CBI Standards Booklet 2025

Intended for Private Banks (Commercial and Islamic)

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Contents

1. Introduction

The Central Bank of Iraq (CBI) has launched a binding, multi-year banking reform initiative to modernize Iraq's financial sector, enforce rigorous standards, and align with international best practices. Effective August 2025, the program mandates strict compliance in governance, financial soundness, and risk management, introducing clear regulatory pathways—Stay, Merge, or Exit—for all licensed banks. This initiative aims to enhance stability, safeguard depositor interests, and foster a resilient, transparent, and globally credible banking environment, supporting sustainable economic growth and ensuring that all private banks operate under robust, enforceable standards and close CBI supervision.

This circular serves as a concise framework, outlining all the standards required of private banks. It is intended to provide clarity and direction to banks and CBI officials as they work towards full compliance within the specified timelines. The standards outlined herein are mandatory, and adherence will be closely monitored and enforced by the CBI.

The document is organized into the following key sections:

A. **Ownership and Governance**: Outlines requirements for ownership structure, due diligence, board composition, governance frameworks, and leadership qualifications.

B. **Business Model Sustainability**: Details expectations for business planning, core banking systems, online banking systems, branch and ATM coverage, customer service, infrastructure, payment systems, operational resilience, deposit protection, and credit bureau participation.

C. **Financial Metrics**: Specifies minimum capital requirements, capital adequacy ratios, liquidity standards, and stress testing protocols.

D. **Risk and Regulatory Compliance**: Establishes standards for related party transactions, anti-money laundering and counter-terrorism financing measures, transparency in reporting and audit, and internal controls.

This Standards Booklet is designed to be read in conjunction with the Assessment Guidelines and the Pathways circular, which together provide a fuller picture of the banking reform program. The requirements provided herein shall surpass and take precedence over any conflicting requirements, except for any requirements and regulations required by applicable laws.

The standards set forth in this document are designed to address the underlying root causes of the international foreign currency restrictions imposed on numerous banks in Iraq and have been developed in coordination with the international entities responsible for such measures. Adherence in full to the letter and spirit of these standards, as confirmed by globally reputable and recognized 3rd party organizations, will facilitate the removal of existing foreign currency restrictions that currently hinder the integration of affected banks into the global financial system, except in cases where other restrictions arise on grounds outside the scope of these standards such as an OFAC designation. Access to foreign currency is further subject to the acquisition of direct tier-one correspondent banking relations with foreign banks following the affected banks' full compliance with reform standards.

The CBI will oversee the precise and comprehensive enforcement of these standards. All private banks (both commercial and Islamic) are required to familiarize themselves with every provision of this document and to implement the necessary changes without delay. Non-compliance will result in immediate administrative action, up to and including the imposition of sanctions, remedial measures pursuant to article (56) of the Banking Law No. 94 of 2004, or the revocation of banking licenses pursuant to article (13) of the same law. The CBI will not tolerate ambiguity, delay, or partial compliance. The requirements contained within this circular are mandatory, and all private banks (commercial and Islamic) are expected to treat them as such.

The circular will enter into force as of the date of its publication and shall apply exclusively to all private banks (both commercial and Islamic).

2. Ownership and Governance

2.1. (A1) Ownership Structure

Standard

A1.1. Shareholding of a bank held by any individual or corporation (including shareholdings of connected parties) shall not exceed the threshold for a qualifying holding (currently set at 10% under Article 1 of the 2004 Banking Law) without express written approval from CBI.

a. CBI shall have the authority to allow banks to exceed the aforementioned threshold based on specific criteria but shall not allow shareholdings to exceed 40% (forty percent) for individuals and corporations.

i. Shareholders must make a written request to CBI in order to receive approval for exceeding the 10% (ten percent) shareholding limit. A bank's written request must demonstrate both of the following:

(a) The bank has, at the time of the request, met all standards contained in this document, except the 10% shareholding limit

(b) No investor, either alone or through connected parties, exceeds a 40% shareholding at the time of the request

ii. Shareholders must make an additional written request to CBI in order to receive approval for any shareholding exceeding 20% (twenty percent). A bank's written request must demonstrate the following:

(a) One of the bank's shareholders, at the time of the request, is a shareholder that is classified as a "qualified institutional investor" – as defined below in Standard A1.2 – and holds shares of the bank exceeding the shares of the shareholders requesting the exception, including shares of connected parties.

iii. CBI retains the authority to deny, at its sole discretion, the request for approval from any bank

b. Corporations classified as qualified institutional investors shall be allowed to own a shareholding of up to 60% (sixty percent) depending on the type of the qualified institutional investor and after obtaining approval from CBI.

c. The term "shareholding of a bank" shall be interpreted to include shareholding of any holding company that owns the bank. When a bank is owned by a holding company or a group of companies, the shareholding limitations shall apply exclusively to the holding company and not to the bank itself.

