



البنك المركزي العراقي

Department of Total Quality
Management and Institutional
Development



2018

Annual Report of The Strategic Plan

Strategic Planning

Mr. Governor's word

The strategic plan for (2016-2020) represents a qualitative leap in the institutional performance of the departments of the Central Bank of Iraq and a different approach in dealing with the role assigned to this institution on the level of stability and economic growth where the plan adopted the best international practices in this context in order to reach its goals and through our experience in the implementation of the strategic plan, we find that it is becoming a culture of work as well as being a curriculum and this culture establishes the state of excellence and upgrading performance .

The initiatives and programs adopted to achieve the strategic objectives have contributed to the formulation of clear lines of action to achieve complementarity in the achievement of its time dimension, and the follow-up of those pathways in terms of direction and achievement ratios has become a measure of real-performance and a catalyst for the future act adopted by the implementation services to the desired target, as well as by senior management as a measure of competitiveness and a mirror of the level of performance and ability for giving .

In the light of this, the third Annual report (2018) provides a detailed overview of the achievements of the annual accomplishments as set out in the strategic plan in its third year, and through the review of the report, progress in reaching the goals can be seen through the level of performance achieved within the initiatives associated with it, which demonstrates the vitality of the plan and its personnel from formations in the central bank for their tireless efforts as well as the flexibility of initiatives in line with changes in the environment and macro-level variables.

In conclusion, we extend our thanks to the Department of Comprehensive Quality Management and institutional development for the efforts made in following up the implementation of the plan and preparing its periodic reports, especially this report .

ALI MOHSIN ISMAIL

GOVERNOR

INTRODUCTION

The Central Bank of Iraq seeks to achieve a privileged position in its business environment while creating a stable and transparent banking climate with an integrated vision, clear message, core values and realistic strategic objectives.

The 2018 annual report is the result of continuous follow-up of achievements within their planned timelines showing progress in achievement for each goal and in accordance with associated initiatives, signaling the vitality of the plan and the interaction of the departments and formations of the central bank, which has made great efforts in achieving them, the main objectives included the following

- .first strategic goal: support and achieve financial stability.1
- 2.second strategic goal: strengthening and enhancing the banking sector and financial institutions.
- 3.third strategic goal: development of the organizational structure of the Central bank
- .4. fourth strategic goal: development of human capital capacity
- 5.fifth strategic goal: activating and integrating internal and external relations.

First Strategic Goal : Support and achieve financial stability

Protection of the financial system

As a result of the bank's efforts, Iraq out of the list of countries subject to monitoring and follow-up, and the Middle East and North Africa Financial Action Group (MENAFATF) announced at its twenty-seventh meeting that Iraq had moved from the follow-up phase to modernization every two years, as the review team of the Financial Action Group (FATF) conducted a regional visit to Iraq for the purpose of ascertaining the core issues addressed by the anti-money laundering and terrorist financing office, which will lead to a stronger presence of the Iraqi financial and banking sector around the world, attracting foreign investments to Iraq .

Exchange rate stability at the target price for February 2018 to date and the elimination of the exchange gap between the official price and the market price through a set of technical mechanisms and daily analysis of the market movement and the behavior of the dollar demand taking into consideration the size of foreign needs and governmental spending..

-For following up the technical development in the field of combating money-laundering and the financing of terrorism and in implementation of paragraph (5. Article 9) of the anti-money Laundering and Terrorism Financing Act (No. 39) of 2015, the Money Laundering and Terrorism Financing Office has implemented the (12N) system for the purpose of exchanging information with local law enforcement authorities.

Enhancing the role of the Central Bank of Iraq in taking the necessary preventive measures in order to ensure a sound and stable financial system, the central bank of Iraq analyzed the indices of currency stability and bank performance indicators and analyzed some of the macroeconomic variables by observing and monitoring financial developments and economic crisis and to avoid financial crises and early warning reports for the banking sector were issued for 2018 .

Enhancing financial inclusion

Financial inclusion is one of the strategic objectives pursued by the Central Bank of Iraq, the international financial institutions, the International Monetary Fund (IMF), the World Bank and other international organizations, the Alliance for Financial Inclusion, to reach services to all segments of society, including marginalized and poor groups of financial services and products that are commensurate with their needs. They are provided with fair, transparent and affordable costs, and to encourage consumers of financial services to properly manage their money and savings, the central bank of Iraq has done the following :

The formation of the Higher Committee for Financial Inclusion on (30/5/2018), chaired by the Central Bank of Iraq, and the membership of a number of public and private entities that are preparing the national long-term strategic for financial inclusion, from which four executive subcommittees and a coordinating committee have emerged . These committees as follows

- .Small projects Committee.1
- . Committee Education and Consumer Financial protection.2
- .Infrastructure Committee.3
- .Survey Committee.4

For the purpose of spreading the culture of financial inclusion through the arrival of electronic payment services, the salaries of the state employees have been settled up to 2018 with 124 units of expenditure and the work continues to settle all expenditure units, which has reached the number of 130 spent units since the start of the project

Regarding awareness and banking culture.

