral agreements.

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| Cash and balances at Central Bank of Iraq (excluding cash on hand) | 3,847,099,203 | 2,746,352,377 |
| Balances and deposits at banks | 6,514,472,485 | 4,284,792,951 |
| Loans and advances to customers | | |
| Consumer lending | 1,755,796 | 246,022 |
| Residential mortgages | 762,874 | 1,177,785 |
| Corporate lending | | |
| Large corporations | 924,244,573 | 658,347,885 |
| Small and medium enterprises | 2,400,389 | 1,634,681 |
| Lending to governmental sectors | 1,463,675,214 | 679,551,359 |
| Bonds and treasury bills | | |
| Within treasury bills held to maturity | 42,699,162 | 1,182,013,546 |
| Other assets | 32,531,791 | 712,735,583 |
| | <u>12,829,641,487</u> | <u>10,266,852,189</u> |
| <u>Off balance sheet items</u> | | |
| Letters of guarantee | 2,142,785,388 | 1,516,771,177 |
| Letters of credit | 11,169,393,336 | 9,291,968,972 |
| | <u>13,312,178,724</u> | <u>10,808,740,149</u> |
| Total | <u>26,141,820,211</u> | <u>21,075,592,338</u> |

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The table below demonstrates ageing analysis of loans by class of financial assets as of December 31:

| 2009 | <u>Consumer</u> | <u>Residential mortgages</u> | <u>Corporate</u> | <u>SMEs</u> | <u>Governmental Sector</u> | <u>Total</u> |
|--|------------------|------------------------------|----------------------|------------------|----------------------------|----------------------|
| Low risk | - | - | - | - | 1,463,675,214 | 1,463,675,214 |
| Acceptable risk | 1,784,507 | 835,586 | 948,998,651 | 2,493,234 | - | 954,111,978 |
| Non performing: | | | | | | |
| Substandard | - | 800,000 | 65,848,429 | 228,876 | - | 66,877,305 |
| Total | <u>1,784,507</u> | <u>1,635,586</u> | <u>1,014,847,080</u> | <u>2,722,110</u> | <u>1,463,675,214</u> | <u>2,484,664,497</u> |
| Less: Suspended interest | - | - | 2,692,016 | - | - | 2,692,016 |
| Less: Impairment losses on loans and advances to customers | 28,711 | 872,712 | 87,910,491 | 321,721 | - | 89,133,635 |
| Net | <u>1,755,796</u> | <u>762,874</u> | <u>924,244,573</u> | <u>2,400,389</u> | <u>1,463,675,214</u> | <u>2,392,838,846</u> |
| 2008 | | | | | | |
| Low risk | - | - | - | - | 679,551,359 | 679,551,359 |
| Acceptable risk | 253,623 | 1,201,822 | 713,690,182 | 1,705,916 | - | 716,851,543 |
| Maturing (*): | | | | | | |
| Up to 30 days | - | - | - | - | - | - |
| From 31 to 60 days | - | - | - | - | - | - |
| Watchlist - From 61 to 90 days | - | - | - | 95,322 | - | 95,322 |
| Non performing: | | | | | | |
| Substandard | 1,100 | 881,724 | 30,292,535 | 66,915 | - | 31,242,274 |
| Doubtful | | | | | | |
| Loss | | | | | | |
| Total | <u>254,723</u> | <u>2,083,546</u> | <u>743,982,717</u> | <u>1,868,153</u> | <u>679,551,359</u> | <u>1,427,740,498</u> |
| Less: Suspended interest | - | - | 1,817,515 | 17,056 | - | 1,834,571 |
| Less: Impairment losses on loans and advances to customers | 8,701 | 905,761 | 83,817,317 | 216,416 | - | 84,948,195 |
| Net | <u>246,022</u> | <u>1,177,785</u> | <u>658,347,885</u> | <u>1,634,681</u> | <u>679,551,359</u> | <u>1,340,957,732</u> |

(*) The entire balance of credit is deemed matured if one of its payments or interest were due. Overdrafts are deemed matured if their limits exceeded the ceiling.

