CENTRAL BANK OF IRAQ (CBI)

ESG Scorecard Report for the Iraqi Banks

2022

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Table of Contents

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1. Forward

Welcome to the first report on the environmental, social and governance (ESG) practices of Iraqi banks. The goal of the scorecard and this report is to provide a fair analysis of ESG practices in Iraqi banks and to establish a baseline from which banks can develop and progress their ESG practices. ESG performance is key to the Central Bank of Iraq's (CBI) long-term vision for a sustainable banking system and for sustainable finance in Iraq.

The CBI with the support of international independent assessors, recognized ESG experts, developed the scorecard around the CBI's Corporate Governance Guide for Banks, 2018 (the Guide). The CBI is also aware of increasing and demanding global developments in standards of corporate governance (CG), environmental and social expectations of the banking sector. The CBI recognizes that ESG strategies and reporting are important and is increasingly being regulated in markets. By 2021 ESG reporting in some form is mandatory in the European Union, the United Kingdom, India and Singapore. 2022 will be a pivotal year and will see the increase of mandatory ESG reporting in the United States, Australia and others. Iraqi banks are and will be influenced by this trend.

Standards and guidance used as benchmarks in this ESG scorecard include G20/OECD Corporate Governance Principles, and various ESG standards and reporting guidance such as those from UN PRI, EU regulations, the Integrated Reporting Council, (IIRC) Sustainable Accounting Standards Board (SASB), the International Sustainability Standards Board (ISSB) and specific guidance on climate from Financial Stability Board's (FSB) Task Force on Climate-related Disclosure s(TCFD) and others. The International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (BCBS) support this fast-moving area and have issued guidance specifically on climate related reporting. The International Finance Corporation (IFC) has developed Performance Standards and support materials for environmental, social and governance progression.

The CBI has introduced its Sustainability Principles in Annex (1) to the Guide in recognition of the important shift in financial markets to greater consideration of sustainability and ESG matters. Banks are expected to embed ESG factors into bank strategies and operations.

ESG best practices is a journey and not a destination. Banks will be required to evolve ESG policies and practices as markets and investors demand increased and refined ESG information and activities.

We are confident you will find this report useful, relevant and instrumental for your decisions.

The CBI would like to thank the international independent ESG experts and the CBI team for their insights on ESG practices and reporting in Iraqi banks. Finally thank you to the Iraqi banks for their co-operation and support of this initiative.

Governor of the Iraqi Central Bank
Mustafa Ghaleb Mukheef

2. Executive Summary

In 2018, the CBI commenced a multi-year program of activities in co-operation with IFC to improve bank sustainability and ESG activities and reporting in Iraqi banks. This scorecard analysis and report is a key part of these activities. This baseline scorecard establishes the current state of ESG in Iraqi banks. It is a diagnostic on which to build a robust financial sector.

The scorecard results (Chart 1) indicate 10 of 62 banks in this assessment may be considered 'Iraqi Bank Leaders' achieving an ESG score of above 70%. 9 of these 10 'Iraqi Bank Leaders' are private banks and 1 is a foreign bank. All 10 banks in the bank leadership category are listed; 8 are commercial banks and 2 are Islamic banks. Despite these banks being Iraqi Bank Leaders, they, like all other banks, will have to constantly review and improve ESG policies and practices because it is a field that is evolving fast and each day and week there are new ESG global developments to keep aligned with.

11 of 62 banks have 'good' ESG policies and practices achieving a score of between 61% and 70%. Of 11 banks classified as having 'good' ESG practices, 10 are privately owned. 14 of 62 banks scored a 'fair' level of ESG implementation achieving a score of between 51% and 60%. The sustainability and ESG practices of 27 of 62 banks (43.6% of all banks) are at a 'basic' level achieving a score of 50% or under. Six of a total of 7 state-owned banks are in the 'basic' category. There is a need for improvement in ESG practices in Iraqi banks.

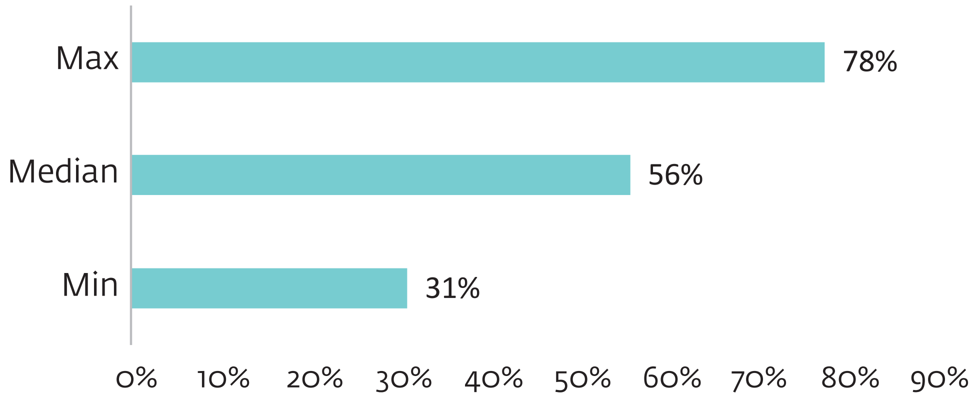
Chart 1

Quality of ESG Practices - Number of Banks

When the results of all banks are considered in a sequence, the topmost score achieved is 78%; the lowest score was 31% with a median[1] score of 56% (Chart 2). The median score of 56% indicates that 50% of banks scored above 56% and that 50% of all banks scored below 56% and are at a very basic level of ESG implementation.

Chart 2

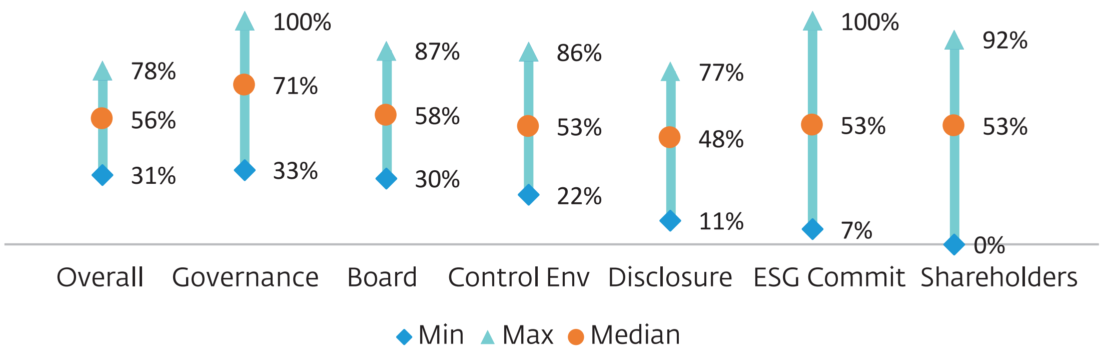
ESG Score % - All Banks



A review of scorecard results in Part 1 – Governance Framework and Commitment, indicates most banks have in place some elements of frameworks for good governance and environmental and social practices (median 71%) (Chart 3 and Table 1).

Chart 3

Scorecard Results - Parts 1-6



1 Median scores are used throughout this report unless otherwise specified.

Table 1

Part	Topic	% Median Score
1	Governance Framework and Commitment	71
2	Board Structure and Composition	58
3	The Control Environment	53
4	Disclosure and Transparency	48
5	Commitment to ESG Practices	53
6	Role of Shareholders and Stakeholders	53

When other more detailed parts of the scorecard (Parts 2-6) are examined, the median scores are between 48% and 58%. This indicates banks only partially implement comprehensive detailed ESG strategies, policies and practices.

CBI recognizes the need to lead on sustainable finance, bank sustainability and development of ESG practices. CBI recommends planned activities for banks should include training and awareness raising of the rationale for, nature and demands of ESG implementation and risk management and for the development of bank resources to support such a plan. Guides and tools and the annual use of the scorecard should support ESG development.

It is recommended individual banks should develop and resource an ESG Action Plan. The Action Plan should include activities, team responsibilities and timed milestones to ensure achievement of the Plan. Progress on the Plan should be reported in the Annual Report and to the CBI. It is in the interests of the Iraqi economy and financial sector to have a group of strong, robust sustainable banks focused on the risks and opportunities of ESG.

3. Objectives

It is critical for the advancement of our society and our economies that we have quality corporate governance, including governance for environmental and social matters, in our companies."[2]

M. King S.C. 2012

Environmental, social, and governance (ESG) issues as well as their associated opportunities and risks are becoming more and more relevant for financial institutions. For banks, sustainability is not just an ethical question, but will soon enough also become an economic question - generating a new type of risk: ESG risk (environmental, social and governance). Heightened demand of investors for sustainable products as well as increasing pressure from regulatory bodies highlight the need for banks to consider ESG risks in their risk management framework."[3]

KPMG, 2021

The driver for the development of this Scorecard for the Central Bank of Iraq (CBI) is to ensure that banks in Iraq are known and respected for their sustainable, robust management and quality governance, which is inclusive of recognition of environmental and social issues. Scorecards are a way to encourage compliance and due diligence, assessing a bank's ESG (environmental, social and governance practices) practices, which provide opportunities for systematic improvement.

The scorecard is expected to:

- Provide a standardized, systematic framework from which regulators, banks and investors may assess individual bank environmental, social and governance (ESG) standards and the overall level of ESG in Iraqi banks
- Call a bank's attention to the importance of integrated ESG practices and enable a bank to assess the quality of its corporate governance, including governance of environmental and social issues, and to stimulate them to enhance their practices

2 M. King S.C., author of the King III Code of Corporate Governance for South Africa, in an interview with Bruce Whitfield on 13 Match 2012, available on www.ey.com/za

3 KPMG, ESG Risks in Banks, 2021, available at www.kpmg.com

Provide a systematic way to analyze ESG across diverse sizes and complexity of banks which should assist improvements in ESG practices

Assist the CBI to collect and analyze bank data on integrated ESG practices, identify strengths and weaknesses in bank corporate governance practices and to track bank progress to global best practices in governance

Inform and lead to further reforms and or guidance to Iraqi banks to raise the level of ESG within Iraqi banks

Ensure Iraqi banks are competitive in their governance for sustainability management with other banks across the region and To build a reputation for Iraqi banks for quality governance and ESG practices.

> *Good corporate governance is not an end in itself. It is a means to create market confidence and business integrity, which in turn is essential for companies that need access to equity capital for long term investment".*[3]
>
> *However, "the best corporate governance framework does not guarantee acceptance and implementation if banks are not complying with the framework".*[4]

Note:

As all evaluation frameworks do, the methodology of the Iraqi ESG Scorecard also has its own limitations. A high score on the scorecard is not an indicator of current or future financial performance, or stock price performance. There are 'pros' and 'cons' to any ESG rating system. No ESG rating system, such as this one, can totally and accurately predict the level of real ESG within a bank. This can only really be interpreted from an inside view; a view of the board as it goes about its business. Further the view may change with any single board decision. This Scorecard, therefore, captures some elements only of the ESG picture. As it is completed by those inside the bank, an element of bias may be present and CBI validation has occurred.

4 OECD, *G20/OECD Principles of Corporate Governance*, OECD, 2015

5 Strenger, C., *The Role of Corporate Governance Principles – The importance of compliance and main issues in Germany*, OECD Eurasian Roundtable, Kiev, 2004.

4. Background

Initially driven by the need to manage issues such as sustainability and climate change and the altruistic demands of younger and new investors, in recent times market expectations have moved from a simple focus on corporate governance (CG) practices to a wider focus on integrated ESG leading to bank sustainability.

ESG is an acronym for Environmental, Social and Governance. Broadly, ESG can be defined

as "a set of environmental, social, and governance factors considered by companies when managing their operations, and investors when making investments, in respect of the risks, impacts, and opportunities relating to but not limited to:

Environmental issues:

Potential or actual changes to the physical or natural environment (e.g. pollution prevention or control, biodiversity and ecosystems impacts, carbon emissions, climate change mitigation and adaptation, protection and use of natural resources (including water and marine resources);

Social issues:

Potential or actual changes on surrounding community and workers (e.g. labour relations, health and safety issues, human rights including along a supply chain or with customers and the community, diversity and inclusion); and

Governance:

Corporate governance structures and processes by which companies are directed and controlled (e.g. board structure and diversity, ethical conduct, risk management, disclosure and transparency), including the governance of key environmental and social policies and procedures."[6] These are sometimes more advanced in an entity but nevertheless need increased attention to present a holistic, current ESG approach.

ESG is evolving with different approaches and methodologies to assess ESG performance. A scorecard is a tool to assess ESG progress. Many standards (for example those from TCFD, PRI, GRI, IFC, SSE and ISSB) and tools have been developed to help companies assess and manage ESG performance and some are specific to the current leading issue of climate change. For banks one approach to ESG is developed by the Sustainable Banking and Finance Network (SBFN). The IFC also has Performance Standards in related to environment and social (E&S) issues and several other areas. IFC has tools to assess and support development in Environmental and Social Management Systems (ESMS). Another IFC program is focused on E&S risk management, the Environmental and Social Risk Management (ESRM) program, to increase awareness and practices for E&S in financial

6 International Finance Corporation, *ESG Guidebook*, Washington D.C., 2021

institutions. The goal is that IFC and their clients may build better E&S responses, leading to increased financial institution and client resilience.

Why is ESG important?

ESG factors cover a broad range of topics and issues. Many of them, such as climate change, affect specific firms, sectors or countries but can also impair the stability of an economy. ESG factors have become a good measure for assessing how companies identify and manage non-financial risks and opportunities.

Investors and stakeholders across the globe are increasingly demanding organizations to outline their ESG framework and approach to assess organizations' long-term sustainability and capacity for value creation. ESG risks and practices have a potential significant impact on the following fundamental business issues relevant to the long-term success of the organization:

- Better returns - Studies have demonstrated that higher ESG scores and practices correlates with higher profitability and returns on assets (ROA);
- Risk reduction – ESG can assist with the identification of immediate and long-term risks depending on the industry and business model;
- Opportunity management – Shifting market and non-market conditions can expose unmet needs for new products and/or services, potential customer bases, and potential strategic relationships for addressing ESG issues;
- Corporate reputation – ESG can enhance an entity's license to operate making it easier to accomplish business objectives and respond to crisis scenarios with key stakeholder groups It also builds investor interest; and
- Culture & intrinsic value – ESG maturity is an indicator of an entity's commitment to building a high performing, purpose-driven workforce and inclusive culture.

What is a Scorecard?

