



## Credit Policy

## **Vision and Mission**

### **1. Vision:**

To be one of the leading Islamic banks in Iraq, excelling in meeting the financial and banking needs and aspirations of our customers. We aim to continuously improve and enhance our services, build distinguished relationships with our clients by offering the best services, keeping up with developments in the fields of finance, business, and banking, and embracing the digital technology era to provide the fastest and most advanced services.

### **2. Mission:**

We strive to always be the best and the closest to our customers by building relationships aimed at delivering the best service and cultivating loyal customers who are keen to maintain this relationship, as we are their preferred bank.

## **Policy Objectives**

- To invest deposit funds in Islamic financing operations that are compliant with Shariah principles, highly efficient, and involve minimal studied professional risks, in a manner that achieves the targeted return. This should be done in accordance with this policy and the policies and instructions set by regulatory authorities, the instructions issued by the Central Bank of Iraq, international standards, applicable laws, the bank's internal policies and procedures, and the risk policy. This includes ensuring the feasibility of the funded projects/activities and the customers' ability and willingness to repay within a competitive free market, without negatively impacting the targeted liquidity level.
- To respond to general economic conditions that affect the lending environment, whether positively or negatively, so that the expansion or contraction of credit granting is in line with prevailing conditions and any changes therein. This is based on identifying the targeted market segments and acceptable risk criteria, which will guide the bank's credit activities.
- To assist bank management in defining the general framework of rules and instructions that align with the bank's future vision, values, policies, objectives, and credit strategies.
- To assist and guide credit officers, control departments, and credit committees within the bank in performing their duties regarding credit activities. This includes defining areas of investment, financing purposes, and types of credit suitable to the nature of the funded project/activity, aiming to build, monitor, and manage a sound and well-studied credit portfolio.
- To help bank management establish standardized procedural models approved in advance that help in control and organization, with the goal of creating a consistent credit work environment. This includes practicing credit granting operations based on unified standard practices and in accordance with Islamic formats (e.g., Mudarabah, Musharakah, Murabaha, Salam contracts, Istisna'a, and Ijarah).

- To support bank management in monitoring credit activities and defining adequate levels of required supervision.
- To assist bank management in identifying the requirements of risk measurement systems, including their inputs and outputs, represented by:
  - An internal classification system for customer risk.
  - **An internal classification system for portfolio risk.**
- **To support stakeholders involved in the credit process within the bank in adopting sound practices in credit granting, ensuring continuity of credit with minimal default risk. This also helps in rationalizing credit decisions and providing appropriate financing to suitable customers, in alignment with their financial needs or funding gaps and consistent with repayment sources and methods.**

**In essence, the ultimate goal of Islamic banks is to achieve ethical, human, educational, social, and economic values. Therefore, financing is only granted after studying both key indicators: the customer and the project.**

### **Legislation and/or Amendment of the Policy**

To ensure that the policy remains aligned with the evolving operations of the bank, the instructions issued by the Central Bank, regulatory requirements, and the bank's view on credit risks, it must be reviewed annually and amended whenever necessary. All such amendments must be reviewed, approved, and issued by the Bank's Board of Directors.

### **Duties of the Board of Directors**

- The Board of Directors is the supreme authority on credit policy and is responsible, through its specialized committee, for:
  - Approving any amendments to the credit policy.
  - Deciding on credit transactions that exceed the authority of the Credit Committee operating under the delegated powers of the authorized executive.

## **Policy Interpretation**

If there are any inquiries or clarifications regarding the policy, they must be submitted in writing to the bank's executive management, which will respond directly or refer to the competent authority within the bank or to the relevant regulatory bodies, if necessary, to provide a response.

## **Credit Policy Exceptions**

Departures from this policy are not permitted unless absolutely necessary, for defined reasons, and for a specific limited duration. Any exceptions must end once the underlying reasons are resolved and must receive prior approval from the authorized authority.

## **Mechanism and Authority for Approving Exceptions**

1. All exceptions to the policy must be approved by the Senior Credit Committee, which reports to the Board.
2. The credit departments/branches requesting such exceptions must clearly and thoroughly explain the reasons and justifications in a formal written memorandum submitted to the committee.

## **Users of the Credit Policy**

All bank employees involved in initiating, reviewing, assessing, approving, executing, periodically reviewing, or following up on credit relationships—regardless of their job titles or positions—are required to strictly adhere to this policy. All such employees must be thoroughly familiar with the content of this policy and any amendments thereto.

## **General Principles and Basic Rules of Credit**

1. All credit operations (approval/renewal/amendment of facilities, settlements, exceptions, and non-performing accounts) must obtain the necessary administrative approvals as per the authority matrix approved by the Board of Directors, based on properly prepared credit studies using standardized and approved templates.
2. Credit facilities granted to Board members require the approval of both the Board and the Central Bank, regardless of the amount. This also includes cases where a board member guarantees another customer, in accordance with the prevailing regulatory guidelines and internal procedures.
3. The bank must maintain liquidity ratios in line with approved standards and the Central Bank's regulations, as well as minimum liquidity thresholds set by the Board.