A1.2. A bank shall have at least one shareholder who is a qualified institutional investor and who also holds an equity stake in the bank of not less than 5% (five percent) and no more than 60% (sixty percent). A bank shall embed an investor's designation as a QII within its shareholders' agreement.

A1.3. A bank shall embed into its shareholders' agreement specific measures that discourage concealed arrangements or transactions (e.g., nominee agreements), as defined by CBI in the Assessment Guidelines.

A1.4. These requirements are in addition to all those requirements for shareholders as specified in Article 22 of the 2004 Banking Law, and is not intended to replace or supersede any requirements specified therein.

Definitions

"connected parties" means any individuals, or legal entities belonging to individuals, that are directly related by familial, business, and/or political links, as defined in the following way:

Familial links: the individuals are linked by blood, marriage or kinship up to the fourth degree, i.e. including first degree (e.g., parents, children), second degree (e.g., siblings, grandparents, grandchildren), third degree (e.g., aunts, uncles), and fourth degree (e.g., first cousins)

Business links: the individuals (or entities) are currently in a business partnership, hold shares in the same institution, serve together on the Board of Directors of the same institution, or one individual is employed by a company owned or controlled by the other

Political links: the individuals (or entities) have either familial or business links to, or are under influence or control of, the same politically exposed person (PEP) or other party of influence

"*qualifying holding*" means a direct or indirect holding by an individual acting alone or through connected parties, of an equity stake in an entity of at least 10% (ten percent), or such a stake which makes it possible to exercise significant influence over the management of the entity, as the CBI may determine

"*qualified institutional investor*" refers to corporate entities that are either one of the following:

1) A <u>bank</u> fulfilling all of the following conditions:
   a. Is licensed and supervised by a financial regulatory authority;
   b. Has been operating as a licensed bank for at least 5 (five) consecutive years;
   c. Holds assets of not less than four trillion Iraqi dinars (IQD);
   d. Maintains an active correspondent banking relationship in each of three currencies: USD, EUR, and CNY

2) A <u>regulated non-bank institutional investor</u> (e.g. asset manager) that fulfills all of the following conditions:
   a. Is licensed and supervised by a financial market regulator in a jurisdiction not appearing on the Financial Action Task Force (FATF) Grey List or Black List;
   b. Has assets under management (AUM) with an aggregate value of not less than four trillion Iraqi dinars (IQD), or the equivalent thereof in a foreign currency;
   c. Has a track record of at least 5 (five) years of holding controlling stakes in the banking sector

3) A <u>sovereign wealth fund (SWF)</u> or a <u>multilateral development bank (MDB)</u>

   a. A SWF established by a national government and fulfilling the following criteria:
      i. Is licensed and supervised by a financial market regulator in a jurisdiction not appearing on the Financial Action Task Force (FATF) Grey List or Black List;
      ii. Has not less than 5 (five) years of experience in asset management or investments in the financial sector;
      iii. Has a total committed capital of not less than four trillion Iraqi dinars (IQD)

   b. An MDB that has not less than 5 years of experience in asset management or investments in the financial sector.