The Scorecard is a tool to focus discussion, raise awareness, and encourage change in corporate governance practices at the entity level, including environmental and social governance standards. It is a tool that helps to identify corporate governance and environmental and social risks or 'red flags' that need attention and ESG opportunities. Throughout this report, these corporate governance, environmental and social issues, key to sustainable development of a bank, are referred to as ESG.

The Scorecard is a simple questionnaire survey of the ESG practices in an individual bank.

Who uses Scorecards?

Initially, the scorecard methodology was applied in Germany in 2000 to corporate governance practices. Many CG monitoring systems, including scorecards, in the Middle East (2010-2019) and Asia have followed an approach that encourages comparability between countries and regions on the application of CG especially in listed companies and banks. The methodology has expanded to include ESG factors.

A scorecard relies on leadership within the country to improve ESG practices and local CG regulation and issues. The use of a scorecard to improve CG, including environmental and social practices, has been applied to companies in several countries in the region, by several stock exchanges, including Palestine and Jordan, and in large and smaller countries, including India, Vietnam, Azerbaijan. **However, it should be noted that the Central Bank of Iraq (CBI) is the first central bank in the region to apply the scorecard methodology specifically to banks.**

The approaches used in the structure and methodology of the Iraqi Scorecard are cognizant of available and successful scorecard approaches, including the agreed methodology used by the Organization for Economic Co-operation and Development (OECD) and the World Bank Group to assess the ESG in entities. Such methodologies have been interpolated into each country using a scorecard adapted to align with local laws and regulations as has this scorecard. A scorecard analysis should point to areas for improvement so ESG in Iraqi banks can move beyond compliance to an effective ESG system.

5. Iraq - The Starting Point

This scorecard report will establish a baseline on ESG practices in Iraqi banks. It is expected to demonstrate the level of current practices and to provide information on key areas for development and progression. It is part of a coherent strategy of the CBI to build knowledge and skills in ESG policies, practices and sustainable banking and finance.

The journey started in 2018 and involved key milestones.

The specific Iraqi CBI Scorecard has been constructed, in co-operation with IFC, with questions that reflect the specific CG legal and regulatory frameworks for banks in Iraq. In addition, it is the first scorecard to introduce a brief, separate section focused on sustainability and ESG (Part 5). Where applicable, standards issued by the International Finance Corporation (IFC), International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) are considered. Other standards also considered are the guidance issued by the Basel Committee of Bank Supervisors (BCBS) and materials issued by the Financial Stability Board (FSB) and its Task Force on Climate Disclosures (TFCD), the International Corporate Governance Network (ICGN) of Investors, the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) and others.

Iraqi laws and regulations require a one-tier board/corporate governance structure which is similar to those developed in many countries such as Malaysia, Saudi Arabia, South Africa, United Kingdom, Australia and many others. In addition, the scorecard structure considered the nature of the Islamic banks that work in the sector.

The scorecard takes the view that banks have a public obligation to adhere to the law and regulations and to aspire to good ESG practices, beyond compliance with legal and regulatory requirements. Banks are key players in the growth and security of Iraqi economic development. Therefore, the fact that banks may be listed or unlisted, may be big or small, is not considered relevant. All banks should aspire to global standards of good governance.

The assessment of each bank was based on reliable, available information, bank data based on the 2020 financial year and on documents reported to CBI. It was envisaged that a nominated person within each bank, usually the company secretary, would respond to the scorecard questionnaire and sign it. The final Scorecard Report submitted from the bank to the CBI was signed off as a reliable reflection of the bank's ESG by bank senior management.

It is important that CG principles and broader environmental and social values and concepts were implemented in practice and are not just viewed and accepted at the conceptual level. This latter is a 'compliance' or 'box-ticking' approach and is not considered sufficient. The assessment is about establishing from a 'reasonably well-informed person' point of view whether ESG concepts are applied in practice in Iraqi banks.

6. Scorecard Methodology

A panel of joint CBI officials and International Finance Corporation ESG experts developed and agreed the scorecard questions in 2020. The CBI then administered the introduction of the scorecard into Iraq.

Reviewed Banks and Information

It was determined that banks of all types in Iraq would be required to complete and report to CBI the scorecard to facilitate a comprehensive view of ESG practices in Iraqi banks – commercial banks, Islamic banks, foreign owned banks. All are either basically state-owned or private banks.

62 banks completed the scorecard (Appendix D). Newly licensed banks and banks under custodianship by CBI were eliminated from the scorecard.

Based on relevant information from the completed financial year of 2020, each of the 62 participating banks completed a questionnaire of 90 questions and submitted the responses to the CBI in 2021. Islamic banks following Shari'a Law had an additional 8 questions relating to Shari'a matters. Further, three questions in Part 6 Role of Shareholders were deemed not to apply to state-owned banks. Scores were adjusted for these differences.

Information sources to support responses to the scorecard questions included the company's annual report, financial statements, public and regulatory filings filed with the regulator and the stock exchange (if relevant), notices for the AGM, reports on results of AGM, AGM minutes, Articles of Association, and banks' website materials. As part of the scorecard questions, CBI provided all banks with a list of documents required to evidence relevant scorecard responses.

Scorecard Categories and Scoring

The scorecard questions covered 6 key areas in ESG practices which are recognized in the CBI's Corporate Governance Guide for Banks 2018 (the Guide or the CG Guide) and other practices which are globally accepted practices. The areas are:

- **Part 1** Governance Framework and Commitment;
- **Part 2** Board Structure and Composition;
- **Part 3** Control Environment;
- **Part 4** Disclosure and Transparency;
- **Part 5** Commitment to ESG Practices; and
- **Part 6** Role of Shareholders and Stakeholders.

It was determined for the CBI scorecard that weighting should not be applied to areas / categories or groups of questions and that the relative importance of areas would be reflected in the number of questions in each section.

Individual banks were scored according to the CBI developed response scheme provided to banks. A maximum of two points were available for each question. Points on each question or partial points were allocated as determined according to the CBI scheme. Each area had a different number of questions that addressed the relevant issues related to the area.

Agreed categories and number of questions are in Table 2 below.

Table 2

Part	Category	Number of Questions
1	Governance Framework & Commitment	6
2	Board Structure and Composition	*22/30
3	The Control Environment	18
4	Disclosure and Transparency	21
5	Commitment to ESG Practices	11
6	Role of Shareholders and Stakeholders	*12
		87/98

*Iraqi Islamic banks applying Shari'a Law and having a Shari'a Law Board responded to an additional eight questions in Part 2 – the Board (indicated in the Scorecard in this color) relating specifically to Shari'a Law duties as expressed in Article 10 of the Code. State-owned banks were not required to respond to three questions in Part 6 (Q1, Q3, Q10) as CBI deemed the questions were not applicable because the state banks had only one shareholder. Scoring was adjusted to accommodate these anomalies.

The assessment covered different aspects of bank practices. However, these are inevitably linked and closely related. Therefore, one assessment question/criteria may well be equally appropriate in another category of assessment. The guide for current location in the scorecard has been the emphasis in the Iraqi CBI Corporate Governance Guide for Banks, 2018.

To ensure the veracity of responses to the scorecard, senior signoff from each bank was required. The CEO of a private bank, the Director-General of a state bank and the Foreign Branch Manager of a foreign bank were required to verify the responses. Each was accountable also for leading in-bank work teams which provided responses to the scorecard. Scorecard responses were signed off as a realistic and valid reflection of the ESG position of each bank by the senior management of the bank.

Final Bank Scores

The Scorecard responses, developed and reported by the Iraqi banks themselves and reported to the CBI, were subject to CBI review. To ensure maximum fairness to each bank and minimum subjectivity or bias in the scoring process, each bank had a three-phase 'check and balance' approach applied to the scoring by the CBI scorecard team.

In **Phase 1** CBI staff in the Supervision Department allocated scores and made notes and comments on each response by each bank. In **Phase 2** separate individuals in CBI reviewed the comments, scoring and any other notes attached to each question from Phase 1 for each bank. These were discussed, confirmed and/or amended at Phase 2. **Phase 3** was an overall reality check led by the CBI Project Manager who reviewed comments, notes and scoring of both earlier phases and confirmed the final score for each bank on each question.

This report analyzed data provided and checked by CBI in its 3-phase review. The scorecard analysis facilitates the grouping of banks into broad categories as follows:

Iraqi Bank

LEADERS	GOOD	FAIR	BASIC
if the bank scores above 70%	if the bank scores between 61% and 70%	if the bank scores between 51% and 60%	and requiring improvement if the bank scores 50% or under.

Rounded to the nearest whole percentage or to the nearest one decimal.

Iraqi Bank Leaders received scores above 70%. Whilst they are considered leaders of ESG policies and practices amongst Iraqi banks, they also will need to review and develop their ESG practices. ESG is a rapidly evolving area. For example, an indicator of rapid movement in this area is the following news.

"In June 2022, the European Commission, the Council and the European Parliament reached **a** provisional agreement on the **Corporate Sustainability Reporting Directive (CSRD) text**.

The rules will apply to all large companies and all companies listed on regulated markets, listed SMEs, and non-European companies with a subsidiary branch in the EU and a net turnover of EUR 150m in the EU. The application of the CSRD will begin on 1 January 2024 for companies already subject to the Non-Financial Reporting Directive.[7]

At this stage, exact individual bank scores are not expected to be published. However, banks will be able to see where they fit in the hierarchy of ESG policies and practices of Iraqi banks and the scorecard may lead to informed discussions between the CBI and each bank on how each bank may improve its ESG practices.

Data Review and Analysis

The data provided by the banks was audited by the scorecard team at the Central Bank of Iraq and provided in a coded form to two international independent ESG expert assessors supporting the CBI in this project. All data files were cross-checked to ensure reliability, completeness, consistency, and comparability of data. During the data review process several queries for clarification were submitted to the CBI team. Analysis of data used a

7 E&Y, *Sustainability Reporting Developments Newsletter*, August 2022.

statistical package Stata 17 and included testing for statistical significance and regression analysis. T-tests were used to test statistical significance of differences in group 'means'. A 'mean is an 'average'. Stata "median" command was used to test statistical significance of difference in group 'medians'. A 'median indicates a midpoint of scores.

For some analysis and to better understand good practices and poor practices of banks, the group of 62 banks was divided into 3 groups: the top 15 banks achieving the best ESG scores; the bottom 15 banks achieving the lowest ESG scores; and the middle group of 32 banks.

Line graphs, as depicted in Chart 3, indicate maximum and minimum points achieved by banks and the median of all banks is indicated by a dot. Some graphs extend from a zero score to a score of 100, indicating a wide spread of practices from very poor to very good.

Note:

Percentages in this report may be subject to rounding to the nearest percentage.

CBI Support for Banks in Applying the Scorecard

The CBI supported the introduction of the scorecard process in the following ways:

- CBI piloted the scorecard with 16 commercial banks and 16 Islamic banks in November 2020 to clarify any issues with the scorecard process;
- In 2020, CBI provided training for banks, provided virtually due to the Corona pandemic, in the completion of the scorecard. It also provided in-person training in February and March 2021 and again in November 2021;
- It oversaw the establishment of work teams in state-owned, private and foreign banks to ensure information sharing between these banks;
- CBI provided a regularly updated list of Frequently Asked Questions (FAQs) with answers and a contact email and phone number for queries;
- Within the CBI nominated and separate individuals were charged with responding to either commercial or Islamic bank inquiries or to technical inquiries; and
- CBI developed a detailed scoring document with an explanation regarding the documents and information required to support each question assessment.

7. Sustainability and ESG

This initial scorecard analysis was conducted at the end of 2021 on 2020 data reported by Iraqi banks to CBI during 2021 when they completed the scorecard questionnaire. The data and the scorecard are intended to form a baseline of information on which to build regarding the state of banking in Iraq and current ESG practices in banks under the oversight of the CBI.

This report seeks to enrich the information available on the banking sector in Iraq, some of which may be already known and some of which is new and may require further investigation. The report also seeks to analyze the information to elicit pointers to next steps and progression needed to improve ESG practices. The findings may point to areas for development now and in the future and steps to determine progress in ESG practices.

A cohort of 62 Iraqi banks completed the questionnaire.

To assist in analysis of the scorecard results, the 62 banks were ranked by total percentage scores (highest to lowest). For specific information, they were sometimes divided into 3 groups – the 15 top and best scoring banks, the 32 middle scoring banks and the 15 bottom and lowest scoring banks. Analysis focused on links between the specific nature of banks and their ESG performance.

The CBI introduced basic sustainability and ESG factors into the scorecard recognizing the importance of sustainability as a relatively recent phenomenon. Therefore, the report will concentrate special effort in understanding the position of sustainability and ESG factors in Iraqi banks, especially with regard to climate change and to diversity and inclusion.

Adjustment to sustainability and to the global clamor for regulation and action on ESG matters will affect every facet of bank activities including board and management activities. It is a strategic matter.

For better sustainability and application of ESG practices, boards need to:

- Establish an overarching framework and approach to ESG;
- Incorporate ESG competences into board composition, board committees and board discussions, especially on strategy and risk;
- Ensure nominating and governance committees search for ESG skills, competences and experience for director appointments;
- Ensure board committees consider and include ESG activities and reporting in their workplans, this may include the establishment a new board sustainability committee; and
- Adjust existing board committees, such as the Audit Committee, to new responsibilities such as oversight, due diligence and assurance over ESG risk, assurance and related reporting.

Management will have to operationalize and embed ESG, and will need to:

- implement the board endorsed sustainability and ESG approach;
- assess and resource senior management knowledge and skills in ESG;
- develop ESG strategies and create awareness of the imperative of sustainability;
- develop ESG policies and processes across the organization and embed practices into business strategy, risk management, internal control frameworks and decision-making processes;
- continuously evaluate and test ESG risks and controls; and
- develop and integrate ESG data into bank information, measurement and reporting systems.

Sustainability in banking business and bank governance relates to risk management and to new opportunities. Bank risk has several sides. Bank risk includes risks from activities financed by the bank and risks in products and services offered by the bank. It should also be a focus for the bank's own operations to be aware of and respond to developments in ESG. Specific questions related to ESG were introduced throughout the scorecard and in a special section (Part 5 – Commitment to ESG Practices) on sustainability.

Sustainability affects bank risk and risk management and includes environmental factors and social factors.

Environmental factors affecting risk include climate change, carbon management, resource depletion, pollution, energy consumption, land use, loss of biodiversity, water consumption, waste management, and innovations in products and services that may reduce environmental impact.

Social factors affecting risk include job creation and working conditions, equal opportunity, diversity, training, impacts on local communities, health and safety including consumer financial protection, privacy and data security risks, child and forced labour across supply chains, grievance mechanisms, human rights, gender-based violence and harassment, social impact of products and services or of company operations. The management of human capital is important also.