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The table below shows the distribution of collaterals measured at fair value over loans and advances as of December 31:

| 2009 | Consumer | Residential mortgages | Corporate | SMEs | Governmental Sector | Total |
|--------------------------------|------------------|------------------------------|--------------------|------------------|----------------------------|----------------------|
| Collaterals | | | | | | |
| Low risk | - | - | - | - | - | - |
| Acceptable risk | 1,784,507 | 1,635,586 | 584,000,000 | 2,950,986 | - | 590,371,079 |
| Watchlist - From 61 to 90 days | - | - | - | - | - | - |
| Non performing: | | | | | | |
| Substandard | - | 800,000 | 1,000,000 | - | - | 1,800,000 |
| Total | 1,784,507 | 2,435,586 | 585,000,000 | 2,950,986 | - | 592,171,079 |
| Comprising of: | | | | | | |
| Cash margin | - | - | - | - | - | - |
| Letters of guarantee | - | - | 74,000,000 | - | - | 74,000,000 |
| Real estate | 1,784,507 | 2,435,586 | 350,000,000 | 2,950,986 | - | 357,171,079 |
| Traded equities | - | - | 1,000,000 | - | - | 1,000,000 |
| Vehicles and machinery | - | - | 160,000,000 | - | - | 160,000,000 |
| Total | 1,784,507 | 2,435,586 | 585,000,000 | 2,950,986 | - | 592,171,079 |
| 2008 | | | | | | |
| Collaterals | | | | | | |
| Low risk | - | - | - | - | 679,551,359 | 679,551,359 |
| Acceptable risk | 253,623 | 1,201,822 | 713,690,182 | 1,705,916 | - | 716,851,543 |
| Watchlist - From 61 to 90 days | - | - | - | 95,322 | - | 95,322 |
| Non performing: | | | | | | |
| Substandard | 1,100 | 881,724 | 30,292,535 | 66,915 | - | 31,242,274 |
| Doubtful | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - |
| Total | 254,723 | 2,083,546 | 743,982,717 | 1,868,153 | 679,551,359 | 1,427,740,498 |
| Comprising of: | | | | | | |
| Cash margin | - | - | - | - | - | - |
| Letters of guarantee | - | - | 521,220,380 | - | 679,551,359 | 1,200,771,739 |
| Real estate | 254,723 | 2,083,546 | 92,829,034 | 868,424 | - | 96,035,727 |
| Traded equities | - | - | 6,246,900 | 999,729 | - | 7,246,629 |
| Vehicles and machinery | - | - | 123,686,403 | - | - | 123,686,403 |
| Total | 254,723 | 2,083,546 | 743,982,717 | 1,868,153 | 679,551,359 | 1,427,740,498 |

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The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions:

| 2009 | <u>Inside Iraq</u> | <u>Asia & Other Middle Eastern countries*</u> | <u>Europe</u> | <u>Americas</u> | <u>Total</u> |
|------------------------------------|-----------------------------|---|-----------------------------|-----------------------------|------------------------------|
| Cash and balances at Central Banks | 3,847,099,203 | - | - | - | 3,847,099,203 |
| Balances and deposits at banks | 86,100,187 | 917,771,856 | 3,231,929,723 | 2,278,670,719 | 6,514,472,485 |
| Loans and advances to customers: | | | | | |
| Consumer lending | 1,755,796 | - | - | - | 1,755,796 |
| Residential mortgages | 762,874 | - | - | - | 762,874 |
| Corporate lending: | | | | | |
| Large corporations | 924,244,573 | - | - | - | 924,244,573 |
| Small and medium enterprises | 2,400,389 | - | - | - | 2,400,389 |
| Lending to governmental sectors | 1,463,675,214 | - | - | - | 1,463,675,214 |
| Bonds and treasury bills within: | | | | | |
| Treasury bills held to maturity | 42,699,162 | - | - | - | 42,699,162 |
| Other assets | <u>32,531,791</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>32,531,791</u> |
| Total 2009 | <u>6,401,269,189</u> | <u>917,771,856</u> | <u>3,231,929,723</u> | <u>2,278,670,719</u> | <u>12,829,641,487</u> |
| Total 2008 | <u>6,004,375,821</u> | <u>318,506,825</u> | <u>1,811,738,019</u> | <u>2,132,231,524</u> | <u>10,266,852,189</u> |

* Excluding Iraq.

Treasury bills:

Treasury bills are as low risk since treasury bills amounting to USD 42,699,162 held by the Bank are classified as Governmental risk rating class.