4) An investment fund that fulfills all the following conditions:

   a. Is managed by a fund manager approved by the CBI on the basis of fit-and-proper criteria;
      i. Fit-and-proper criteria shall include, but not necessarily be limited to, credible evidence that the fund manager is capable of successfully managing equity investments in banks

   b. Has a governance structure that has been approved by the CBI;
   c. Has a capital of not less than one hundred billion Iraqi dinars (IQD);
   d. Has a majority of its capital sourced from Iraqi institutional investors

2.2. (A2) Owner Due Diligence

Standard

A2.1. All shareholders of a bank, holding shares either directly or through connected parties, shall undergo shareholder diligence and ID verification.

a. This requirement applies to all such shareholders, i.e., those who already underwent verifications in accordance with Article 5, Paragraph 2 of the 2004 Banking Law during a past license application, and/or who were in the past granted a license in accordance with Article 8, Paragraph 6 of the 2004 Banking Law, and/or those who have never undergone any such verifications or have never been granted a license

b. Shareholder diligence and ID verification shall be conducted by a third-party specialist firm from a list of CBI-approved firms

A2.2. All shareholders of a bank that hold an equity stake – either directly or through connected parties – of at least 1% (one percent), or who are politically exposed persons (PEPs), shall undergo enhanced due diligence tests. In the case of corporate shareholders holding equity stakes above the aforementioned minimum level, the enhanced due diligence tests shall be conducted on the ultimate beneficial owner(s) of the corporate entity, and a corporate due diligence test will be conducted on the entity itself.

a. This requirement applies to all such shareholders, i.e., those who already underwent testing in accordance with Article 5, Paragraph 2 of the 2004 Banking Law during a past license application, and/or who were in the past granted a license in accordance with Article 8, Paragraph 6 of the 2004 Banking Law, and/or those who have never undergone any such testing or have never been granted a license

b. The enhanced due diligence tests shall be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

"Shareholder diligence and ID verification" means an exercise to verify the identity and assess the risk associated with an individual, with special focus on the individual's connections to other shareholders

"Enhanced due diligence tests" means a thorough and comprehensive assessment conducted to evaluate the qualifications, background, and potential risks associated with an individual

"Corporate due diligence test" means an assessment of a corporate entity's legal standing, history of compliance with regulatory and fiscal obligations, and financial soundness

"Politically exposed person" means an individual who is themselves, or is linked by blood, marriage, or kinship up to the second degree to, an individual that has been entrusted with a prominent public function, including heads of state or government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, and important political party officials.

2.3. (A3) Board Governance

Standard

A3.1. In addition to the requirements of Article 17 of the 2004 Banking Law, a bank's Board of Directors shall meet the following criteria:

a. The Board shall consist of exactly 9 (nine) members

b. All members of the Board shall be non-executive members, i.e., they shall not work full-time for the bank, except for the Chief Executive Officer (CEO)

i. CBI interprets the stipulation contained in Article 17, Paragraph 4 of the 2004 Banking Law that "a majority of the members…shall not work full time for the bank," to mean that all members shall be non-executive members except for the CEO

c. Exactly two-thirds of the Board shall be independent Board members, and at least half of the independent Board members must be nominated by the QII

d. If the chairman of a bank's Board of Directors is not an independent Board member, they shall not be allowed membership of any of the Board committees.

A3.2. All members of the Board of Directors of a bank shall be appointed at a general meeting of shareholders, for a period of no more than 4 (four) years. Board members may be reappointed for only one subsequent period of equal length, for a maximum total of 2 (two) full terms and a maximum total of 8 (eight) years.

A3.3. The Board of Directors of a bank shall conduct at least 6 (six) meetings per calendar year.

a. A gathering of Board members shall only count towards the aforementioned minimum if both of the following conditions are met:

i. A quorum of members is present as per CBI guidelines;

ii. A CBI-appointed observer is present, and their presence is recorded in the Board-approved minutes of the meeting

A3.4. Certain Board decisions shall require super-majority approval to pass, including decisions related to the following:

a. Dismissal of a board member

b. Appointment or removal of CEO, CTO, CFO, CRO, Head of Compliance / Head of Sharia Compliance for Islamic Banks and Anti-Money Laundering Officer (MLRO); CBI approval is required for the relevant appointments as mentioned in this document.

c. Approval of major mergers, purchases, or sales above a certain threshold specified by CBI

d. Changes to articles of association or corporate bylaws, issuance of new shares

e. Capital restructuring, or any other actions that dilute existing shareholdings

f. Approval of related party transactions as detailed in standard D1 which is relevant for related parties and conflicts of interest

Definitions

"Board of Directors" and *"Board"* both mean a group of individuals entrusted, as provided by Article 17 of the 2004 Banking Law, with the responsibility of conducting the business and establishing the policies of the bank; in particular, they shall establish the risk-management standards, investment policies, minimum prudential ratios, accounting standards and internal control systems of the bank