Many banks globally have already begun to integrate sustainability into their core businesses by incorporating ESG considerations into risk management processes, product design, purpose statements and long-term strategies. The Covid-19 pandemic is underscoring how critical some aspects of sustainability are in relation to disaster preparedness and continuity planning to ensure sustainability of business.

The challenge of sustainability is to transition to a more environmentally (E) and socially (S) sustainable world in well-governed (G) organizations. In this transition banks and financial services generally have a huge role to play but simple solutions are rare. An expert in the banking sector said: "as a bank we want to tackle so much when it comes to sustainability, including things like financial inclusion, but really climate change is the biggest priority due to the pressing nature of the risk."[8] There is growing recognition that climate change in particular poses significant risks for banks and the financial system broadly. Climate change is an immediate issue.

The consideration of sustainability and ESG factors in banking is expected at the minimum to impact:

- Bank profitability, disclosures and reporting and compliance;
- Loans, investments and other products;
- The traditional pillars of financial risk (credit risk, market risk, liquidity risk and operational risk); and
- Bank culture, mindset, strategies and organizational change.

Better sustainability risk management can result in a better risk profile for banks through lower loan losses, fewer non-performing loans and capital ratios that exceed regulatory requirements. Assessment of current ESG exposure is important.

Sustainability and Commitment to ESG Practices - Part 5

The CBI Corporate Governance Guide for Banks 2018 states at Article 6 (p. 20) that it is the responsibility of boards to "ensure that the bank abides by the Sustainability Principles, as stated in Annex (1)" of the Guide (See attached here at Appendix A). These Principles require banks to embed environmental and social considerations into bank decision-making, board responsibilities, bank systems, strategies and policies, processes, including risk management, and reporting.

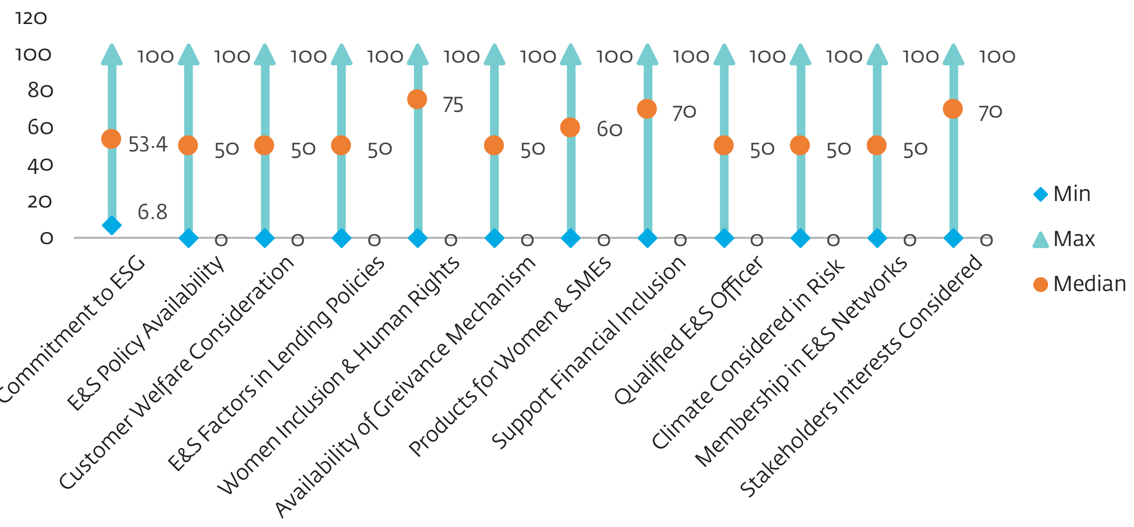
8 Ernst and Young (EY), *Bank Governance Leadership Network – Viewpoint*, April 2020.

Overall, in Part 5, Commitment to ESG Practices, the highest score attained by banks was 100%; the lowest score achieved by banks was just under 7%. The median score of 53.4%, indicates the level of ESG activities overall is very basic. In 7 of 11 questions in Part 5, the median score was 50% - confirming a very basic level of ESG practices requiring improvement. ESG strategies, policies and practices are not deeply embedded in governance or board activities or management of Iraqi banks.

Chart 4

Part 5: Commitment to ESG and Sustainability

% Scores for Each Question



When all overall scores for the scorecard are ranked from top to bottom, those banks achieving the highest overall ESG scores, the top 15 banks, achieved a median score in Part 5 of the scorecard questionnaire of 82%. Those banks achieving the lowest overall total ESG scores, the bottom 15, achieved a median score on Part 5 of 36%. This indicates that those banks with better overall governance, board structures and practices, better internal control, better transparency and disclosure and relations with shareholders and stakeholders, also had stronger commitment and actions regarding environmental and social factors. In Part 5 in all questions some banks achieved zero points. It is understandable that integrated policies and practices for ESG is at a basic level; it is a recent development and newly introduced.

Example: Climate Change and Banking

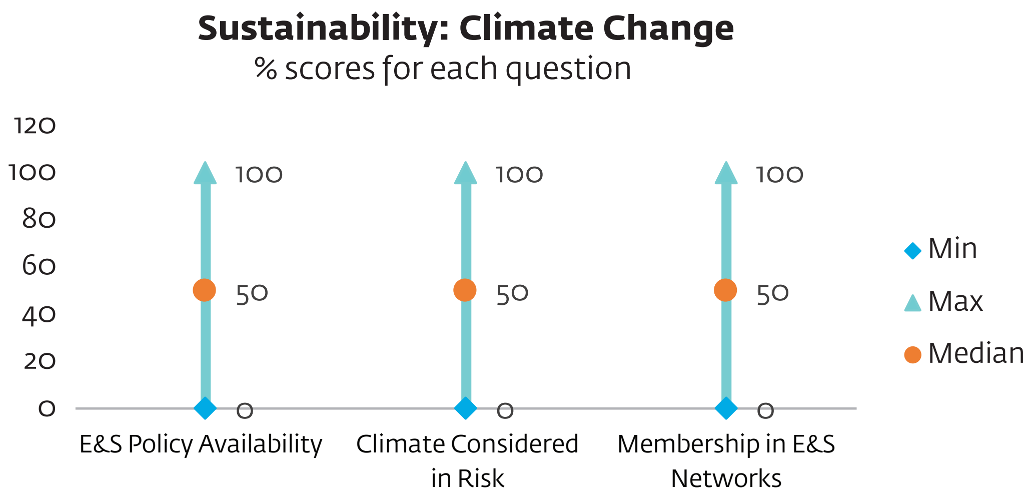
The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to develop a set of voluntary disclosure recommendations for use by companies, including banks, in providing decision-useful information to investors, lenders and insurance underwriters about the climate-related financial risks and opportunities each entity faces.

The Basel Committee for Banking Supervision (BCBS) has been aware of particular risks to the banking sector from climate change. In June 2022, after two years research, the BCBS issued its "Principles for effective management and supervision of climate-related financial risks" as guidance to both banks and to prudential supervisors. The BCBS believes "climate change may result in physical and transition risks that could affect the safety and soundness of individual banking institutions and have broader financial stability implications for the banking system". The BCBS document includes 18 high-level principles. "Principles 1 through 12 provide banks with guidance on effective management of climate-related financial risks, while principles 13 through 18 provide guidance for prudential supervisors"[9].

The IFC and the Sustainable Banking and Finance Network (SBFN) has been a path CBI and Iraq have followed to advance sustainable finance in line with international good practices and national priorities. The SBFN April 2022 Iraq Country Progress Report reports that Iraq has moved into the 'developing' stage of its program towards a national sustainable finance framework.[10]

With this background and through the leadership of the CBI, the current imperative for banks to define and internalize sustainability goals, in particular addressing climate change, led to the scorecard including three high level climate-related questions (Part 5 - Q1, Q9 and Q10). It is important to note these three questions only test the surface of climate change expectations of Iraqi banks.

Chart 5



9 BCBS, *Principles for effective management and supervision of climate-related financial risks*, June 2022, accessible at https://www.bis.org/bcbs/publ/d532.pdf

10 SBFN and IFC, *Iraq Country Progress Report*, April 2022, accessible at https://sbfnetwork.org/wp-content/uploads/pdfs/2021_Global_Progress_Report_Downloads/2021_Country_Progress_Report_Iraq.pdf and at www.sbfnetwork.org

Self-assessed responses indicate 14 of 62 banks gained two points on all 3 questions (a total of 6 points) related to climate change and consider they have introduced some elements of good ESG such as ESG policies, which include consideration of climate change in risk management and consider learnings from climate change activities in other networks and jurisdictions.

There were 10, 20 and 20 respondents to Q 1, 9 and 10 respectively which achieved zero points indicating not one or very basic climate change activities. These banks have introduced few elements related to climate change. In general, these banks do not address or incorporate the impact of climate change into policies, risk management and lending practices and are not availing themselves of the opportunities of connecting with networks promoting environmental and social activities, frameworks and reporting. All responses to three questions related to climate change achieved a median of 50% - overall a basic, introductory level of achievement.

Example: Diversity and Inclusion in Banking

Social issues in sustainability relate to potential or actual changes surrounding community and workers, including health and safety, supply chain, diversity and inclusion. It was not possible to include all these in the first Iraqi ESG scorecard for banks and so the focus was limited to diversity and inclusion as an apt commencement point for the banking sector in Iraq.

Diversity means various forms of diversity, including ethnicity, religion, gender and experience and background. Indicators of diversity for each bank include that the bank consider gender and ethnicity on the board and in its workforce composition; that there are opportunities of fairness for all workers and that there is equal pay for equal work.

Inclusion for a bank would include efforts to ensure that all individuals and businesses have access to useful and affordable financial products and services that meet their needs for transactions, payments, savings, credit and insurance and which are delivered in a responsible and sustainable way.

The European Central Bank (ECB) considers that diversity and inclusion (including financial inclusion) is important for banking. The ECB noticed in its Listens Portal that women were 22% less likely to contribute and respond than men on the website. After further study the ECB noted that globally women were 9% less likely to have a bank account than men[11]. The ECB believes that this gender gap in financial inclusion makes it harder for the ECB to manage financial stability and for individual banks to be trusted by the broader community. The ECB believes diversity and inclusion enables a bank to attract and retain talented employees, to deepen a customer base and to satisfy each bank's social license to operate. Further it believes that financial inclusion across the community plays a critical role in enabling shared prosperity, unlocking the growth potential of women and women

11 ECB, Webinar on You Tube, *Why does gender equality matter for central banking and financial inclusion?* 8 March 2022, 3.14 minutes.

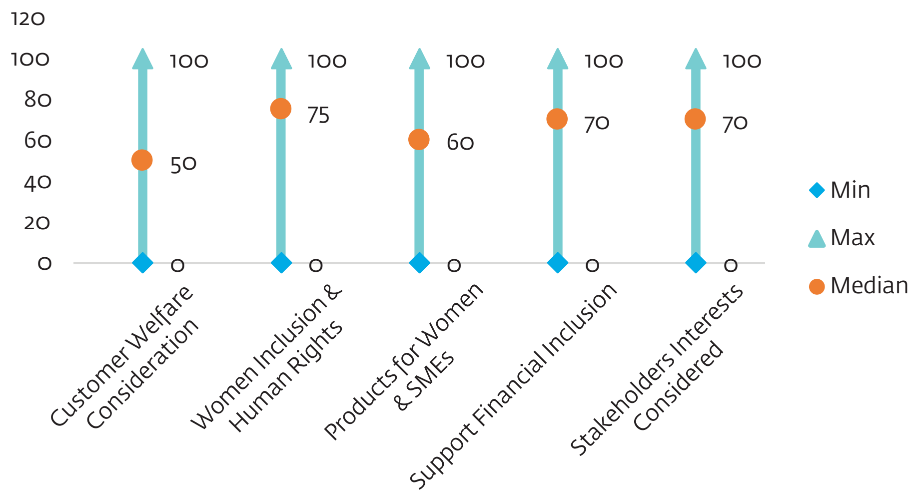
led SMEs, reducing poverty and is complementary to financial sector objectives of stability and integrity.

Additionally, the European Union (EU) has passed its Women on Boards Directive[12] in June 2022, whereby women on boards are expected to be 33% of all board positions and 40% of all non-executive directors. Compliance is mandatory by 30 June 2026. Regulation in other jurisdictions influences attention to this matter.

The scorecard included five questions (Part 5 Q 2,4,6,7, and 11) specifically focused on diversity and inclusion in bank policies, strategies and practices, such as consideration of customers and their welfare, encouragement of women in the workplace, development of products or services especially designed for women, or actions which would support community financial development.

Chart 6

Sustainability: Diversity and Inclusion



Bank self-assessed responses depicted in Chart 6 indicate that many Iraqi banks do include policies and processes to encourage women in the workplace and encourage respect for human rights (P5 Q4 - median 75%). That contrasts however with the evidence of the participation of women on the boards of Iraqi banks (see Chart 16 p. 39 and related text). Some banks do provide several products and services specifically for women and for small and medium-sized entities (SMEs) (P5 Q6 - median 60%). Further 70% of banks do make efforts to provide services and special programs to those in the community who do not normally have access to the official financial sector. However, responses reported to CBI (P5 Q2 - median 50%) indicate that few E and S policies specifically mention customers' welfare and bank interaction with the community. 31% of banks' responses indicate no mention of customers or community.