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The table below shows industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

| 2009 | <u>Financial</u> | <u>Industrial</u> | <u>Commercial</u> | <u>Real estate</u> | <u>Trading</u> | <u>Consumer</u> | <u>Public and governmental</u> | <u>Total</u> |
|------------------------------------|-----------------------|--------------------|-------------------|--------------------|--------------------|------------------|--------------------------------|-----------------------|
| Cash and balances at Central Banks | 3,847,099,203 | - | - | - | - | - | - | 3,847,099,203 |
| Balances and deposits at banks | 6,514,472,485 | - | - | - | - | - | - | 6,514,472,485 |
| Loans and advances to customers: | | | | | | | | |
| Consumer lending | - | - | - | - | - | 1,755,796 | - | 1,755,796 |
| Residential mortgages | - | - | - | 686,000 | 76,874 | - | - | 762,874 |
| Corporate lending: | | | | | | | | |
| Large corporations | - | 220,795,380 | - | - | 703,449,193 | - | - | 924,244,573 |
| Small and medium enterprises | - | 195,519 | - | - | 2,204,870 | - | - | 2,400,389 |
| Lending to governmental sector | - | - | - | - | - | - | 1,463,675,214 | 1,463,675,214 |
| Treasury bills held to maturity | - | - | - | - | - | - | 42,699,162 | 42,699,162 |
| Other assets | 32,531,791 | - | - | - | - | - | - | 32,531,791 |
| Total 2009 | <u>10,394,103,479</u> | <u>220,990,899</u> | <u>-</u> | <u>686,000</u> | <u>705,730,937</u> | <u>1,755,796</u> | <u>1,506,374,376</u> | <u>12,829,641,487</u> |
| Total 2008 | <u>7,744,195,860</u> | <u>599,369,178</u> | <u>2,420,000</u> | <u>39,364,038</u> | <u>19,948,663</u> | <u>246,022</u> | <u>1,861,564,905</u> | <u>10,267,108,666</u> |

20.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

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The following table shows the concentration in currency risk as of December 31:

| 2009- | <u>US Dollar</u> | <u>IQD</u> | <u>EUR</u> | <u>GBP</u> | <u>Others</u> | <u>Total</u> |
|---|------------------------|----------------------|----------------------|-------------------|--------------------|-----------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank of Iraq | 215,163,387 | 3,769,995,099 | - | - | - | 3,985,158,486 |
| Balances and deposits at banks | 3,907,319,134 | 44,960,365 | 2,540,658,579 | 19,019,455 | 2,514,952 | 6,514,472,485 |
| Loans and advances to customers | 2,384,018,210 | 8,820,636 | - | - | - | 2,392,838,846 |
| Treasury bills held to maturity | - | 42,699,162 | - | - | - | 42,699,162 |
| Available for sale investments | - | 20,537 | - | - | - | 20,537 |
| Premises and equipment, net | 8,686,657 | 138,113 | - | - | - | 8,824,770 |
| Other assets | 15,747,578 | 17,282,571 | - | - | - | 33,030,149 |
| Total assets | <u>6,530,934,966</u> | <u>3,883,916,483</u> | <u>2,540,658,579</u> | <u>19,019,455</u> | <u>2,514,952</u> | <u>12,977,044,435</u> |
| Liabilities | | | | | | |
| Deposits from customers | 7,947,031,220 | 1,278,432,562 | 2,153,118,062 | 19,590,298 | 2,514,952 | 11,400,687,094 |
| Margin accounts | 260,636,012 | 6,965,075 | - | - | - | 267,601,087 |
| Other liabilities | 72,136,593 | 85,145,591 | - | - | - | 157,282,184 |
| Total liabilities | <u>8,279,803,825</u> | <u>1,370,543,228</u> | <u>2,153,118,062</u> | <u>19,590,298</u> | <u>2,514,952</u> | <u>11,825,570,365</u> |
| Net concentration in the balance sheet | <u>(1,748,868,859)</u> | <u>2,513,373,255</u> | <u>387,540,517</u> | <u>(570,843)</u> | <u>-</u> | <u>1,151,474,070</u> |
| Net concentration off balance sheet | <u>9,612,887,378</u> | <u>205,257,561</u> | <u>3,296,888,831</u> | <u>75,844,690</u> | <u>121,300,264</u> | <u>13,312,178,724</u> |
| 2008- | | | | | | |
| Total assets | <u>6,328,567,308</u> | <u>3,616,194,792</u> | <u>404,924,750</u> | <u>19,305,712</u> | <u>16,628,125</u> | <u>10,385,620,687</u> |
| Total liabilities | <u>6,302,282,073</u> | <u>3,179,593,951</u> | <u>57,139,260</u> | <u>144,370</u> | <u>-</u> | <u>9,539,159,654</u> |
| Net concentration in the balance sheet | <u>26,285,235</u> | <u>436,600,841</u> | <u>347,785,490</u> | <u>19,161,342</u> | <u>16,628,125</u> | <u>846,461,033</u> |
| Net concentration off balance sheet | <u>8,651,264,339</u> | <u>4,555,564</u> | <u>1,852,396,008</u> | <u>30,128,078</u> | <u>270,396,161</u> | <u>10,808,740,150</u> |