The Bank has established the Arab day of financial inclusion for the period (25-30/4/2018), as brochures have been distributed to spread awareness and banking culture.

The establishment of workshops at the University of Technology in cooperation with the association of Iraqi private banks and all banks.

Establish workshops to enhance the concept of financial inclusion at Nahrain University.

Participation in the Baghdad International Fair (10/11/2018), which lasted (ten days), to educate the public and familiarize them with the concept of financial inclusion.

-To strengthen and integrate the financial inclusion hubs in Iraq through the Central Bank Initiative (6) trillion to finance small and medium-sized enterprises. The grants for the end of 2018 are as follows

:The (1) Trillion dinars initiative

25banks were awarded (32.5 billion), dinars in 2018, as the total number of the granted banks since the inception of the Initiative is (33) banks , thus bringing the total amount awarded since the inception of the initiative to the end of 2018 to (73,233,000,000) dinars that have been funded approximately (2415) projects and the operation of approximately 7,500 individuals.

The 5 trillion dinars initiative

Specialized banks and the Housing Fund have been granted (1,750,384,097,729) dinars since the initiative began and until the end of 2018, while the amounts awarded to specialized banks during 2018 is as follows :

Industrial Bank (86,528,000,000) dinars

Agricultural Bank (11,726,608,403) dinars

Real Estate Bank (65 billion) dinars

Housing Fund (135 billion)

Second Strategic Objective: enhancing and strengthen the banking sector and financial institutions

The Central Bank of Iraq is keen to establish and implement the principles of corporate governance in order to keep abreast of international developments and apply best practices in the banking sector by introducing structural, legislative and regulatory developments aimed at reducing the risks in the banking sector as investors tend to deal with banks with sound governance structures.

The aim of governance is to determine the nature of the relationship between the Board of Directors of the Bank and the executive management, thereby protecting the funds of depositors, shareholders and stakeholders, as well as focusing on disclosure and transparency, and in this sense the central bank of Iraq has prepared the corporate governance manual based on Relevant Iraqi laws and international standards issued by international institutions and bodies (IFC, International Finance Corporation, Organization for Economic Cooperation and Development OECD, Basel Committee on Banking Supervision, accounting and auditing body for financial and Islamic institutions, finance Islamic Service Council) IFSB to help banks to enhance overall and good governance frameworks

The central bank has provided the financial and Economic Committee of the Iraqi Parliament with all the monthly reports concerning the financial and banking sector, as well as the quarterly and annual reports for (2016-2020) central bank's Strategic plan.

In implementation of the bank's strategic plan in order to remain committed to the application of international best practices in the field of banking industry and International Financial Reporting Standards (IFRS), the bank has applied the international Financial Reporting Standard (No. 9) according to circulation no. (9/6/466) in (26/12/ 2018) to all licensed banks, to enhance the safety of banks ' financial centers and deepen their

transparency and disclosure concepts, ensuring that all banks should form an application committee composed of a group of members to ensure the success of the process of transition from IAS 39 to IFRS no.9.

Supporting and developing the Islamic banking industry

Islamic banks have imposed a new reality on the global banking market and bursting of takaful, sukuk and participation has penetrated the dictionaries of Western banks and Islamic banks have been able to introduce a new concept in banking transactions and for the purpose of supporting and developing Islamic banks in Iraq, the central bank issued the final version of the executive regulations governing the work of Islamic Banks as follows :

Issuing Islamic finance instruments controls

Issuing risk management controls in Islamic banks

Issuing the controls of Shariah Supervisory board, internal Shariah audit and Shariah compliance in Islamic banks.

The central bank has also formed a draft of takaful insurance regulation and formed a committee to finalize its final form in conjunction with the insurance court, and draft the Islamic investment Sukuk law and submit it to the State Council.