"*independent Board member*" means an individual who sits on the bank's Board of Directors, but who has no current or recent affiliation, financial ties, or significant relationships with the bank or its affiliates, beyond the allowable affiliations, ties, or relationships as defined by CBI

"*super-majority approval*" means approval by a share of a votes that equals or exceeds two-thirds

2.4. (A4) Board Fit and Proper Testing

Standard

A4.1. All members of the Board of Directors of a bank as well as members of the Sharia Supervisory Board for Islamic Banks shall undergo "fit and proper" tests.

a. The "fit and proper" tests shall be conducted by a third-party specialist firm from a list of CBI-approved firms

b. Directors shall notify the bank's compliance officer of any relevant changes to their circumstances as soon as possible, upon becoming aware of them

c. This testing requirement is in addition to all those requirements for Board members specified in Article 17, Paragraphs 3 through 5 of the 2004 Banking Law, and is not intended to replace or supersede any requirements specified therein

Definitions

"*Fit and proper test*" means an assessment of the tested individual's record, character, integrity, professional conduct, experience and financial soundness

2.5. (A5) Governance Structure

Standard

A5.1. A bank shall have a clear governance structure with well-defined roles and responsibilities, and clear delineation between shareholders, Board (and committees), and leadership team. The assessment of a bank's governance and delineation of authority shall be conducted by a third-party specialist firm from a list of CBI-approved firms.

A5.2. A bank shall have – in addition to the Audit Committee required by Article 24 of the 2004 Banking Law – a Risk Committee; a Technology and IT Governance Committee; and an Environmental Standards, Social Standards, Sustainability, and Governance Committee and a Nomination and Remuneration Committee (NRC) which is detailed below. All the aforementioned committees must be established and governed in accordance with the CBI Governance Manual, and the chairman of each of these committees shall be an independent Board member.

A5.3. A bank shall have a Nomination and Remuneration Committee (NRC), which shall be responsible for nominating and approving new members of the leadership team except for Internal Audit and Sharia Internal Audit, for vetting all nominees to the Board, and for nominating and overseeing the approval process of new independent Board members.

a. The NRC shall be made up of at least 3 (three) members

b. All members of the NRC shall be independent Board members

c. All decisions taken by the NRC regarding confirmation of Board members must be unanimous

A5.4. Islamic banks shall establish a Sharia Supervisory Board (SSB), which shall be an independent body reporting to the Board of Directors. The SSB shall have full autonomy in overseeing the Sharia compliance of all operations, products, services, and contracts of the bank. The SSB shall be governed in accordance with CBI regulations and shall operate similarly to a Board Committee, while maintaining complete independence from management and the Board and being appointed directly by the general assembly.

2.6. (A6) Leadership Team Fit and Proper Testing

Standard

A6.1. All individuals employed by a bank as part of its leadership team shall undergo “fit and proper” tests.

a. “Fit and proper” tests and enhanced due diligence tests mentioned above shall be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

“*Fit and proper test*” means an assessment of the tested individual’s record, character, integrity, professional conduct, experience and financial soundness

“*leadership team*” means a bank’s Chief Executive Officer (CEO), Chief Technology Officer (CTO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Chief Risk Officer (CRO), Chief Internal Audit Officer, Head of Compliance, Head of Sharia Compliance, Anti-Money Laundering Officer (MLRO), and anyone else who reports directly to the CEO or to the Board, all heads of business lines (e.g., Head of Retail Banking, Head of Commercial Banking), the effective equivalents of any of these roles, and anyone exerting significant influence on the bank’s management while being an employee or an officer of the bank’s parent or affiliate (e.g., Group Head of Risk in the holding company that owns or controls the bank)

3. Business Model Sustainability

3.1. (B1) Submission of Detailed Business Plan

Standard

B1.1 Each bank shall submit a business plan detailing short-term and long-term strategy, key products and services, relevant pricing, target customer demographics and investment.

a. Key products and services detailed in the business plan shall at a minimum include loans, cards, deposits, and payments

B1.2 Each bank shall submit details on its operating model, including a manpower plan, detailed organizational structure, remuneration policy and job descriptions for critical roles.