12 European Parliament, EU news, 7 June 2022.

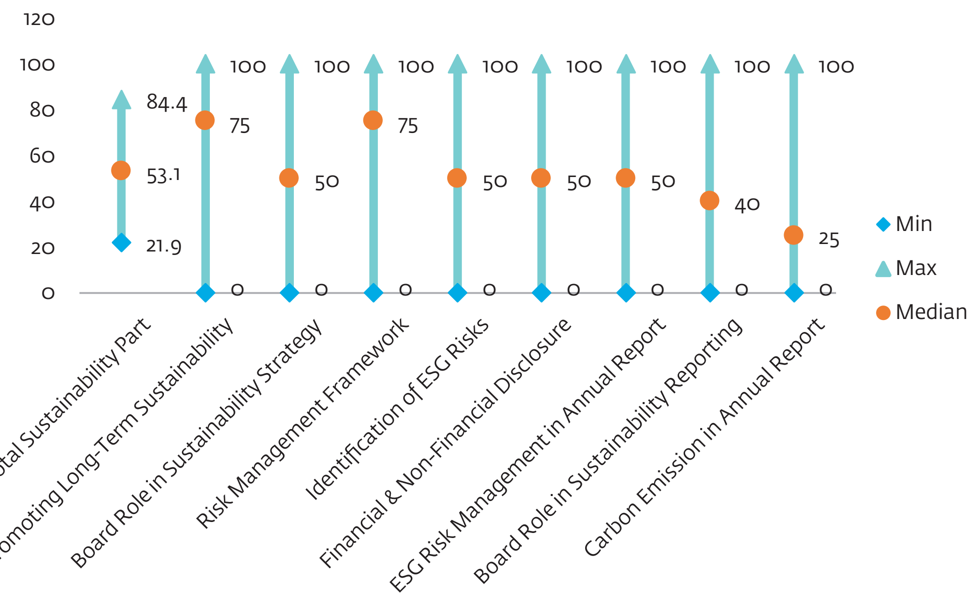
Sustainability and Governance Matters

Another 8 questions represented in Chart 7 below, specific to ESG, especially E and S issues, were scattered throughout other sections of the scorecard. When all responses to these questions are considered, the maximum score in one bank was 84.4%. The minimum score in one bank was 21.9% and the median score was 53.1%. The median score of 53.1% indicates the midpoint of all banks' scores.

Many banks are only performing at a very basic level on sustainability policies, practices, strategies and risk management. ESG practices are not well integrated into bank operations. The low minimum score (21.9%) indicates a very poor ESG practices in one bank.

Chart 7

Promoting Sustainability Principles



Question P1 Q6 indicates that most banks are aware of the requirements of the Sustainability Principles in Annex 1 of the 2018 Guide and for the requirement for bank strategy and activities to promote long-term sustainability. All banks except 5 produced some evidence of the commitment to sustainability (median score – 75%) and 11 banks achieved full points on this question. Of these 11 banks, 7 achieved scores overall for ESG practices in the Iraqi Banks Leaders category.

Self-assessed responses indicate the board did seem to play a role in setting a risk framework and monitoring bank risk (Part 2 Q8 – median score of 75%). However, Part 3 Q10 responses would indicate that ES&G risks, especially foreseeable risks, were less of a board focus. With a median score of 50%, foreseeable risks and their identification, mitigation and management were not well addressed by half of all banks. It might be interpreted that bank directors continue to play a traditional role in traditional bank risk but are less involved in and/or have limited understanding of ES&G risks, and hence sustainability is not part of the discussions at board meetings. Sustainability risks are not top of mind.

When focusing on the content of bank documents affirming bank commitment to sustainability and long-term strategies (Part 2 Q7), the responses were weak especially regarding the board role in development of sustainability strategies. The median score was only 50%.

Finally, scores regarding banks' transparency and disclosures on ESG suggest considerable weakness. Part 4 Questions 1, 12, 13, 14 related to disclosure in the Annual Report (AR) of non-financial issues (environmental, social risks and governance), progress on meeting the CBI's Sustainability Principles and disclosure of targets for carbon emissions' reductions indicate inadequate disclosures. Answers indicate reporting weakness and/or lack of ESG actions to report. For example, for Part 4 Q 13, 22 banks (35.5% of all banks) scored zero points and therefore have not satisfactorily or regularly reviewed and reported the bank's adherence to the Sustainability Principles as required. In Part 4 Q 14, 28 banks (45% of all banks) scored zero points and therefore did not satisfactorily report goals, actions and targets to reduce carbon emissions for inclusion in the Annual Report. In general, improvement regarding sustainability and ESG in Iraqi banks is necessary.

8. Scorecard Results – General Trends

Of all banks, the best score achieved by the best scoring bank was 78% (see Chart 8). The lowest or poorest score achieved by any one bank was 31%. The median score of all banks was 56% indicating that 50% of banks achieved scores higher than 56% and 50% of banks achieved scores lower than 56%.

Chart 8

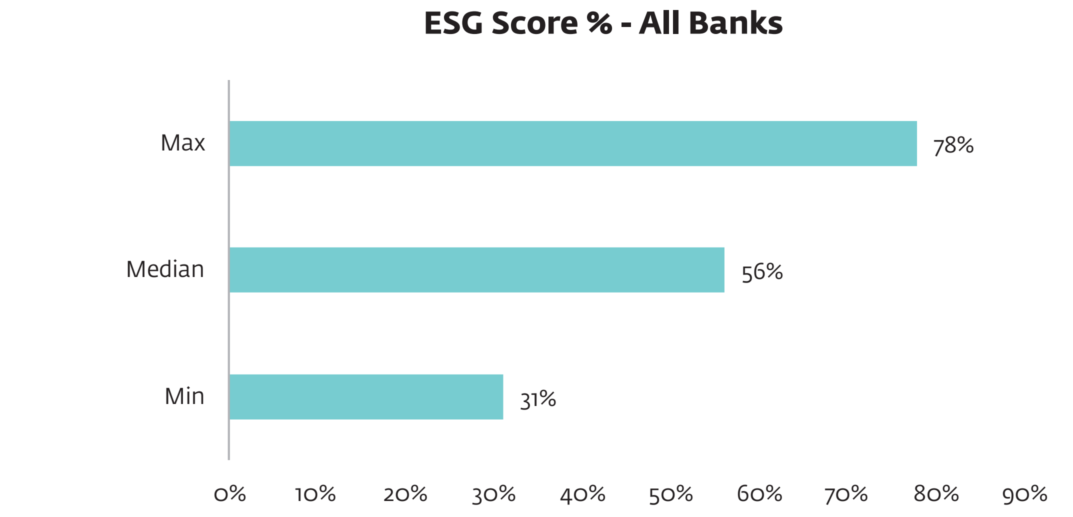
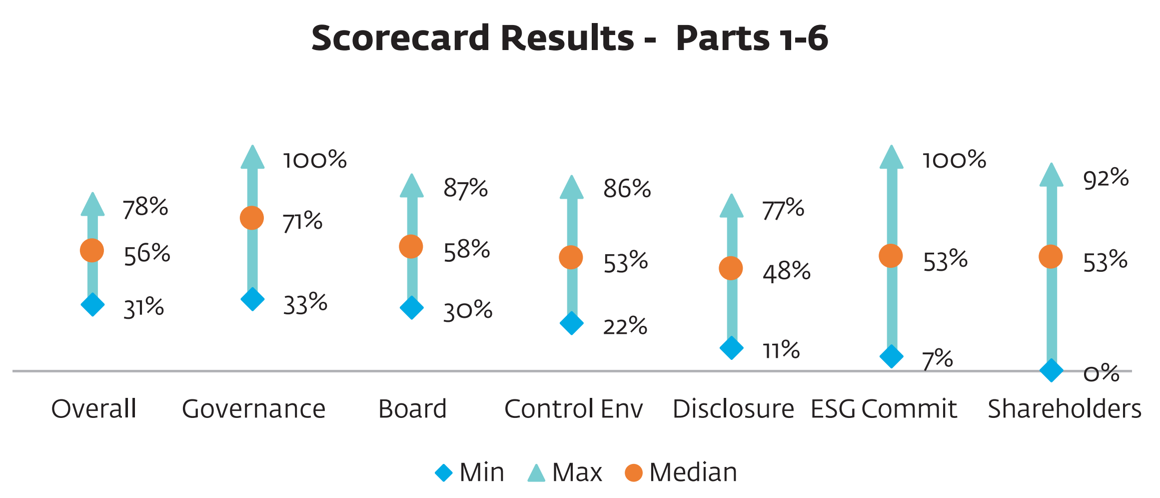


Chart 9



The aggregate scorecard results in Chart 9 show that the banks in Iraq are not familiar with the details of quality ESG practices.

A review of scorecard results in Part 1 – Governance Framework and Commitment, indicates most banks have in place some elements of frameworks for good governance and environmental and social practices (median 71%).

When other more detailed parts of the scorecard (Parts 2-6) are examined, the scoring indicates median scores between 48% and 58%. Banks only partially implement comprehensive detailed ESG strategies, policies and practices.

The aggregated scorecard results indicate there are many opportunities for improvement in ESG practices. Parts 2 (Board Structure and Composition), Part 3 (Control Environment), Part 4 (Disclosure and Transparency), Part 5 (Commitment to ESG) and Part 6 (Roles of Shareholders and Stakeholders), with medians of between 48% and 58%, indicate overall a basic or minimal level of practices to address ESG. The low levels of achievement shown in low minimum scores, especially in Parts 4,5, and 6 indicate the need for immediate improvement.

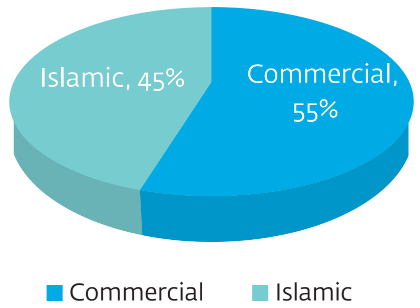
Discussion of the information elicited and details of aggregate scores follows.

8.1 Commercial and Islamic Banks

The 62 tested banks comprise two groups of banks – 34 commercial banks and 28 Islamic banks (Chart 10). Banks designated in this report as 'Islamic' banks follow Shari'a Law. Each group has marginally different regulations and approaches to banking activities. Because of this distinction, Islamic banks were required to answer an additional 8 questions in Part 2 of the scorecard related to Board Structure and Composition. The additional 8 questions were relevant to Shari'a Law matters.

Chart 10

Distribution of Banks by Type - Commercial Versus Islamic



When comparing the two groups' ESG total scores, there was only a marginal difference between the two. Commercial banks have slightly better ESG scores overall, though the difference is insignificant.

When studying the data more closely, differences emerge, however. In scorecard Part 2 relating to board structure and composition and Shari's Law requirements, and Part 3 relating to the control environment, Islamic banks have better scores than commercial banks (Part 2 – 60.9% versus 54.4% and Part 3 – 58.6% versus 48.6%). Both bank types scored only fair or basic scores but the differences between the two are statistically significant. Islamic banks have better approaches to bank practices than commercial banks in areas where requirements and bank controls are more regulated[13].

In the scorecard Part 5 Commitment to ESG and Part 6 The Role of Shareholders and Stakeholders, commercial banks have significantly higher percentage scores (Part 5 – 75% versus 28.4% and Part 6 – 66.7% versus 35.2%).

When all banks are grouped according to longevity of bank licenses, banks that have held banking licenses for the longest time, some since the 1930's and 1940's, did not have better quality ESG practices, as reflected in their scores, than those which have held licenses for shorter periods. Of banks licensed after 2010, some 6 banks have basic ESG practices and are placed in the bottom 15 scoring banks. Such a situation is perhaps because the focus on ESG is a more recent phenomenon and a current issue for all banks.

8.2 Bank Ownership – private, state, foreign, mixed ownership

The 62 banks have diverse ownership structures. For example, private banks with shareholders may have greater need to pay attention to shareholders and relevant disclosures to them. State banks, defined in this report as having 100% government ownership, may be less concerned regarding shareholders as they have only one shareholder.

Ownership of all banks falls into four categories (Table 3 and Chart 11). Privately-owned banks form the largest group of banks being 73% of all banks.

Table 3

Ownership	Number of Banks	Percent of all banks[14]	Average ESG Score	Median ESG Score
Private	45	73%	56.8%	58.3%
Foreign	9	15%	49.4%	45.6%
State	7	11%	44.8%	42.5%
Mixed	1	2%	45.5%	45.5%
Total	**62**			

13 Comments remain valid if we only compare the 22 common questions answered by both bank types.

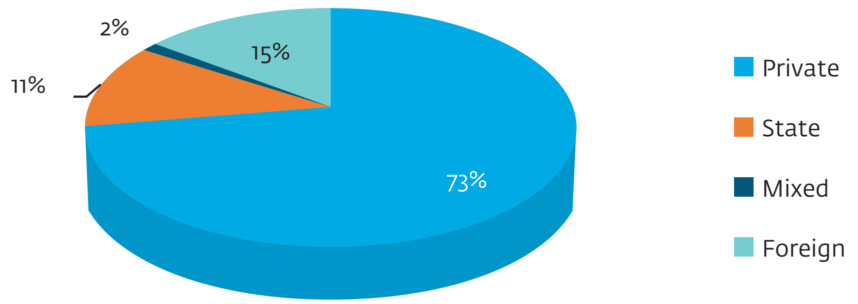
14 Note: Percentages are rounded to the nearest whole percent.

The second largest group by ownership are foreign owned banks (15% or 9 banks) with business operations in Iraq. 'Foreign' banks will be required to adhere to the foreign jurisdictions' regulations with respect to ESG practices, in addition to Iraqi regulations.

11% or 7 of the banks were designated as being 'state owned'; they are wholly owned by the government of Iraq. State banks also comprised the 5 largest banks in Iraq as measured by total assets. 1 bank had mixed ownership.

Chart 11

Distribution of Banks By Ownership

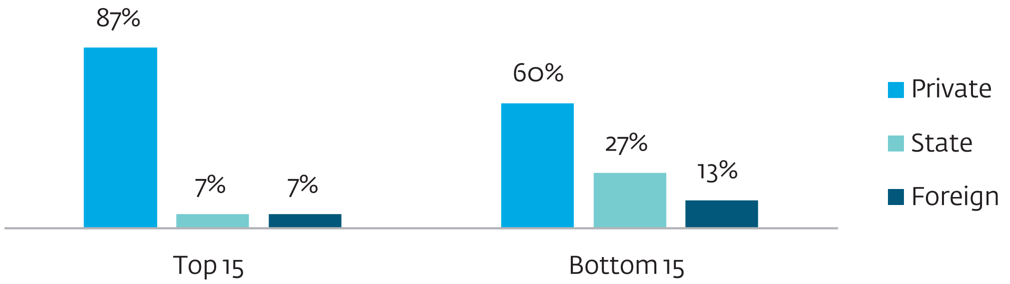


When ESG score results are ranked from best score to worst score, of the banks achieving the highest 15 ESG scores, 13 of 15 (87%) were privately owned and were listed on the Iraq Stock Exchange (ISX). Of the other two banks in 15 top scorers, one was a foreign-owned bank which is dual-listed abroad (in London and Hong Kong) and one was a non-listed state-owned bank.

Further when ESG scores of all banks were ranked from best to worst score, of the 15 banks with the poorest scores, 2 of 15 or 13% are foreign-owned banks, 4 of 15 or 27% are state-owned banks and 9 of 15 or 60% are privately owned.