Support establishment of a deposit guarantee institution

The central bank, in line with its strategic plan sought to establish a deposit guarantee institution which is a cornerstone of the financial safety net to support citizens ' confidence in the banking sector and to guarantee their savings deposited with banks and to implement its strategic plan , the company's founding contract was signed with the founded assembly on (31/1/2018) as the government and private banks including the foreign as total of (44) bank divided as (6) government banks (22) Commercial Bank and (16) foreign bank as this company has a significant role in protecting the banking sector especially public deposits (individuals and companies) which enhances confidence in the banking sector in and out of Iraq and this will contribute to attracting more deposits and re-use them in credit and investment to serve the Iraqi economy.

Contributing to the development of financial markets

To enhance and strengthen the banking sector and financial institutions in managing the bank liquidity of banks (commercial and Islamic) and contributing to the development of the financial markets (the Iraqi monetary market), the bank has built a diversified structure of its securities for a period of one year and less and issue them through auctions of the bank and on the central deposit system for securities as follows:

Start issuing Islamic deposit certificates as a new investment window for Islamic banks in the management of liquidity in the banking sector, as the issuance plan for Islamic deposit certificates for the first half of the year 2018 for (14) days (15) auction where the total issued was (221.9 million) dinars

Issuance of new short and medium term financial products with changes in the rates of return, whether for central bank or Islamic and traditional deposit certificates, where a plan was issued at the Central bank remittance auctions for the fourth quarter of 2018 and with new deadlines (364,182) day by 4 auctions and reached a total issue (265 billion) dinars as a plan was issued for the auction of Islamic certificates of deposit for the fourth quarter of 2018 and with new deadlines (364, 182, 91, 30) day of 8 auctions and a total issue (171 billion) dinars

-The bank has also set up training courses for banks on the centralized securities depository system in relation to the use of the system and the day-credit service of banks.

Activating the government debt market

For the purpose of managing the public debt of the government by the Monetary Authority and financial authority, bonds were issued to the contractors ' dues after being audited by the Ministry of Planning and the federal Financial Supervisory office as well as issuing bonds for farmers ' dues on behalf of the Ministry of Finance

Continue the auctions of Treasury bills on the central deposit system of securities and according to the Ministry of finance bulletin in this regard and one auction per month.

Third Strategic Objective: Development of the organizational constitution and structure of the Central bank

Development of supervision oversight sector

In order to support the continuity of work in the banks, the central bank has instructed the business continuity management system in the Iraqi banking sector and the training of information technology and risk committees in accordance with the requirements of the international standard for Business Continuity ISO22301:2012 and the recommendations of Basel Committee according to the terms of its business (9/1 T/171) in (22/4/2018), and receive feedback from the bank on the application of these instructions

Review by the Bank the instructions and controls issued in conformity with the international standards issued by Basel Committee on Banking Supervision (3) in cooperation with METAC which was recently issued as follows:

The regulatory Action Guide which consists of risk management controls in traditional banks.

Controls on the capital adequacy standard as per Basel requirements (3)

Regulation regulating the work of the broker companies of sale and purchase of foreign currency no. (1) for 2018

Controls of Islamic finance instruments

Instructions and procedures issued by the Central Bank to regulate banking activity in Iraq including (branches of foreign banks)

Operational controls to regulate the work of Islamic banks

Instructions for the business continuity system in the Iraqi banking sector according to the international standard

Guidelines for the application of criterion no. (9) as well as the application of standard 16 since the beginning of 2019 and the classification whether it is effective and sufficient and a record of the economic risks affecting the work of the Central bank.

Central Bank Operations Performance Development

After meeting the requirements of the International Standard (ISO9001:2015) during the previous year, the Central Bank of Iraq obtained the certificate of Quality Management system in the field of cash management by the British Grants Authority (LMS Certification Limited), which is the world's most prevalent international standard (ISO9001) for systems Quality Management . This standard helps the bank to develop and control the quality of its operations in various fields.

Completion of the preparation of the BSRS program and the conduct of tests for linking banks with the central bank regarding the financial statements and auditing them.

With the aim of gradual transition to the centralization of accounts, the bank has completed the first phase of the standardization of the accounting operations of the currency selling window.

The bank has developed new sections within the banking control service including the banking and Risk Control Analysis section, the Real Estate Assurance Division and the Information Technology division in banks and financial institutions in accordance with international best practices in this area.

Strengthening and updating of infrastructures

The central bank has completed the installation process of (DocuShare) system from Xerox Company to update the electronic archiving of all bank operations and internal and external administrative correspondence.