B1.3 Each bank shall submit a new financial plan detailing a clear path to profitability, supported by a five-year financial forecast.

B1.4 The business plan, planned operating model, and financial plan shall be submitted in both Arabic and English.

3.2. (B2) Core Banking and Critical Systems

Standard

B2.1 Each bank shall maintain a core banking system and the necessary systems providing critical functionalities in alignment with CBI-issued systems requirements, as specified in the Assessment Guidelines.

B2.2 Assurance of the core banking system's adherence to CBI requirements will be carried out by a third-party specialist firm from a list of CBI-approved firms.

Definitions

"*core banking system*" means a digital platform or a suite of digital platforms that enables banks to conduct essential banking operations such as account management, transaction processing, loan management and compliance reporting across branches in real time

3.3. (B3) Online Banking

Standard

B3.1 Each bank shall provide online banking services in alignment with CBI-issued specifications, as detailed in the Assessment Guidelines.

B3.2 Assurance of the bank's adherence to CBI online banking requirements will be carried out by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*online banking services*" means Internet-based digital channels – such as web portals and mobile apps – that allow customers to access accounts, check balances, and make transactions remotely

3.4. (B4) Bank Branches

Standard

B4.1 Each bank shall maintain a minimum of 5 (five) physical branches that are located inside Iraq and are open for business to the public on all days and during all CBI-specified office hours as referenced in Article 34 of the 2004 Banking Law. Of these five, at least 2 (two) branches must be located in small cities and rural areas, as defined by CBI guidelines.

Definitions

"*physical branch*" means an enclosed space owned or rented by a bank, where the bank's customers can access various banking services, including but not limited to deposits, withdrawals, opening and closing of accounts, and financial advice

3.5. (B5) ATM Coverage

Standard

B5.1 Each bank shall maintain a ratio of at least 1 (one) ATM for every 1,000 (one thousand) retail customers, or such ratio as may be defined by CBI.

B5.2 At least 25% (twenty-five percent) of a bank's total number of ATMs in operation must be located in small cities and rural areas, as defined by CBI in the Assessment Guidelines.

B5.3 All ATMs must be operational and available for use by a bank's customers for a minimum percentage of time, as defined by CBI in the Assessment Guidelines.

Definitions

"*ATM*" means automated teller machine, an electronic device that allows a bank's customers – at a bare minimum – to withdraw cash from their account using the debit card that corresponds to that account

3.6. (B6) Customer Services

Standard

B6.1 Each bank shall provide minimum customer service support coverage according to minimum levels specified by CBI in the Assessment Guidelines.

Definitions

"*customer service support coverage*" means a bank's capacity to deliver accessible, responsive, and secure customer service via channels that include – at a minimum – telephone support through a call center

3.7. (B7) Infrastructure & Data

Standard

B7.1 All banks shall establish strong, secure, and stable infrastructure that is resilient and can withstand cyberattacks, aligned with CBI specifications as detailed in the Assessment Guidelines.

Banks shall protect all data from unauthorized access and tampering, in alignment with CBI specifications as detailed in the Assessment Guidelines.

B7.2 Assurance of the bank's adherence to CBI specifications related to infrastructure and data encryption will be conducted by a third-party specialist firm from a list of CBI-approved firms.

B7.3 This testing requirement is in addition to all those requirements for data storage specified in Article 38 of the 2004 Banking Law, and is not intended to replace or supersede any requirements specified therein.

Definitions

"*data encryption methods*" means various techniques and algorithms used to convert readable data into a coded format that is unreadable for unauthorized users

3.8. (B8) Payment Systems

Standard

B8.1 All banks shall have, within the bank, capabilities that allow them to offer required functionalities – as defined by CBI in the Assessment Guidelines – related to the issuing of payment cards to all retail customers

B8.2 All banks shall have, within the bank, capabilities that allow them to offer required functionalities – as defined by CBI in the Assessment Guidelines – related to the integration with payment systems via mechanisms specified by CBI

B8.3 Assurance of the bank's adherence to CBI specifications will be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*payment cards*" means instruments that allow users to access funds or credit, in order to make transactions electronically, including debit cards, credit cards and prepaid cards

"*payment systems*" means domestic and cross-border platforms currently used in Iraq to process financial transactions (including cards, real-time gross settlement, and automated clearing house systems) as well as any platforms that may be adopted in Iraq in the future (including instant payment systems)

3.9. (B9) Business & Operational Resilience

Standard

B9.1 Each bank shall maintain fully documented and audited business continuity plans and disaster recovery plans, aligned with CBI specifications as detailed in the Assessment Guidelines.