Chart 12

Shares in the Top and Bottom 15 Banks by Ownership -Number of Banks

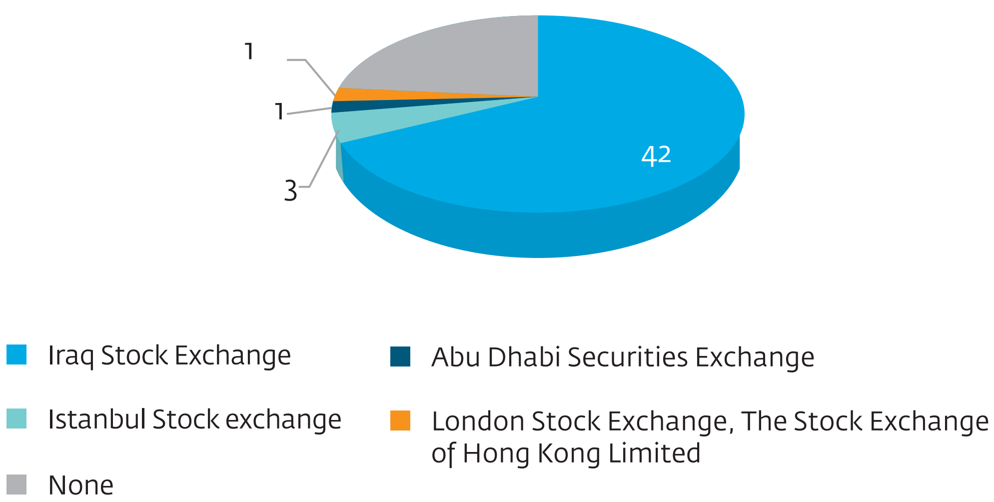


8.3 Listed and Non-listed Banks

Of the 62 banks completing the scorecard, 47 were listed (42 listed on the Iraq Stock Exchange, ISX), 3 banks listed were on the Istanbul Stock Exchange and one each on the Abu Dhabi Securities Exchange and the London Exchange. The latter is also dual listed on the Hong Kong Securities Exchange. 15 banks were reported as 'unlisted'.

Chart 13

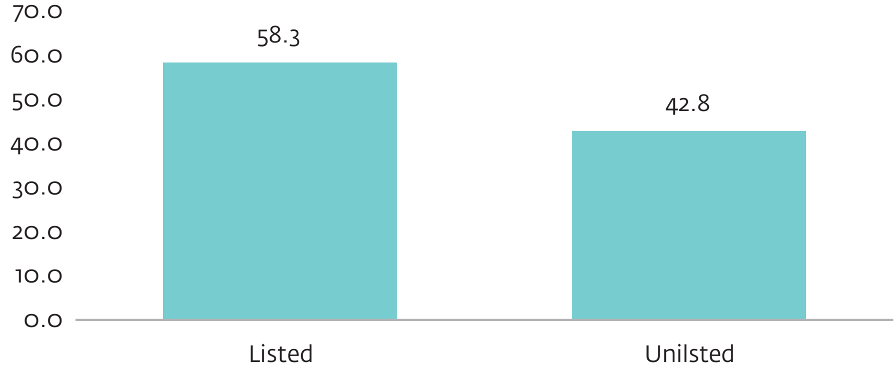
Distribution of Banks by Stock Exchange



Thirteen of 15 top scoring banks or 87% of banks with the better ESG scores are listed on the Iraq Stock Exchange. All unlisted banks, excepting one, achieved scores in the middle or bottom scored bank groups. 13 of 15 unlisted banks achieved scores of 50% or under reflecting very basic ESG practices.

Chart 14

Median % Scores by Listing Status



The discipline of adherence to listing rules and additional disclosure requirements often is observed to be related to better ESG scores and practices. This is confirmed in this report's analysis. Listed banks outperformed unlisted banks with an overall median score of 58.3% as compared to a median score of 42.8% for unlisted banks and these results when tested were significant.

8.4 Board Structure and Composition

Data analysis considered the effects of certain characteristics of a board to ascertain if these make a difference to observed ESG practices (see table below).

Table 4: Summary Board Composition

ESG Scores	Average Board Size	Average number of Independent Directors on BOD	Average number of Shadow Directors on BOD	Average number of Females on BOD
Top 15 scored banks	10.1	3.6	3.6	1.3
Mid 32 scored banks	10.2	2.8	3.3	0.4
Bottom 15 scored banks	10.1	2.9	2.7	1.2
All Banks average	10.2	3.0	3.2	0.8

Board size

Having either too few or too many directors may be a problem for effective decision making. Too few board members may mean insufficient diversity of skills and experiences. Too many board members may mean it is difficult and time-consuming to build to consensus decisions. Optimal board size should be driven by the need to manage the governance of the specific entity and its strategies. Board size is likely to vary.

Each Bank should determine the optimal size for its board. Board size is recommended to be large enough to get input from diverse skills and experience, sufficient to get the board's work done and build consensus for decisions yet small enough to work effectively as a team, to communicate and hold constructive and productive discussions, to deliberate and function as a cohesive group. Globally, companies having one-tier boards generally have between 8-10 board members; one-tier bank board sizes are often slightly larger due to the complexity of bank operations (10-12 members).

Board sizes in Iraqi banks varied from the largest board having 14 directors (this number included shadow directors) and the smallest with 5 directors. Size variation is not unusual although 5 directors may be considered too small for the complexity of bank activities. In good governance, board sizes tend to vary with the size of the bank, the complexity of operations, number of subsidiaries and if the bank has foreign operations.

Independent Directors

Independent directors have been a focus of ESG developments globally over the past 15 years. After the 2008 global financial crisis (GFC), where 'group think' on bank boards and undue deference to executive management were evident, banks were encouraged to move more to independent thinking combined with banking experience and competence on their boards.

The Basel Committee on Banking Supervision (BCBS) and the Organization for Economic Development and Cooperation (OECD) issued updated recommendations for bank governance and encouraged the appointment of more independent non-executive directors (iNEDS) to bank boards. It is believed that independent directors can bring new skills, expertise, ideas and a more objective mindset to ESG matters.

The CBI defines 'independent' members of a board as follows.

The Board Member who enjoys total independence from the Management and the Bank. Independence here means the ability to judge matters without prejudice taking into consideration all the related information without being influenced by the Management or any other outer authorities.[15]

Article 4.2 elaborates details on who may or may not be considered an independent director. (Appendix B - Article 4.2).

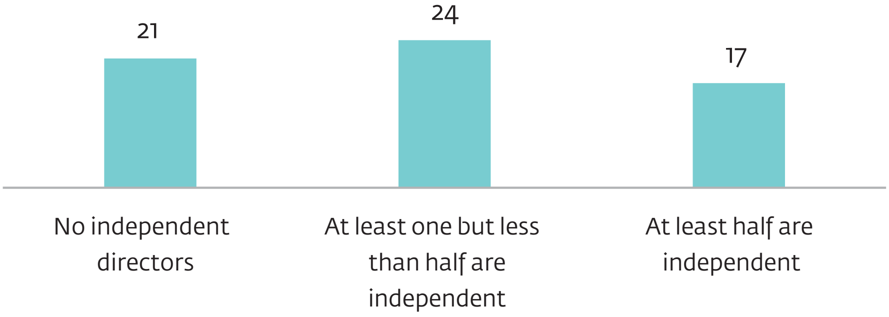
Article 3.2 of the CG Guide 2018 requires there should be "at least 4 independent Members or at least one-third of the Board Members".

It was reported to CBI that 27.4% or 17 of 62 Iraqi banks had a board with 50% or more of the directors being independent directors. 6 of these 17 banks were foreign-owned. This is likely driven also by the regulations in home/external jurisdictions requiring a higher representation of independent directors. The scorecard analysis indicates that 34% or 21 of 62 banks surveyed reported to the CBI they did not have any independent directors appointed to their boards.

15 Central Bank of Iraq, Corporate Governance Guide for Banks, 2018, p5

Chart 15

Number of Banks and Prevalence of Independent Directors



Shadow Directors

A shadow director is a person, who in most jurisdictions the law considers to be a director due to the influence or control they exert over a company, but the director is **not** officially appointed as a director.

For example, any member of a board advisory committee, if the member is undertaking board responsibilities, contributing to board discussions, decisions and to strategy development, and could be perceived as a director or influential person in the bank by others, then that person is deemed a 'shadow director'. Shadow director is not defined in the CBI Guide.

Normally, shareholders will appoint a director to office. The director is responsible for managing a bank's affairs. A shadow director has the same duties as other directors of the bank. It is a director's responsibility to comply with the bank's constitution and any laws applicable to the bank. Additionally, they must act in the best interest of the bank's and all its shareholders. A director also owes a duty to the company's creditors if the bank becomes insolvent.

In many jurisdictions, shadow directors are not permitted because they are seen as an opaque and negative influence on the authority and accountability of the board.

A relatively unique and legal feature of Iraqi bank boards is the frequent presence of shadow directors. The appointment of shadow directors is a practice introduced in Iraq and in some other jurisdictions to manage crisis/war situations recognizing the need for board sustainability and continuing director succession. In Iraq, a shadow director has no role until a board vacancy occurs or a director is unable to fulfil the board role. Then the shadow director steps up into the director role. The reporting of this does lead to board sizes being larger than may normally be expected. Banks should be careful to identify shadow directors and should monitor that all Iraqi legal requirements are fulfilled.

Shadow directors on boards varied from 0 to 7. Islamic banks had an average of 4.5 shadow directors on the board and commercial banks had an average of 2.2. Foreign banks had no shadow directors. Listed banks had a larger average number of shadow directors (average 3.7) compared to unlisted banks (average 1.9).

Women directors

Globally there has been a drive to include women on boards on the premise they consist of about 50% of all population and should be represented on boards and are expected to bring fresh ideas and approaches to board deliberations. The CBI's Corporate Governance Guide for Banks 2018 states "it is generally preferred to have at least one woman as a board member".[16]

The International Finance Corporation (IFC) of the World Bank Group undertook a study of the prevalence and impact of women on company boards, including banks, in ASEAN. The study found: "companies with boards that have more than 30 percent female representation are associated with higher returns on assets and returns on equity compared with companies that have all-male boards". [17]

For boards, having more women at the board table can offer the opportunity to tap into often-ignored but rich pool of talented candidates, bring new voices, experiences and approaches to the decision-making process, add depth to existing skills and ideas and bring the board closer to properly representing its stakeholders (customers, depositors and creditors).

The analysis of Iraqi banks did not record a significant relationship between having women on boards and higher returns on assets. This is likely due to an overall low representation of women on Iraqi bank boards. Increased representation of women on bank boards is recommended.

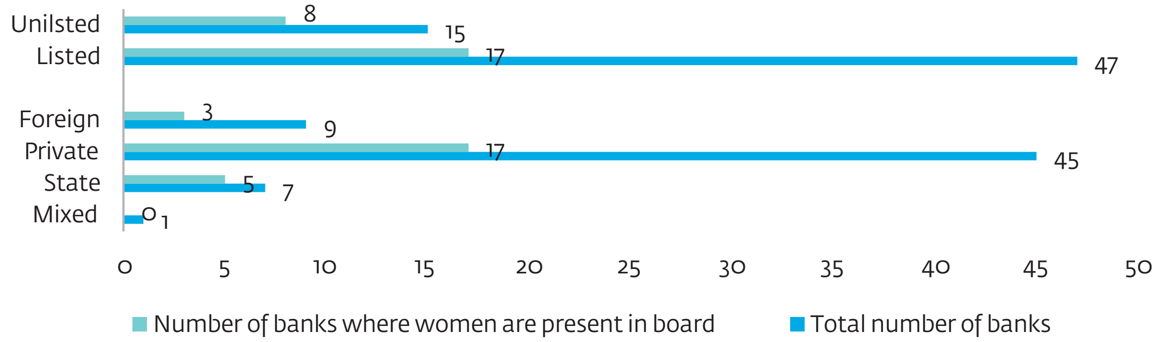
Only 25 of 62 banks or 40% of participating banks had a woman on their board. 37 out of 62 or 60% did not have a woman on the board. In any entire board, women members vary from none to a maximum of 6 on one board. 7 of 10 banks (70%) in the Iraqi Bank Leaders category had a woman on the board. Women on boards in the Iraqi Bank Leaders category form 17.9% of total board members. Of banks in the 'Basic' category, 11 of 27 banks had a woman on the board and in total women form 9.1% of all board members.

16 Central Bank of Iraq (CBI), *Corporate Governance Guide for Banks*, 2018, Article 3.5, Baghdad, 2018

17 International Finance Corporation (IFC) in partnership with the Economist Intelligence Unit, *Board Gender Diversity*, Washington D.C, 2021.

Chart 16

Presence of Women on Boards



Most state-owned banks have women directors. 5 out of 7 banks or 71% of state banks have at least one woman on the board. In privately-owned banks 17 out of 45 banks, or 38% of banks at least one woman on the board. 3 of 9 foreign banks, or 33%, have at least one woman on the board. Unlisted banks have women directors more often with 8 out of 15 unlisted banks having at least one woman on the board, compared to listed banks which have at least one woman on the board in 17 out of 47 banks.

The number of women on boards is low in general. More women directors should be appointed to boards to avail of wider skills and experiences and to increase profitability.

8.5 Large Banks with Complex Activities

Typically, larger banks with larger total assets, higher number of employees and/or larger numbers of branches have more complex operations and management issues. Governance of all matters becomes more complex and the risk to the financial structure of a country can be threatened if these 'big' banks are not operating successfully and sustainably.

Of the largest 15 banks by assets, 9 were privately-owned and 6 were state-owned. 8 of these largest banks were in the highest 15 ESG scorers with an average score of 71.6%; 5 of the 15 largest banks by assets were in the poorest scoring group with an average score of 43.2%.

Five banks with the largest number of bank branches had an average ESG score of 46.8% - a very basic level of ESG practices.

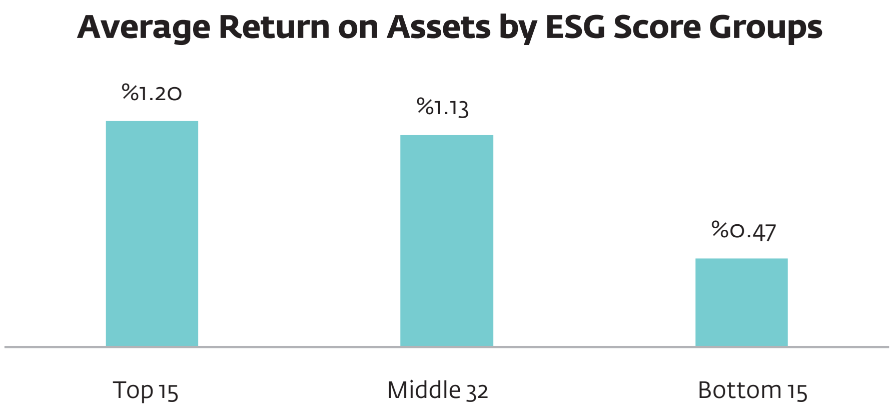
8.6 ESG Practices and Performance

It is a journey to implement good ESG (environment, social and governance) policies and practices and to embed them into governance structures and oversight. However, the outcome of better performing banks is worth it, as proven by international research.