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20.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

| 2009 - Currency | <u>Increase in interest rate</u> | <u>Sensitivity of net interest income</u> |
|----------------------------|--------------------------------------|---|
| | % | USD |
| IQD | 0.25 | 6,475,148 |
| USD | 0.50 | 7,671,769 |
| EUR | 0.50 | 2,428,049 |

| Currency | <u>Decrease in interest rate</u> | <u>Sensitivity of net interest income</u> |
|-----------------|--------------------------------------|---|
| | % | USD |
| IQD | 0.25 | (6,475,148) |
| USD | 0.50 | (7,671,769) |
| EUR | 0.50 | (2,428,049) |

| 2008 - Currency | <u>Increase in interest rate</u> | <u>Sensitivity of net interest income</u> |
|----------------------------|--------------------------------------|---|
| | % | USD |
| IQD | 0.25 | 669,625 |
| USD | 0.50 | 2,791,731 |
| EUR | 0.50 | 1,671,763 |

| Currency | <u>Decrease in interest rate</u> | <u>Sensitivity of net interest income</u> |
|-----------------|--------------------------------------|---|
| | % | USD |
| IQD | 0.25 | (669,625) |
| USD | 0.50 | (2,791,731) |
| EUR | 0.50 | (1,671,763) |

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The following table demonstrates the bank's sensitivity to interest rates as of December 31:

| | Less than 1 month | 1 – 3 months | 3 – 6 months | 6 – 12 months | 1 – 3 years | Non-interest bearing | Total | Avg. Int. Rate |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|-------------------------|-----------------------|----------------------|
| 2009 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and balances at Central Banks | 221,581,428 | - | - | - | - | 3,763,577,058 | 3,985,158,486 | 6.12% |
| Balances and deposits at banks | 3,326,407,166 | - | 3,071,579,443 | - | - | 116,485,876 | 6,514,472,485 | 0.83% |
| Loans and advances to customers | 14,052,376 | 2,276,304,703 | 66,922,321 | 22,213,509 | 13,345,937 | - | 2,392,838,846 | 4.03% |
| Treasury bills held to maturity | - | 42,699,162 | - | - | - | - | 42,699,162 | 9.63% |
| Available for sale investments | - | - | - | - | - | 20,537 | 20,537 | - |
| Premises and equipment, net | - | - | - | - | - | 8,824,770 | 8,824,770 | - |
| Other assets | - | - | - | - | - | 33,030,149 | 33,030,149 | - |
| Total assets | 3,562,040,970 | 2,319,003,865 | 3,138,501,764 | 22,213,509 | 13,345,937 | 3,921,938,390 | 12,977,044,435 | |
| Liabilities | | | | | | | | |
| Deposits from customers | 55,997,879 | - | - | 35,170,732 | - | 11,309,518,483 | 11,400,687,094 | 7.22% |
| Margin accounts | - | - | - | - | - | 267,601,087 | 267,601,087 | - |
| Other liabilities | - | - | - | - | - | 157,282,184 | 157,282,184 | - |
| Total liabilities | 55,997,879 | - | - | 35,170,732 | - | 11,734,401,754 | 11,825,570,365 | |
| Interest rate sensitivity gap | 3,506,043,091 | 2,319,003,865 | 3,138,501,764 | (12,957,223) | 13,345,937 | (7,812,463,364) | 1,151,474,070 | |
| 2008 | | | | | | | | |
| Total assets | 2,080,016,656 | 1,772,035,866 | 1,900,681,156 | 1,170,800,230 | 484,590,435 | 2,977,496,344 | 10,385,620,687 | |
| Total liabilities | 31,972,857 | - | - | 26,053,103 | - | 9,481,133,694 | 9,539,159,654 | |
| Interest rate sensitivity gap | 2,048,043,799 | 1,772,035,866 | 1,900,681,156 | 1,144,747,127 | 484,590,435 | (6,503,637,350) | 846,461,033 | |