B9.2 Auditing of a bank's business continuity and disaster recovery plans shall be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*business continuity plan*" means a document that comprehensively outlines how a bank will continue its operations and maintain service delivery during and after a disruptive event. This can include natural disasters, cyberattacks, pandemics, or any other event that threatens the bank's ability to function normally

"*disaster recovery plan*" means a document that comprehensively outlines how a bank will recover and restore its critical systems, data, and operations following a disruptive event. May sometimes be fully contained within a bank's business continuity plan

3.10. (B10) Deposit Protection Scheme

Standard

B10.1 Each bank shall maintain an active subscription and pay all associated fees to the Iraqi Company for Deposit Insurance according to the defined schedule.

Definitions

"*Iraqi Company for Deposit Insurance*" means Iraq's national deposit insurance scheme, established to protect depositors' funds in the event of bank insolvency

3.11. (B11) Credit Bureau

Standard

B11.1 Each bank shall regularly provide all credit-related customer data to CBI's centralized credit bureau, as per CBI requirements specified in the Assessment Guidelines.

B11.2 As provided by Article 51, Paragraph 1, Sub-paragraph (e) of the 2004 Banking Law, the confidentiality requirements of Articles 49 and 50 of the 2004 Banking Law do not apply when providing customer data to the aforementioned credit bureau and in compliance with the provisions of Circular No. (432/4/9) issued in 2017, which includes the required authorization signed by the bank's customers, for the purpose of protecting both the customer and the bank.

4. Financial Metrics

4.1. (C1) Capital & Composition

Standard

C1.1. Each bank shall maintain a minimum capital as paid-up capital and on an ongoing basis, that is not less than 400,000,000,000 (four hundred billion) Iraqi dinars or such higher amount as may be established by CBI, in accordance with Article 14, Paragraph 1 of the 2004 Banking Law.

C1.2. As provided by Article 16, Paragraph 1 of the 2004 Banking Law, each bank shall at all times maintain its minimum required capital in Iraq, of which not less than one-half of such capital shall consist of core capital (also referred to as "Tier 1 capital").

C1.3. Assurance of the bank's figures related to the above requirements will be carried out by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*capital*" means the financial resources that a bank uses to fund its operations and absorb losses

"*paid-up capital*" means the funds the bank has received from shareholders in exchange for shares in the bank

"*core capital*" means Tier 1 capital as defined under Basel III framework

4.2. (C2) Capital Adequacy

Standard:

C2.1. As provided by Article 16, Paragraph 1 of the 2004 Banking Law, each bank shall at all times maintain capital of not less than the equivalent of 12.5% (twelve and one-half percent) of the total value of its assets determined on a risk-adjusted basis (also known as risk-weighted assets).

C2.2. Assurance of the bank's figures related to this requirement will be carried out by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*assets determined on a risk-adjusted basis*" means a bank's total assets adjusted for risk, assigning different weights to each asset held based on credit, market, and operational risk ranging from lower risk (e.g., government bonds) to higher risk (e.g., corporate lending) due to higher likelihood of default, with standardized risk weights for various asset classes being specified in the Basel III framework

4.3. (C3) Liquidity Ratio

Standard

C3.1. Banks shall maintain adequate liquidity, as provided in Article 26, Paragraph 2 of the 2004 Banking Law. Specifically, banks must maintain a Liquidity Coverage Ratio of at least 100% (one hundred percent).

C3.2. In addition, banks must maintain a Net Stable Funding Ratio of at least 100%.

C3.3. Assurance of the bank's figures related to the above requirements will be carried out by a third-party specialist firm from a list of CBI-approved firms.

Definitions

"*Liquidity Coverage Ratio*" means the value of a bank's high-quality liquid assets – as per the Basel III definition of Level I and Level II high-quality liquid assets – as a percentage of its estimated total net cash outflows for the next 30 (thirty) days

"*Net Stable Funding Ratio*" means the value of the amount of a bank's available stable funding (including customer deposits, long-term wholesale funding, and equity) as a percentage of the amount of stable funding required by the bank

4.4. (C4) Scenario Stress Testing

Standard:

C4.1. All banks shall achieve a positive outcome to regulatory scenario stress testing. Details of this process, including the assumptions of the scenarios to be used, will be defined by CBI.