Many studies[18] have proven that good ESG is good for business. For example, a MSCI study of emerging markets found that companies with high E and S scores outperformed other companies by 130 basis points. Further, in MSCI studies of bank data in 2013 and again in 2018 they found "the banks with the best ESG Ratings — i.e. those most effectively managing the financially relevant ESG risks and opportunities to which they are exposed — had, on average, better returns, lower risk profiles and commanded higher valuations versus the averages of the bottom-decile banks. In contrast, the banks with the worst ESG Ratings — i.e. those doing the poorest job of managing ESG risks and opportunities — had, on average, a lower relative Price-to-Book Ratio (PBR), lower relative ROE, a higher percentage of non-performing loans and a higher percentage of loan-loss provisions, versus the averages of the top-decile banks." [19]

Some regulators are also being very specific regarding the effects of climate change risks and profitability. For example, the Bank of England, the UK banking regulator, stated in May 2022, "banks and insurers that fail to manage climate risks as a "first-order" issue could face a 10% to 15% hit to annual profits and higher capital requirements."[20]

Chart 17



The analysis of Return on Assets (ROA) as an indicator of Iraqi bank profitability showed a positive and significant relationship between ESG scores and profitability. The ROA for all Iraqi banks varied from the highest return of 5.26% to negative returns in 11 banks. The lowest ROA was negative 1.63%. Chart 17 shows, better ESG scores of the 15 best and highest ESG scoring banks correlates with better average ROA (1.2%). Conversely the banks in the 15 poorest ESG scoring banks show a lower average ROA (0.47%).

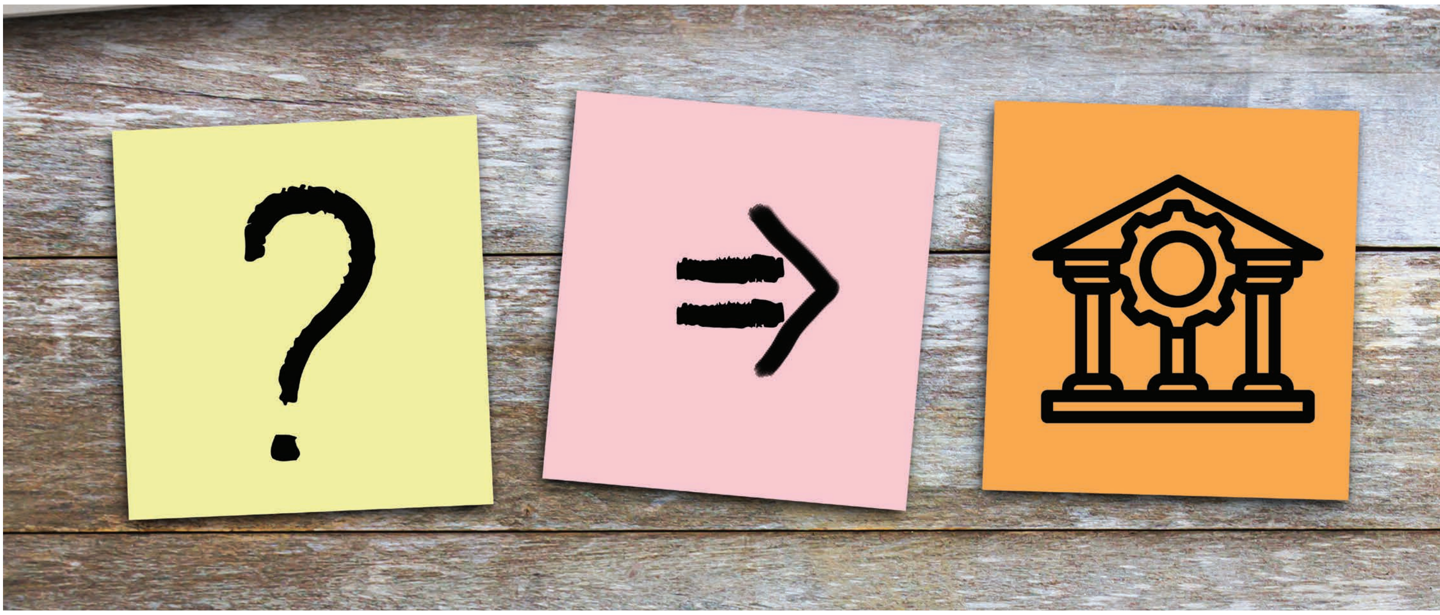
18 Other studies confirming the correlation between ESG performance and improved profitability include one byDeutsche Bank, Sustainability: Establishing Long-term Value and Performance (2012) state "the evidence suggests tha strong corporate performance on ESG factors correlates positively in improved cost of capital and financial performance". Another is by Harvard Business School, Corporate Sustainability: *First Evidence on Materiality*, Khan et al., Working Paper 15-073 which states: "A 2015 study suggests that companies that performed well on ESG factors significantly outperform peers with poor performance on these issues".

19 MSCI Research, *Banking on ESG: Examining the Financial Relevance of ESG to Banks*, March 2019, p4.

20 Reuters, *Bank of England Tells Banks to Take Climate Action Now or Face Profit Hits*, Reuters 25 May 2022, as accessed at www.reuters.com.

Note:

Bank of International Settlements (BIS) research indicates ROA results may be affected by diverse bank business models[21] as BIS considers commercial banks tend to have lower costs and more stable profits than banks more heavily involved in capital market activities. A review of business model differences and impact on profitability was beyond the scope of this scorecard analysis and may be the subject of future scorecards.



9. Scorecard Question Results

The scorecard is designed to ask key questions at a high level to discern policies and to distinguish policies from practical implementation activities. Generally, in Iraqi banks, a policy may be in place and understood but the practical and more detailed interpretation of policies into action is less noticeable, making the policies less effective. Particular areas for attention will vary from bank to bank.

Final scores of all responses fell within a range of 31% to 78% with a median score of 56%. This is an overall level barely above basic. A median of 56% means that 50% of banks achieved scores above 56% and 50% of banks scored below 56%.

The comments below are derived from a review of responses to individual questions.

21 Bank of International Settlements, *BIS Quarterly Review*, December 2014, Basel.

Part 1 – Governance Framework and Commitment

When examining each part of the scorecard, the highest median score was 71% for Part 1 Governance Framework and Commitment to ESG. Part 1 asks very general and high-level questions about the governance framework. In Part 1, 83% of questions achieved scores above 1.25 out of a possible 2 points for each question. – a fair level of application. All other median scores in other scorecard Parts were considerably less and median scores were between 48% and 58% indicating very basic level of ESG application overall and many areas for further improvement. (See Chart 9 on p. 30).

Part 2 Board Structure and Composition

In reviewing the self-assessed responses provided to CBI to each question areas where Iraqi banks seemed to perform reasonably, covered the following topics.

- Good board structure in compliance with the CG Guide 2018.
- Most boards had at least 7 on the board and directors were elected at the AGM.
- Banks suggest succession planning was in place by having shadow directors and most terms for directors did not exceed 8 years.
- Banks seem to be clear on the different roles played in ESG by the board and by management, at least in principle.
- Banks state that risk frameworks are in general in place and risk appetite is communicated throughout most banks.
- Banks attest they apply international standards for accounting, audit and for money laundering and corruption (standards and guidance from OECD, BCBS and the Iraq CG Guide 2018).
- Shari'a Law questions seem well considered by the relevant Islamic banks.

Bank responses to CBI indicate areas of development opportunities where Iraqi banks could improve their board and governance practices as follows. Poor marks were achieved in the following question areas.

- Role the board in the development of sustainable long-term bank strategies is not clear in many instances. Board participation in strategy development is important.
- Details of independent directors and how they meet the indicators stated in 2018 Guide, section 4.2 are lacking. Independent directors should be identified and the definition of 'independent' clarified.
- Information is poor on how Nomination and Remuneration Committees ensure and supervize that bank remuneration is aligned with long-term bank objectives including sustainability objectives.

- Annual board evaluation processes and follow up with an action plan need development, as do director induction processes. Induction processes are not clear and board evaluations need to include actions for improvement.
- Banks in general state core values are expressed by some banks but do not seem to be well embedded in bank culture and day-to-day activities.
- Risk management frameworks are in place but assessment of the materiality of key risks seems less evident and less robust. Determination of materiality of risks is vital to the strength of the risk framework. The materiality process and the outcome should be reported in the Annual Report.
- Audit Committee data indicates audit committees are in place and have independent directors in position, but that members are likely to lack the degree of accounting, audit, internal audit and ESG risk knowledge and skills required to fulfill current expectations of the role. Audit Committee members should be financially literate and be led by an independent financial expert – one who has current or recent experience and is expert in financial institution accounting and audit.

Part 3 – Control Environment

In 16 of 18 questions in Part 3 (88.9% of questions) median points awarded were at or below 1.1 out of 2 points, at or below 55% of possible points achievable. In general, therefore this area does require attention by the banks.

Audit Committees in banks seemed to perform their role in approving the internal audit plan. However, in this Part 3 of the scorecard, this was the only response achieving a good score.

Bank responses to CBI indicate areas of development opportunities where Iraqi banks could improve their board and governance practices as follows. Poor marks were achieved in the following question areas.

- Deeper implementation of conflict-of-interest policies and procedures are expected and these should include detailed policies and procedures for related-party transactions (RPTs) and audit committee oversight and approval of RPTs.
- Internal audit processes exist but responses indicate insufficient attention is given to testing controls for effectiveness. Testing for adherence to anti-money laundering and terrorist financing laws is poor. Many responses indicate breaches of internal controls are not investigated and/or are not reported to the board. All these matters need to be a focus for internal audit.
- Annual review of the effectiveness of risk management practices and of internal control systems is not practiced widely and should be undertaken and reported in Annual Report.

- Review of credit policies and their implementation are crucial to banking. Scores indicate this is not regularly or comprehensively undertaken. Basel Committee for Banking Supervision (BCBS) guidance should be implemented in this respect.
- Responses indicate that some banks have not instituted a robust 'whistleblowing' facility and/or that good legal protections are not in place to protect those who do reports as a 'whistleblower'.

Part 4 - Transparency and Disclosure

Transparency and disclosure (T&D) are essential elements of a robust ESG framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring.

"Full, timely and comprehensive corporate level reporting, including of sustainability-related information, is absolutely foundational for the proper functioning of markets and for investor protection."[22] Report preparation by banks is critical and should encompass clear responsibility for oversight, clarity of strategy and purpose, and all information should be material and relevant. Quality disclosures build credibility and enable the bank to respond to rising risks.

Of all 21 questions posed in Part 4, Transparency and Disclosure, 19 of 21 or 90.4% (and this was for both average and median scores) were awarded an average score of one or under one out of two points which is at or below 50% of possible points available. This indicates inadequate, incomplete or poor reporting to the public and to the CBI across the board. It is to be noted that most banks issued their reports in Arabic and English and so are accessible by many investors and stakeholders.

The Annual Report is a prime communication mechanism and should include comprehensive, reliable, current information and be publicly available on the bank website. Another important source of bank information is the company website which should also contain comprehensive, reliable, current information.

Banks' responses to CBI indicate areas of development opportunities where Iraqi banks could improve their board and governance practices as follows. Poor marks were achieved in the following question areas.

- Reports do not explain how the bank establishes materiality or priority of information to be presented. Explanations of stakeholders and their material information needs should be provided.

22 Ashley Alder, IOSCO Chair and Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, as quoted in *Navigating the Reporting Landscape*, 2nd ed., June 2022, A4S (Accounting for Sustainability).

- Details of risk management policies and processes are not comprehensive and often fail to include discussion of risk appetite, material risks, specifically environmental, social and foreseeable risks.
- Very little reporting is made on how the board regularly reviews and reports on adherence to the Sustainability Principles in Annex 1 of the Guide 2018.
- Very few banks provided information on strategies, business model, and/or measures of progress, especially on nonfinancial targets. Many responses indicate that banks tend to report the minimum and are not providing relevant information beyond the minimum.
- Annual Reports do not generally include clear statements of adherence to the full set of IFRS accounting standards or to CBI guidance and regulations or of board accountability for the governance of the bank. Such statements give readers confidence in the bank.
- In several areas the depth of information expected in good practices is not provided. An example of this lack of adequate information is board members' details regarding qualifications and experience, cumulative remuneration and bonuses, attendance at board and committee meetings, transactions with the bank are lacking.
- Other examples of inadequate or incomplete information are related to board nomination and selection processes, definition of their independence, remuneration policy and performance criteria for senior management, investor relations contact persons and contact details.

Part 5 – Commitment to ESG

Because this topic was a priority, it has been discussed earlier in Part 7 Sustainability and ESG at p. 21 of this report. Further and because integrated ESG reporting is relatively new and the subject of current intense global attention, it will be an opportunity for development of reporting from Iraqi banks for a time to come.