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20.5 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The tables below indicate the currencies to which the Bank had significant exposure at December 31 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the U.S.Dollars, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| 2009 - | | |
|-----------------|--|---------------------------------------|
| Currency | Increase in currency exchange rate | Sensitivity of net interest income |
| | % | USD |
| IQD | 5 | 116,036,434 |
| EUR | 15 | 119,695,994 |
| GBP | 10 | 74,111 |
| Currency | Decrease in currency exchange rate | Sensitivity of net interest income |
| | % | USD |
| IQD | 5 | (116,036,434) |
| EUR | 15 | (119,695,994) |
| GBP | 10 | (74,111) |
| 2008 - | | |
| Currency | Increase in currency exchange rate | Sensitivity of net interest income |
| | % | USD |
| IQD | 5 | 135,762,628 |
| EUR | 15 | 57,616,541 |
| GBP | 10 | 1,303,747 |
| Currency | Decrease in currency exchange rate | Sensitivity of net interest income |
| | % | USD |
| IQD | 5 | (135,762,628) |
| EUR | 15 | (57,616,541) |
| GBP | 10 | (1,303,747) |

20.6 Operational risk

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

20.7 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

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The table below summarises the maturity profile of the Bank's financial liabilities at December 31 based on contractual undiscounted repayment obligations:

| 2009 | <u>Less than 1 month</u> | <u>1 – 3 months</u> | <u>3 – 6 months</u> | <u>6 – 12 months</u> | <u>1 – 3 years</u> | <u>Non- specific</u> | <u>Total</u> |
|--------------------------|------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------|-----------------------|
| Liabilities | | | | | | | |
| Deposits from customers | 4,038,942,264 | 2,355,758,346 | 2,159,445,150 | 2,348,032,248 | 588,939,586 | | 11,491,117,594 |
| Margin accounts | 89,200,362 | 133,800,544 | 44,600,181 | - | - | - | 267,601,087 |
| Other liabilities | 20,576,327 | 25,510,466 | 5,102,093 | 98,440,158 | 7,653,140 | - | 157,282,184 |
| Total liabilities | <u>4,148,718,953</u> | <u>2,515,069,356</u> | <u>2,209,147,424</u> | <u>2,446,472,406</u> | <u>596,592,726</u> | | <u>11,916,000,865</u> |
| Total assets | <u>5,284,705,804</u> | <u>2,804,705,386</u> | <u>2,376,055,259</u> | <u>2,489,407,279</u> | <u>13,345,937</u> | <u>8,824,770</u> | <u>12,977,044,435</u> |
| 2008 | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from customers | 2,779,247,423 | 1,262,333,605 | 1,626,825,280 | 1,742,259,474 | 1,094,022,457 | - | 8,504,688,239 |
| Margin accounts | 200,590,933 | 48,746,269 | 19,345,355 | - | - | - | 268,682,557 |
| Other liabilities | 547,851 | 662,235,338 | 19,006,076 | 91,558,804 | - | - | 773,348,069 |
| Total liabilities | <u>2,980,386,207</u> | <u>1,973,315,212</u> | <u>1,665,176,711</u> | <u>1,833,818,278</u> | <u>1,094,022,457</u> | <u>-</u> | <u>9,546,718,865</u> |
| Total assets | <u>3,181,412,640</u> | <u>2,300,072,281</u> | <u>2,007,199,499</u> | <u>1,859,018,497</u> | <u>1,024,247,136</u> | <u>6,835,317</u> | <u>10,385,620,687</u> |

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Off balance sheet items

The table below summarizes the off balance sheet items maturities as of the date of the financial statements:

| | Less than 1 year | 1 – 5 years | Total |
|--|----------------------|----------------------|-----------------------|
| 2009- | | | |
| Irrevocable commitments to extend credit | 7,400,156,100 | 3,769,237,236 | 11,169,393,336 |
| Letters of guarantee | 1,773,914,713 | 368,870,675 | 2,142,785,388 |
| Total | 9,174,070,813 | 4,138,107,911 | 13,312,178,724 |
| 2008- | | | |
| Irrevocable commitments to extend credit | 2,418,379,696 | 6,873,589,276 | 9,291,968,972 |
| Letters of guarantee | 1,003,938,917 | 512,832,260 | 1,516,771,177 |
| Total | 3,422,318,613 | 7,386,421,536 | 10,808,740,149 |

(21) SEGMENT INFORMATION

Primary segment information

For management purposes the Bank is organised into three major business segments:

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

Corporate banking Principally handling loans and other loans and advances and deposit and current accounts for corporate and institutional customers

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

For the purpose of segmental reporting, interest is allocated based on a pool rate determined by Treasury based on the Bank's cost of borrowing.