Definitions

"*stress testing*" means a quantitative risk management technique whereby internal or external analysts subject a bank's financial portfolio to extreme scenarios to assess its risk absorption capacity

5. Risk and Regulatory Compliance

5.1. (D1) Related Parties and Conflicts of Interest

Standard

D1.1 A bank shall not extend credit to a related party if the credit and its financial terms and conditions have not been approved with super-majority approval by the Board of Directors. This requirement is in addition to the requirements of Article 31, Paragraph 1 of the 2004 Banking Law.

D1.2 A bank shall not extend credit to any single entity (including to related parties) if the extension of credit would cause the aggregate amount of credits disbursed to that entity and outstanding to exceed the maximum allowable credit facilities (loans, guarantees, or other financial commitments) as a percentage of the bank's capital base (unimpaired capital and reserves), currently set at 10% (ten percent), with the possibility to increase to 15% after obtaining CBI approval.

D1.3 A bank shall report all related party exposure – including all credits and deposits – to CBI, in addition to internal reporting requirements as outlined in Article 31, Paragraph 2 of the 2004 Banking Law.

D1.4 Banks should have internal policies regarding conflicts of interest that include, but are not necessarily limited to, the following:

a. Market abuse controls and controls for the handling of confidential / sensitive information (e.g., information barriers);

b. Conduct rules;

c. Personal account dealing approval and notification arrangements

D1.5 Assessment of a bank's adherence to the relevant maximum percentage (Standard D1.2 above) and to the requirements around internal conflict of interest policies (Standard D1.4 above) shall be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*related party*" means an entity or individual that has a close relationship with a bank, such that transactions with them could potentially influence the bank's financial position or governance

5.2. (D2) AML / CFT / Sanctions

Standard

D2.1 Each bank shall have policies, processes, controls, and employ systematic tools related to anti-money laundering (AML) and combating the financing of terrorism (CFT), and sanctions practices (collectively "AML/CFT programs"), aligned with CBI requirements as specified in the Assessment Guidelines.

D2.2 Assurance that a bank's AML/CFT/sanctions processes and controls are aligned with CBI requirements will be conducted by a third-party specialist firm from a list of CBI-approved firms

Definitions

"*anti-money laundering (AML)*" means a bank's measures to prevent, detect, and report attempts by customers to conceal the origins of illegally obtained money

"*combating the financing of terrorism (CFT)*" means a bank's measures to prevent the bank itself from being used to fund terrorist activities

"*sanctions practices*" means a bank's measures to ensure compliance with international and domestic sanctions

5.3. (D3) Transparency of Reporting/Audit

Standard

D3.1 A bank's financial statements shall be audited according to international accounting standards (e.g., IFRS9 accounting standards) by at least two independent auditors. This review shall also cover the creditworthiness of the bank. All this shall be in accordance with previous CBI circulars and relevant regulations.

a. At least one of the independent auditors must be from a pre-approved CBI list of IFRS-licensed auditors

b. A bank must rotate its independent auditors every 5 (five) years

D3.2 The independent auditors shall ensure that the bank properly reassessed all its financial assets (e.g. loans, investments) as per the relevant international standards (e.g. IFRS9, IFRS 13)

D3.3 This requirement is in addition to audit requirements for banks as detailed in Articles 46 and 47 of the 2004 Banking Law, and is not intended to replace or supersede any requirements specified therein.

Definitions

"*independent auditor*" means an external audit firm with no financial ties to the bank or any of the bank's shareholders or Board members, that is able to provide impartial financial assessments

5.4. (D4) Internal Controls

Standard

D4.1 Each bank must implement internal controls that establish a relationship between the bank's business units (first line of defense), its support and control functions (second line of defense), and its internal audit function (third line of defense) that comprise the "three lines of defense" model.

D4.2 The existence and the quality of both the internal controls and the three lines of defense will be assessed by a third-party specialist firm from a list of CBI-approved firms.

CBI

CENTRAL BANK OF IRAQ

1947