Part 6 – Role of Shareholders and Stakeholder

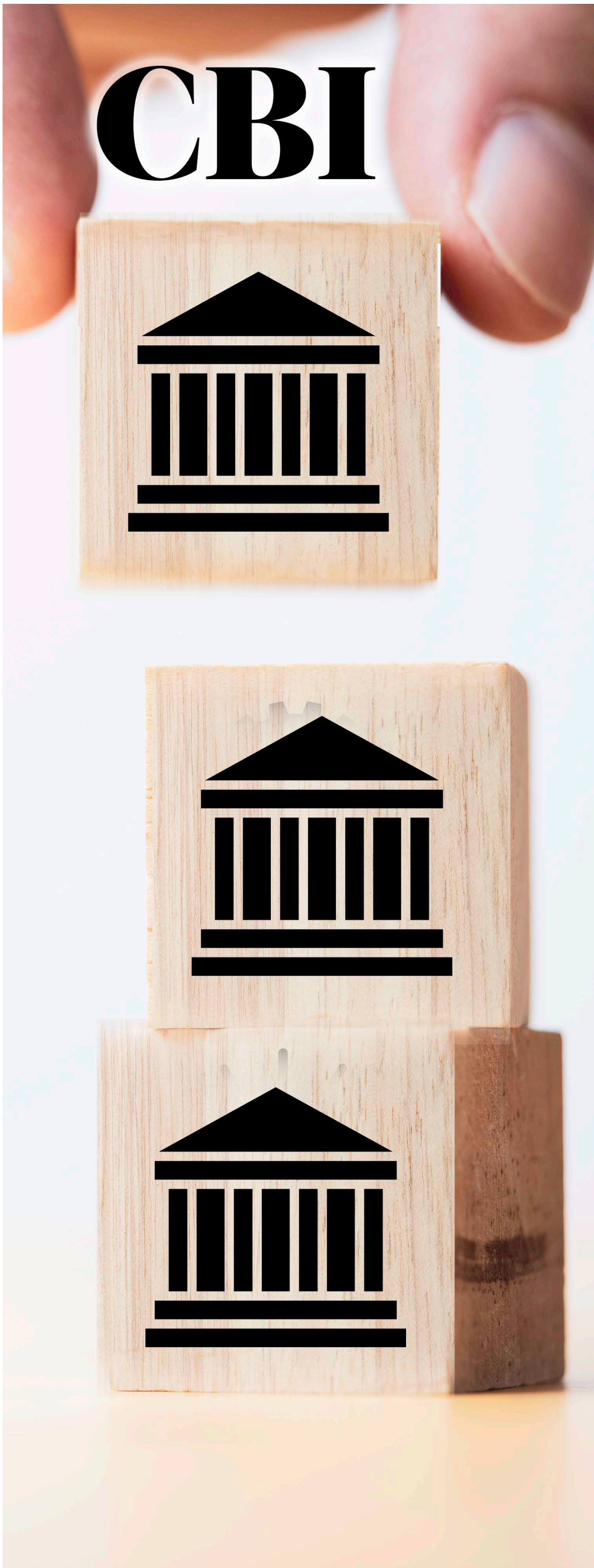
In this Part, state banks, given they are wholly owned by the government, did not respond to three questions. It was deemed they were not applicable.

In general, banks indicated their positive actions to establish and maintain good relations with shareholders, depositors and borrowers. Shareholders have access to investor relations contacts and to information provided on the banks' website and are encouraged to attend and vote at the AGM. Depositors and borrowers are in general, protected by

CBI mandated policies and processes and by available complaints mechanisms and the encouragement of responsible business conduct.

Bank responses provided to CBI indicate areas of development opportunities where Iraqi banks could improve their board and governance practices as follows. Poor marks were achieved in the following question areas.

- Shareholders have basic rights and these are normally enshrined in Company Law and/or in each bank's Constitution or Articles. Improvements may be made in the provision of full information for AGM resolutions and on how shareholders may participate and vote and in particular that time is allowed on the AGM agenda for shareholders to ask questions of the board and committee chairs.
- In good practices banks may provide additional rights to shareholders, beyond basic rights. Additional rights may be stated in a shareholders' agreement or which may allow for closer communications with the board. Consideration of these were evident in few cases.
- Shareholders may elect candidates to the board. This right seems to be adhered to. However, for shareholders to adequately judge and vote for new candidates or director re-appointments, adequate information on director nominees must be provided. Responses indicate this information is not comprehensive either in the case of new appointments or for re-appointments.



10. Summation of Results - ESG Qualities of Iraqi Banks

The scorecard analysis facilitates the grouping of banks into broad categories as follows as envisaged in the methodology.

Iraqi Bank

LEADERS if the bank scores above 70%

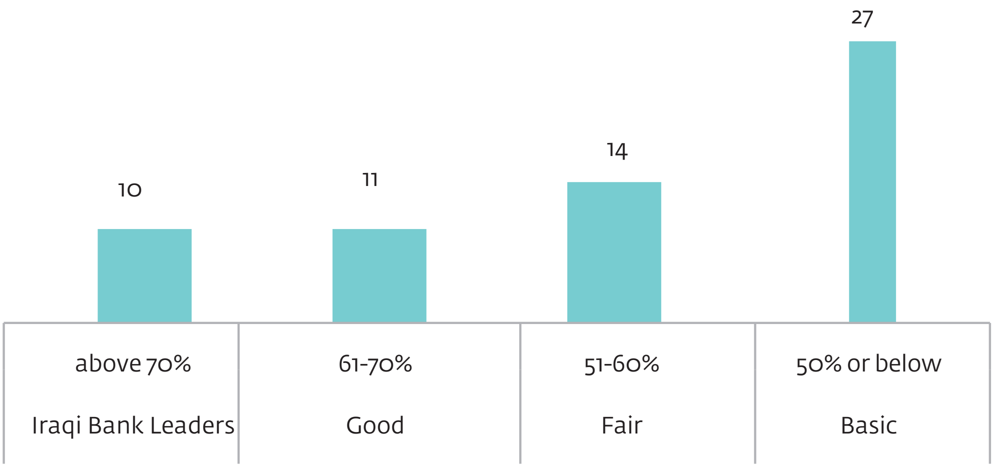
GOOD if the bank scores between 61% and 70%

FAIR if the bank scores between 51% and 60%

BASIC and requiring improvement if the bank scores 50% or under.

Chart 18

Quality of ESG Practices - Number of Banks



The scorecard results (Chart 19) indicate 10 of 62 (16.1%) banks in this assessment may be considered Iraqi Bank Leaders with reasonable ESG practices, achieving an ESG score of above 70%. 9 of these 10 Iraqi Bank Leaders are private banks and 1 is a foreign bank. All 10 banks in this category are listed; 8 are commercial banks and 2 are Islamic banks.

Iraqi Bank Leaders received scores above 70%. Whilst they are considered leaders of ESG policies and practices amongst Iraqi banks, they also will need to review and develop their ESG practices. ESG is a rapidly evolving area. 11 of 62 banks have 'good' ESG policies and practices achieving a score of between 61% and 70%. Of 11 banks classified as having 'good' ESG practices, 10 are privately owned.

14 of 62 banks scored a 'fair' level of ESG implementation achieving a score of between 51% and 60%.

The sustainability and ESG practices of 27 of 62 banks (43.5% of all banks) are at a 'basic' level achieving a score of 50% or under. Six of a total of 7 state-owned banks are in the 'basic' category. Those banks in this 'basic' cohort include some of the largest Iraqi banks.

These results indicate a great opportunity for improvement. These results are not unusual for a Baseline Scorecard – a first benchmarking of ESG strategies, policies and practices.

11. Recommendations

The overarching recommendation from **CBI is that each bank should ensure the development of a comprehensive and holistic step-by-step Action Plan** to support implementation of ESG policies and practices in line with global expectations and practices. This is to ensure that sustainability and ESG are integrated into bank governance, strategies, policies, and practices. The goal is to establish the Iraqi financial sector as a strong, robust, reliable and sustainable financial sector and that Iraqi banks demonstrate quality approaches to ESG development and reporting.

Such an Action Plan should encompass a range of prioritized activities with stated key performance indicators, KPIs, with dated milestones which might include review of existing related documents, education and training activities for bank staff on ESG, gathering and managing data relevant to ESG impact on bank risk, compliance, reporting and resourcing and monitoring Action Plan progress.

Elements in a Bank Action Plan might include the areas noted below.

a. Bank review of scorecard report for possible Action Plan elements.

b. Bank awareness and training on ESG, including materiality assessments, and its possible impact on bank strategies, policies and processes and best practices. Such training should include the board and board committee members, senior management and implementing staff.

c. Bank senior management should undertake an ESG impact analysis to determine current material risks and opportunities facing the individual bank. Consider financial risks and opportunities to the bank (to credit, market and liquidity risk) and non-financial risks (operational risk, business /strategic risk and reputational risk). This may include credit portfolio analysis, review of client exposure to climate risk, stress testing of portfolios for physical and transition climate risk.

d. The Plan should include review, selection and application of an appropriate ESG framework and review of available support tools and guidance. The Plan should recognize broad resource requirements for the introduction of ESG activities.

e. Review of the business strategy and organizational/governance structure for ESG management and include consideration of existing and future product and customer profiles.

f. Development of a bank environmental and social management system (ESMS) to manage effective ESG implementation into bank operations and public reporting on ESG. This should include ESG data management.

g. Development of bank risk management systems to embed identification, management, monitoring and reporting of environmental, social and governance risks and opportunities. Every step of the risk management system should include assessment of material ESG risks and their impact on credit, market and liquidity, strategic, operational and reputational risks. The risk assessment statement should include targets for ESG.

h. Implement reporting to CBI on implementation/progress on ESG Action Plan.

i. Review and reform of bank governance documents to embed ESG in governance structure, policies and practices. Such a review might include a restatement of the Board Charter and Board Committee Charters to include ESG competences in directors, ESG strategies and oversight of ESG risks, opportunities and Action Plan implementation.

j. The process to seek and appoint independent directors to the board who fulfil current globally acceptable definitions of 'independent' should be reviewed.

k. Review of lending policies, practices and activities to incorporate consideration and reporting of all risks, including ESG risks and their materiality.

l. Review and amendment of report development and of reporting practices to ensure complete, reliable and accurate reporting of all material bank financial and non-financial risks and opportunities. Some banks develop a separate ESG reporting system as it has a medium to long-term outlook, a need for diverse sources of information and requires a selection of sustainable risks to be communicated.

m. Review and update to current best standards of key governance policies and practices such as director induction, board and committee evaluations, director nomination processes, conflict of interest and related party transactions.

12. Appendices

Appendix A – CBI Sustainability Principles

S N	Principles	Provisions
1	**Business Activities:** **Management of Banking and Environmental Risk**	Merge the social and environmental considerations in the decision-making process with regards to the Bank activities to avoid, mitigate, or compensate the adverse effects.
2	**Commercial Processes:** **Environment and Social Print**	Avoid, mitigate, or compensate the adverse effects of the Bank processes on the local and environmental communities in which they work and as much as possible to boost the positive effects.
3	**Human Rights**	Respect human rights in all the processes and activities of the Bank.
4	**Women Economic Enablement**	Enhance the economic enablement for women through the work place culture so as to include both males and females in the Bank operations and seeking to find new products and services specially designed for women through the commercial activities.
5	**Financial Inclusion**	Seeking to provide financial services for individuals and communities, which are traditional, with limited reach or cannot reach to the official financial sector.
6	**Governance**	Applying strong and transparent governance practices in the Bank.
7	**Building Capacities**	Develop the individual and sector corporates necessary to specify the social and environment risk management, the business-related opportunities and the commercial processes.
8	**Cooperative Partnerships**	Cooperating with all sectors and making use of the international partnerships to pace up the social progress and enhance the sector as a one whole to ensure the corporate vision matches the international standards and the requirements of local development.
9	**Reports**	Regularly previewing and reviewing the reports on progress to meet the principles hereof at the individually and all over the entire sector.

Appendix B – CBI Corporate Governance Guide for Banks 2018, p9

4-2 Terms and Conditions for the Independence of Board Members:

4-2-1 A Board Member may not be a partner or employee at the Bank's Independent Auditor over the last three years before being elected as a Board Member and may not be related by blood to the partner in charge of auditing. (Mandatory)

4-2-2 A Board Member may not be a lawyer or a legal consultant of the Bank or an auditor for the Bank. (Mandatory)

4-2-3 Neither a Board Member, nor any of the companies in which he is a board Member, owner or main shareholder, may be allowed to have credit facilities from the Bank of more than 5% of the Bank Capital, and may not be a guarantor for a credit facility obtained from the Bank in the aforementioned percentage. (Mandatory)

4-2-4 A Board Member may not be a Member in the boards of more than five stock joint or public companies whether in his personal capacity or in his capacity as a representative of a legal entity. (Mandatory)

4-2-5 A Board Member may not be an administrative officer, employee or authorized manager in any other bank. (Mandatory)

4-2-6 A Board Member may not be a Bank employee or any of the Related Persons to him over the preceding three years. (Mandatory)

4-2-7 A Board Member may not be a relative to any of the Board Members or the Senior Management or any of the Related Persons to them until the fourth degree. (Mandatory)

4-2-8 Neither a Board Member nor a his/her representative may be a main Shareholder in the Bank. (Mandatory)

4-2-9 A Board Member may not directly or indirectly own (including the proprietorship of the family Members of Shareholders or the Related Persons) more than 5% of any company of any types. (Mandatory)

Appendix C – Scorecard Questions

Question Number	Question
Part 1: Governance Framework and Commitment	
P1 Q1	Has the board established a good corporate governance framework?
P1 Q2	Has the board ensured that all directors, CEO and management are fully aware of the requirements of the CBI CG Guide?
P1 Q3	Has the board ensured that all directors, CEO and management are fully aware of the requirements of the CBI CG Guide?
P1 Q4	Does the bank's CG Code or Core Values distinguish clearly the role of the board from that of management and of shareholders?
P1 Q5	Has the board issued a written statement of bank 'core values' stating clear responsibility and accountability for all bank activities, including culture, integrity and professional behavior?
P1 Q6	Does the bank strategy and activities promote long-term sustainability of the bank?
Part 2: Board Structure and Composition	
P2 Q1	Is the bank board composed in accordance with the CG Guide provisions?
P2 Q2	Is the board sufficiently independent and diverse in its composition?
P2 Q3	Are all independent directors identified and meet the requirements of the CG Guide?
P2 Q4	Has the board adopted and applied clear guidelines limiting the number of board positions each director may hold at any one time?
P2 Q5	Do bank documents distinguish the role of the board from the role of management in line with Code requirements?
P2 Q6	Has the board published its vision, mission, strategies and objectives?
P2 Q7	Do bank documents indicate the board's role in developing, approving, and monitoring a sustainable, long-term strategy?
P2 Q8	Has the board established a risk management framework which it monitors, including stating the risk appetite for the bank?
P2 Q9	Is there evidence of positive actions by the board and management to see that the core values are embedded into the bank's activities?
P2 Q10	Does the board recognize its responsibility for bank reputation, control, and compliance with all applicable relevant laws, regulations, guidance, and internal policies?
P2 Q11	Does the board ensure compliance with international standards in all bank activities and operations?