The Bank's geographical segments are based on the location of the Bank's assets. Income from external customers disclosed in geographical segments is based on the geographical location of its customers.

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

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The banks business segmental information are summarized in the table below:

| 2009 | Retail Banking | Corporate Banking | Treasury | Other | Total | |
|---------------------------------------|----------------|-------------------|----------------|-------------|----------------|----------------|
| | | | | | 2009 | 2008 |
| Gross income | 49,391,542 | 49,606,440 | 106,477,392 | 142,372,026 | 347,847,400 | 499,259,347 |
| Impairment loss on loans and advances | - | (4,185,440) | - | - | (4,185,440) | (59,453,797) |
| Segmental results | 47,545,338 | 41,113,191 | 106,477,392 | 142,372,026 | 337,507,947 | 384,066,789 |
| Unallocated expenses | | | | | (32,494,910) | (28,358,526) |
| Net profit | 49,391,542 | 45,421,000 | 106,477,392 | 142,372,026 | 305,013,037 | 355,708,263 |
| <u>Other information</u> | | | | | | |
| Segmental assets | 2,518,740 | 926,644,962 | 10,642,404,042 | 20,537 | 11,571,588,281 | 10,038,131,564 |
| Unallocated segmental assets | | | | | 1,405,456,154 | 347,489,123 |
| Total assets | 2,518,740 | 926,644,962 | 10,642,404,042 | 20,537 | 12,977,044,435 | 10,385,620,687 |
| Segmental liabilities | 55,997,879 | 9,759,661,895 | - | 267,601,087 | 10,083,260,861 | 8,850,325,889 |
| Unallocated segmental liabilities | | | | | 1,742,309,504 | 688,833,765 |
| Total liabilities | 55,997,879 | 9,759,661,895 | - | 267,601,087 | 11,825,570,365 | 9,539,159,654 |
| Capital expenditure | | | | | 3,602,933 | 1,189,527 |
| Depreciation | | | | | 1,613,480 | 1,410,919 |

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The following table shows the distribution of the Bank's operating income and capital expenditure by geographical segment:

| | Iraq | | Outside Iraq | | Total | |
|---------------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Gross income | 303,427,793 | 403,140,291 | 44,419,607 | 96,119,056 | 347,847,400 | 499,259,347 |
| Total assets | 6,548,672,137 | 8,123,144,319 | 6,428,372,298 | 2,262,476,368 | 12,977,044,435 | 10,385,620,687 |
| Capital expenditure | 3,602,933 | 1,189,527 | - | - | 3,602,933 | 1,189,527 |

(22) CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, no changes have been made to the bank's capital components since 2008.

The below summarises the composition of the prime capital as follows:

| | 2009 | 2008 |
|----------------------------|----------------------|--------------------|
| Primary capital | | |
| Paid up capital | 427,350,000 | 427,350,000 |
| Voluntary reserve | 3,500,000 | 3,500,000 |
| Retained earnings | 720,624,070 | 415,611,033 |
| Total Primary capital | <u>1,151,474,070</u> | <u>846,461,033</u> |
| Total risk weighted assets | 6,431,686,740 | 1,371,692,889 |

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(23) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