For the purpose of developing the banking infrastructure, obtaining secure and fast channels of communication and maintaining the levels of reliability and compatibility of the banking network, the bank has completed the work of connecting banks by means of optical cable, as the project works on the establishment of a network of banking communications with cable technology at the central bank, connecting the main branches of all banks (governmental, private, foreign bank branches) and the Ministry with the central bank in its two branches (Al Rasheed – Al Jadriyah)

The central bank has completed a virtual private network (VPN) project with advanced specifications and devices, and protection and encryption levels that serve as key connecting channels for users of electronic systems and backup channels to support the banking network operating with optical cable technologies. It should be used by network participants if the main track of the network connection is discontinued.

To avoid partial and complete failures of systems and databases, the central bank has completed the development of data center infrastructure, database systems and applications for database operation and information and communication technology systems, as the project provides a backup platform and software

-The central bank is working on the qualification of its branches in Erbil and Mosul and preparing them for work through the maintenance and development of their infrastructure

The central bank has completed the establishment and management of the (National Switch) for retail payments through the use of cards to a number of banks after the completion of all administrative, technical and organizational procedures.

Fourth Strategic Objective: developing the capacity of human capital

The central bank has finished building its human resources competency matrix according to the best international practices of all its departments

The central bank, in accordance with its plan, is to strengthen cooperation and coordination with banking and financial institutions and academies, transfer knowledge, exchange experiences and provide banking and financial consultancy based on the best competencies and skills of specialized professors through the banking study center.

The professional certificates have had a significant share in the development and qualification of human capital in the central Bank of Iraq and the banking sector through the establishment of educational and awareness courses in coordination with international and local authorities specializing in the field of training, and from the professional certificates granted.

1. Certified Specialist in anti-money laundering and terrorism financing ACAMS in two courses during 2018
2. Chief auditor of the International standard for Quality Management system ISO9001:2015
3. Chief auditor, International Standard for Information security management system ISO/IEC 27001:2013
4. Chief auditor, International standard of Business Continuity Management System (ISO22301): 2012
5. Chief auditor, International standard of Information Systems Management System (ISO20000): 2011
6. Certificate of the president of the CIA certified internal auditor, two sessions during 2018
7. English language for the beginner level, three courses during the year 2018
- English language for intermediate level.8
9. English language/Business language

Fifth Strategic Objective: activating and integrating internal and external relations

The central bank has sought to strengthen relations and cooperation with international institutions and governmental institutions and to identify the functional areas where progress is needed for the purpose of reaching a level consistent with the international system of central banks. This cooperation has included a wide range of activities and events, as the bank provided joint training programs with the training centers of international organizations and central banks and the participation in specialized and advanced programs ensured the development of the job performance and capacity raising for the bank and effective participation in many seminars and conferences and the Bank has concluded twinning agreements for the purpose of building strong links with international organizations and institutions as described below :

Discuss and cooperate with the central banks and sign cooperation agreements with the central banks in Lebanon, Jordan and Egypt in the field of banking supervision

, Signing joint cooperation agreements with the World Bank International Monetary Fund (IMF) International Finance Corporation (IFC) to assess and develop the financial and banking sector in Iraq

Establishment of the national divider to reconcile inter-bank payments and increase electronic financial operations between banks, companies and citizens

Support the electronic collection of government departments and facilitate payment to citizens

Signing a Memorandum of understanding with the international Visa Company, MasterCard International, and Yonine-B International Company to support the financial inclusion strategy and the provision of electronic payment cards of citizens

Signing the Agreement of joint cooperation with the Arab Monetary Fund to develop a financial inclusion strategy

The central Bank of Iraq, in cooperation with the competent authorities in Kurdistan region has settled a high percentage of the of bank balances that had been held in the Kurdistan region in the past years during 2018 .

The central bank has finally activated the day-credit system to assist banks facing a liquidity crisis through the payment system and with guarantees acceptable to all parties

Lifting of sanctions on the central bank imposed by the European Union since 1994, which will re-communicate between the Iraqi banking system with the financial institutions and commercial companies in Europe

Signing of a joint agreement with the Iraqi Private Banks association to increase interaction with banks with the participation of an expert in banking affairs in the Board of Directors of the Central Bank of Iraq

Coordination with the Ministry of Finance in public debt management to support the budget and deficit financing during the financial crisis experienced by Iraq due to the decline in oil prices (national bonds were issued in the international financial market with a value of 2 billion \$)

Continued coordination with the Islamic Development Bank on loans and grants earmarked for financing infrastructure projects through coordination and follow-up of relevant ministries and providing the Islamic bank with special economic feasibility studies.