P2 Q12	Does the board have a succession plan in place for senior managers of the bank, for the board itself, and for board committees?
P2 Q13	Are all board committees governed by a written charter/terms of reference, disclosing their mandate, authority, duties, composition, leadership, and working processes and relationship to the board?
P2 Q14	Does the bank have at least four board committees as required Corporate Governance Guide?
P2 Q 15	Is the Auditing Committee comprised only of independent directors, who are financially literate and which is led by a financial expert?
P2 Q 16	Does the Auditing Committee mandate include all elements of duties and responsibilities laid down in Art 12.3.3 all?
P2 Q17	Does the Nomination and Remuneration Committee recommend the remuneration policy to the board, which is in line with achievement of long- term objectives of the bank, and supervise its implementation by management?
P2 Q18	Is the board supported in its activities by a Bank Secretary who is legally and professionally qualified as a Bank Secretary?
P2 Q19	Does the Bank Secretary provide the induction of new directors and ensures quality information is provided to the board?
P2 Q20	Are the roles of Chairman and the CEO (Executive Director) separate and filled by two individuals?
P2 Q21	Does the Board ensure that executive management accesses daily the official website of the Anti-Money Laundering and Terrorist Financing Office?
P2 Q22	Does the board undertake an evaluation of itself at least annually and which leads to an action plan for improvement, including plans for training and development of board members?
P2 Q23	Does the Sharia committee meet with the Sharia internal auditor and external audit to discuss issues of current concern (and their reports) and report to the board?
P2 Q24	Were the bank's operations and activities reviewed and did you express an opinion to the CEO on the transactions and contracts carried out by the bank?
P2 Q25	Does the Sharia committee carry out the tasks and rules that are required of it?
P2 Q26	Does the Bank adhere to the principles and provisions of Sharia law? And does the Sharia committee certify it?
P2 Q27	Does the Sharia committee have a secretary who performs all the tasks mentioned in the Governance Code?
P2 Q28	Do the Sharia committee members comply with the requirements for education, qualification, and other membership requirements as stated in the Governance Code?
P2 Q29	Are the Chairman and members of the Sharia committee independent are required by the Code?
P2 Q30	Does the internal audit function review Sharia products and services and apply Sharia Internal Auditing according to the Guidelines?

Part 3: Control Environment	
P3 Q1	Has the board adopted formal, written policies and procedures to manage conflicts of interest, including requiring disclosure in writing of interests of directors and senior managers?
P3 Q2	Has the board adopted a policy and procedures for related party transactions, (RPTs) including specific rules for RPTs disclosures and review by the Auditing Committee?
P3 Q3	Has the board established a Code of Conduct applicable by directors and employees which includes policies requiring confidentiality of the information and which shows acceptable and unacceptable behaviors?
P3 Q4	Has the board established an internal audit function which is well and appropriately resourced and which reports directly to the Auditing Committee of the board?
P3 Q5	Does the internal audit function have an Audit Committee approved annual plan?
P3 Q6	Do internal audit activities include testing of the effectiveness of internal controls and checking adherence to anti-money laundering and terrorist financing laws?
P3 Q7	Do the shareholders or the board appoint, dismiss the external auditor through a formal and transparent process on the recommendation of the Audit Committee?
P3 Q8	Does the Audit Committee oversee the external auditor, ensure his independence and ensure his recommendations are implemented?
P3 Q9	Has the board established a risk management framework for the bank which includes a risk appetite statement and three lines of defense structure?
P3 Q10	Does the bank management of risk include identification of key risks, foreseeable risks, and risks associated with environmental, social, and governance issues?
P3 Q11	Does the board investigate and act on breaches of acceptable risk levels, including regarding money laundering and funding of terrorist activities?
P3 Q12	Does the board have a role in stress testing?
P3 Q13	Does the board Risk Management Committee review the credit policy of the bank, supervise its implementation and ensure credit risk adheres to the decisions and guidance of the Basle Committee on Banking Supervision?
P3 Q14	Does the board conduct an annual review of the effectiveness of the bank's risk management practices and internal control systems and report this to shareholders?
P3 Q15	Does the board take steps to ensure that financial statements reflect actual bank performance?
P3 Q16	Does the bank have an independent compliance department, reporting directly to the Audit Committee or Risk Committee of the board, which issues policies and procedures to ensure compliance with laws and regulations?
P3 Q17	Has management established a Credit Committee, an Investment Committee, and an IT and Communications Committee and which meet regularly and report to the board on their activities to support bank control and supervision?

P3 Q18	Does the bank have in place policies and procedures for a 'whistleblowing' facility, which includes enabling employees to convey concerns about illegal and unethical practices, and which includes strong legal protections?
Part 4: Transparency and Disclosure	
P4 Q1	Does the board and the bank have policies and processes to ensure timely and balanced disclosure of all material financial and non-financial information as required by all laws, regulations, standards, and codes?
P4 Q2	Does the bank have a clear process to determine materiality of information?
P4 Q3	Does the board provide an Annual Report, a Governance Report and quarterly reports?
P4 Q4	Does the Annual Report include information on the bank organizational structure, including board committees and a report on their responsibilities and tasks undertaken in the recent year?
P4 Q5	Does the Annual Report disclose more than the minimum, that is additional information, more than that required by the Corporate Governance Guide for Banks?
P4 Q6	Is the Annual Report published in Arabic and in English and also provided on the bank website?
P4 Q7	Does the Annual Report include a clear statement of the board and management's responsibility for development of the financial statements and adherence to most recent IFRS?
P4 Q8	Has your bank fully applied IFRS 9?
P4 Q9	Does the Annual Report include a clear statement of adherence to all CBI instructions?
P4 Q10	Does the Annual Report or the bank website include a separate corporate governance section that includes a recognition of board responsibility for the governance of the bank?
P4 Q11	Does the Annual Report provide all details on individual directors relating to skill sets and meeting attendance as stated in Article 23.6.5 and Article 23.6.7?
P4 Q13	Does the board regularly review and report on progress to meeting the Sustainability Principles?
P4 Q14	Does the Annual Report include information on the bank's goals, actions, and targets to reduce carbon emissions?
P4 Q15	Does the website provide current information on Financial Statements, a downloadable Annual Report, briefing materials provided to analysts, and minutes of the AGM?
P4 Q16	Does the bank website provide downloadable copies of the board Charter and Charters of all board committees; the bank Code of Conduct; the Whistleblowing Policy; Conflict of Interest policy?
P4 Q17	Does the Chairman ensure the CBI is continuously informed of important and material (positive and negative) matters?

P4 Q18	Does the Annual Report include a clear statement of names of shareholders owning 1% or more of shares and a statement of the name/identity of each ultimate beneficial shareholder owning 5% or more of bank shares?
P4 Q19	Does the bank publicly disclose the investor relations contact person, including telephone and email contacts?
P4 Q20	Does the bank disclose the recruitment approach for selection of board members, which includes use of institutions in the search process?
P4 Q21	Does the bank disclose to the public its bank-wide remuneration policy and criteria used for performance measurement for senior management?
Part 5: Commitment to ESG	
P5 Q1	Does the bank disclose to the public its bank-wide remuneration policy and criteria used for performance measurement for senior management?
P5 Q2	Does the environmental and social policy of the bank require consideration of the customer's welfare and require interaction where it has branches?
P5 Q3	Does the bank include environmental and social factors in its lending policies and bank activities?
P5 Q4	Does the bank include environmental and social factors in its lending policies and bank activities?
P5 Q5	Does the bank have in place a grievance mechanism to ensure complaints from external parties and employees are raised and addressed (Illegal, ethical, and safety issues)?
P5 Q6	Has the bank introduced new products and services specially designed for women and small and medium-sized enterprises?
P5 Q7	Does the bank provide financial services and support to members of the community, traditionally with limited access to the official financial sector?
P5 Q8	Does the bank have an ESG officer or nominated person with expertise on E and S issues available to contribute to areas in which the bank lends?
P5 Q9	Does bank management consider the impact of climate change on the environment in its risk management and lending practices?
P5 Q10	Is the bank a member of any international or local network promoting E&S activities, frameworks, and reporting?
P5 Q11	Does the board take into account the interests of depositors, shareholders, and other relevant stakeholders, including employees, in its decision making?
Part 6: Role of Shareholders and Stakeholders	
P6 Q1	What steps does the board take to identify key shareholders, understand their needs and ensure it communicates with shareholders and includes their needs in its decisions?
P6 Q2	Does the board ensure the bank provides all material information in a timely manner to shareholders to enable them to fully exercise their rights?

P6 Q3	Do shareholders have the right to participate and vote on amendments to the bank's constitution/articles and on the authorization of additional shares or sale or transfer of substantially all assets?
P6 Q4	Does the bank offer to shareholders additional rights, additional to the basic rights normally expected to protect shareholders?
P6 Q5	Does the board ensure all communications regarding the AGM encourage shareholders to participate and vote in the AGM resolutions?
P6 Q6	Does the bank release its notice of AGM and relevant papers and resolutions to be determined at least 30 days before the date of the meeting?
P6 Q7	Does the bank allow shareholders to vote in person as well as in absentia through secure electronic voting processes?
P6 Q8	Has the board adopted and published procedures for nomination and appointment of new board members?
P6 Q9	Does the board provide sufficient information to shareholders to enable their decision to elect a director?
P6 Q10	Does the bank allow small shareholders to elect one member to the board based on cumulative voting mechanism?
P6 Q11	Does the board ensure that shareholders and their needs are an important consideration in the bank's strategy?
P6 Q12	Does the bank comply with CBI regulations for policies and procedures for the protection of depositors and borrowers?

Appendix – D Bank List

No	Name	الأسم
1	Abu Dhabi Islamic Bank	مصرف أبو ظبي الإسلامي
2	Agricultural Bank	المصرف الزراعي التعاوني
3	Al - Rajeh Islamic Bank	مصرف الراجح الإسلامي
4	Al Attaa Islamic Bank	مصرف العطاء الإسلامي
5	Al Baraka Turk Bank	مصرف البركة التركي
6	Al- Huda Bank	مصرف الهدى
7	Al Mustashar Islamic Bank	مصرف المستشار الإسلامي
8	Al Qabith Islamic Bank	مصرف القابض الإسلامي
9	Al Qurtas Islamic Bank	مصرف القرطاس الإسلامي
10	Al Taif Islamic Bank	مصرف الطيف الإسلامي
11	Al-Anssari Islamic Bank	مصرف الانصاري الإسلامي
12	Alarabiya Islamic Bank	مصرف العربية الإسلامي
13	Al-Janoob Islamic Bank	مصرف الجنوب الإسلامي
14	Al-Mansour Bank	مصرف المنصور
15	Al-Mashreq Al-Arabi Islamic bank	مصرف المشرق العربي الإسلامي
16	Al-Nahrain Islamic Bank	مصرف النهرين الإسلامي
17	Alnnasik Islamic bank	مصرف الناسك الإسلامي
18	AL-Rasheed Bank	مصرف الرشيد
19	Alwifaq Islamic Bank	مصرف الوفاق الإسلامي
20	Ameen Al Iraq Islamic Bank	مصرف امين العراق الإسلامي
21	Ashur International Bank for Invest-ment	مصرف اشور الدولي للاستثمار
22	Asia Iraq Islamic bank	مصرف اسيا العراق الإسلامي
23	Babylon bank	مصرف بابل
24	bank of Baghdad	مصرف بغداد
25	Beirut bank and Arabic Center	بنك بيروت والبلاد العربية
26	Byblos bank	بنك بيبلوس اللبناني
27	Cihan Bank Islamic	مصرف جيهان الإسلامي
28	Commercial Bank	مصرف التجاري العراقي
29	Credit Bank of Iraq	مصرف الائتمان العراقي
30	Economy Bank for Investment & Fi-nance	مصرف الأقتصاد للأستثمار والتمويل

No	Name	الأسم
31	Elaf Islamic Bank	مصرف إيلاف الإسلامي
32	Erbil Bank	مصرف اربيل
33	First Iraq Islamic Bank	مصرف العراق الأول الإسلامي
34	Gulf Commercial Bank	مصرف الخليج التجاري
35	Industrial Bank	المصرف الصناعي
36	International Development Bank	مصرف التنمية الدولي
37	International Islamic Bank	مصرف الدولي الإسلامي
38	Investment Bank of Iraq	مصرف الاستثمار العراقي
39	Iraq Noor Islamic Bank	مصرف نور العراق الإسلامي
40	Iraq Trans Bank	مصرف عبر العراق
41	Iraqi Islamic Bank	المصرف العراقي الإسلامي
42	Iraqi Middle East Investment Bank	مصرف الشرق الأوسط العراقي للاستثمار
43	Kurdistan International Islamic	مصرف كوردستان الدولي
44	MEAB BANK S.A.L	بنك مياب اللبناني
45	Mosul Bank for Development & Invest-ment	مصرف الموصل للتنمية والأستثمار
46	National Bank of Iraq	المصرف الأهلي العراقي
47	National Islamic Bank	المصرف الوطني الإسلامي
48	North Bank for Finance and Investment	مصرف الشمال للتمويل والاستثمار
49	Rafidain Bank	مصرف الرافدين
50	Real estate bank	المصرف العقاري
51	Region Trade Bank	مصرف الإقليم التجاري
52	Standard Chartered	مصرف ستاندرد تشارترد
53	Sumer Commercial Bank	مصرف سومر التجاري
54	T.CZIRAAT Bank ASI A.S	مصرف الزراعي التركي
55	Trade Bank of Iraq	المصرف العراقي للتجارة
56	Trust Islamic Bank	مصرف الثقة الإسلامي
57	.Turkey Is Bankası A.S	بنك آيش التركي
58	United Bank	مصرف الاتحاد
59	United Bank for Investment	مصرف المتحد للاستثمار
60	Vakif Bank	مصرف وقفو التركي
61	World Islamic bank	مصرف العالم الإسلامي
62	Zain Iraq Islamic Bank	مصرف زين العراق الإسلامي

Appendix E - Abbreviations

Acronym	Meaning
AGM	Annual General Meeting
AR	Annual Report
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CBI	Central Bank of Iraq
ECB	European Central Bank
ESG	Environmental, Social and Governance[2]
ESMS	Environmental and Social Management System
ESRM	Environmental and Social Risk Management
EU	European Union
FSB	Financial Stability Board
GFC	Global Financial Crisis
GRI	Global Reporting Initiative
ICGN	International Corporate Governance Network
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
iNEDs	Independent Non-executive Directors
IOSCO	International Organization of Securities Commissions
ISA	International Standards of Auditing
ISSB	International Sustainability Standards Board
ISX	Iraq Stock Exchange
OECD	Organization of Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity
RPT	Related Party Transactions
SASB	Sustainable Accounting Standards Board
SBFN	Sustainable Banking and Finance Network
SSE	Sustainable Stock Exchanges Initiative
TCFD	Task Force on Climate-related Disclosures
UN PRI	United Nations Principles for Responsible Investment