| | Within1 Year | More than 1 Year | Total |
|---|-----------------------|----------------------|-----------------------|
| 2009- | | | |
| Assets | | | |
| Cash and balances at Central Bank of Iraq | 3,985,158,486 | - | 3,985,158,486 |
| Balances and deposits at banks | 6,514,472,485 | - | 6,514,472,485 |
| Loans and advances to customers | 2,379,492,909 | 13,345,937 | 2,392,838,846 |
| Treasury bills held to maturity | 42,699,162 | - | 42,699,162 |
| Available for sale investments | 20,537 | - | 20,537 |
| Premises and equipment, net | 352,991 | 8,471,779 | 8,824,770 |
| Other assets | 33,030,149 | - | 33,030,149 |
| Total assets | <u>12,955,226,719</u> | <u>21,817,716</u> | <u>12,977,044,435</u> |
| Liabilities | | | |
| Deposits from customers | 10,854,268,965 | 546,418,129 | 11,400,687,094 |
| Margin accounts | 267,601,087 | - | 267,601,087 |
| Other liabilities | 149,629,044 | 7,653,140 | 157,282,184 |
| Total liabilities | <u>11,271,499,096</u> | <u>554,071,269</u> | <u>11,825,570,365</u> |
| Net assets | <u>1,683,727,623</u> | <u>(532,253,553)</u> | <u>1,151,474,070</u> |
| 2008- | | | |
| Assets | | | |
| Cash and balances at Central Bank of Iraq | 2,324,836,410 | 532,673,776 | 2,857,510,186 |
| Balances and deposits at banks | 3,838,460,352 | 446,332,599 | 4,284,792,951 |
| Loans and advances to customers | 1,295,716,971 | 45,240,761 | 1,340,957,732 |
| Treasury bills held to maturity | 1,182,013,546 | - | 1,182,013,546 |
| Available for sale investments | 20,537 | - | 20,537 |
| Premises and equipment, net | 273,413 | 6,561,904 | 6,835,317 |
| Other assets | 713,490,418 | - | 713,490,418 |
| Total assets | <u>9,354,811,647</u> | <u>1,030,809,040</u> | <u>10,385,620,687</u> |
| Liabilities | | | |
| Deposits from customers | 7,482,094,993 | 1,015,034,035 | 8,497,129,028 |
| Margin accounts | 268,682,557 | - | 268,682,557 |
| Other liabilities | 773,348,069 | - | 773,348,069 |
| Total liabilities | <u>8,524,125,619</u> | <u>1,015,034,035</u> | <u>9,539,159,654</u> |
| Net assets | <u>830,686,028</u> | <u>15,775,005</u> | <u>846,461,033</u> |

(24) CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|-----------------------|-----------------------|
| Letters of credit | 11,169,393,336 | 9,291,968,972 |
| Performance letters of guarantee | 2,142,785,388 | 1,516,771,177 |
| | <u>13,312,178,724</u> | <u>10,808,740,149</u> |

Annual rent of the Bank's main building and the branches amounted to USD 1,392,886 as of 31 December 2009 (2008: USD 953,253) renewable annually.

(25) LAWSUITS

In the normal course of business the Bank appears as a defendant in a number of lawsuits as of December 31, 2009. According to the Bank's lawyer and Bank's management, no material liability will arise as a result of these lawsuits.

(26) RELATED PARTY TRANSACTIONS

The Bank enters into transactions with Iraqi Governmental agencies in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The following transactions have been entered into with related parties:

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|---------------|---------------|
| Balances at Central Bank of Iraq | 3,847,040,536 | 2,746,332,036 |
| Treasury bills | 42,699,162 | 1,182,013,546 |
| Loans and advances | 1,463,675,214 | 679,551,359 |
| Customers' deposits | 7,470,114,219 | 6,897,979,511 |
| Interest income | 62,057,785 | 218,304,965 |

In addition, almost all commission income and income from dealing in foreign currencies are generated from related party transactions.

Also, almost all credit related commitments are related parties commitments.

(27) NEWLY ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards issued but not yet effective

IFRS 9, 'Financial instruments part 1: Classification and measurement'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features 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 other debt instruments are to be measured at fair value through profit or loss.
- 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 unrealised and realised 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. This election may be made on an instrument-by instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Improvements to IFRS

Improvements to IFRS' were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009 and 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

The Bank did not early-adopt new or amended standards in 2009.

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(28) COMPARATIVE FIGURES:

During 2009, the Bank has carried out reconciliations of long outstanding balances in Intra-branches and Suspense accounts, as a result of the reconciliation the following changes have been made for the comparative figures:

| | Before Restatement | After Restatement | Difference |
|-------------|-------------------------------|------------------------------|-------------------|
| Assets | 10,044,788,028 | 10,385,620,687 | 340,832,659 |
| Liabilities | 9,194,707,368 | 9,539,159,654 | (344,452,286) |
| Equity | 850,080,660 | 846,461,033 | 3,619,627 |
| Net profit | 359,327,890 | 355,708,263 | (3,619,627) |