4. Collaterals must be disclosed and evaluated according to applicable regulations, whether they are primary or additional securities. Once a facility enters non-performing status, efforts must be made to seek alternative support—through negotiations or by locating any movable or immovable assets of the customer or their guarantors—without waiting for formal classification as delinquent.
5. All customer-related information must be properly documented and stored in the system and physical files, with a focus on improving credit file quality based on the bank's standardized filing and documentation procedures.
6. Up-to-date and certified financial statements are required (for companies subject to corporate law), or verified financial disclosures for other clients. Exceptions are credit facilities fully backed by 100% cash collateral, government guarantees, or acceptable bank guarantees.
7. The bank must aim to maximize returns from credit investments in compliance with applicable laws, regulatory instructions, and decisions of the Board and/or senior management.
8. Input of risk ratings (RR) must be objective, with dual oversight by business and credit/risk management departments to ensure data accuracy.
9. Credit facilities must be based on the customer's ability to generate sufficient operational cash flows to meet obligations, not solely on the availability of collateral.
10. Facilities should only be extended to clients who demonstrate integrity, professional ethics, and a reputable character. The bank will not finance any customer whose dealings may negatively impact the bank's reputation.
11. Although guarantees are not a sole justification for granting credit, the bank will seek appropriate security as a last resort for recovering its funds. This requires verifying the value, authenticity, and marketability of the collateral based on established standards.
12. Risks in credit transactions must be acceptable, mitigated, and balanced with expected returns through proper risk mitigation techniques.
13. The client's creditworthiness and the true purpose of refinancing loans must be confirmed to avoid future defaults.
14. Clients' ability to withstand adverse conditions must be considered through stress testing of current and forecasted financial and qualitative data.
15. Appropriate credit conditions and customer covenants must be established to ensure timely repayment of credit and interest.
16. Early warning indicators and continuous credit monitoring mechanisms must be in place.
17. Comprehensive banking services should be provided to customers in alignment with the bank's relationship management plans, to serve both the bank's and the client's interests.
18. Credit repayment terms should be minimized where possible, taking into account the customer's cash flow and project objectives. Focus should be on short- to medium-term credit in line with approved credit durations.

Risk identification, measurement, mitigation strategies, and country risk considerations must be incorporated in all credit decisions, especially where external elements are involved.

### **Core Pillars Supporting the Establishment and Sustainability of Credit in the Bank**

- **First Pillar: (Credit Officers / Customer Relationship):**

This refers to managing the relationship with the customer through a single point of contact to meet their credit needs promptly.

- **Second Pillar: (Risk / Analysis / Credit):**

This involves studying and analyzing customer risks based on the approved standards.

- **Third Pillar: (Operations / Execution):**

This focuses on implementing credit transactions in accordance with credit decisions.

- **Fourth Pillar: Credit Management, Monitoring, and Supervision.**

- **Fifth Pillar: Management of Non-Performing Loans (NPLs), Follow-up, and Collection.**

Based on these pillars, an authority framework should be established to enhance and regulate the structures that govern credit management and approvals. This is achieved through the delegation of authority to committees or various administrative levels to ensure the prompt execution of credit transactions, meet customer needs, and deliver excellent credit services.

The **Credit Policy** serves as an umbrella that encompasses and is directly connected to the following components (and is to be read as an integral part thereof):

- Authority and Committee Framework.
- Risk Policies.
- Retail Credit Policy.
- Corporate Credit Policy.
- Procedures and mechanisms stemming from these policies.
- Systems, instructions, and laws issued by the Central Bank of Iraq, in addition to **International Standard No. 24**.
- Any supporting automated systems related to the credit process.
- Relevant laws and regulations.

### **Independence of the Credit Decision**

Credit granting decisions must be treated as **independent decisions**, meaning they must be free from any internal or external pressures or influences.

### **Minimum Requirements for Credit Officers**

Credit managers/officers must meet the **minimum acceptable standards** in terms of personal and professional characteristics, academic qualifications, integrity, experience, awareness, competence, and capability, in line with the bank's defined criteria. Departments concerned must work with the Human Resources Department to ensure these standards are met in their respective staff.

### **Distinguishing Between Profit and Usury (Riba) in Islamic Transactions**

1. **Profit** in Islamic banking results from the bank owning the commodity and selling it, while **riba (usury)** in conventional banks results from **lending money** and charging interest.

2. In Islamic transactions, profit is **not guaranteed** for the seller, who bears the risk by owning and selling the commodity. In contrast, in usurious loans, the **lender is guaranteed a return**, without bearing any business or market risk.
3. Profit is **charged once** in a sale, whereas riba may **accumulate multiple times**, potentially becoming exponentially higher.

### Prohibitions in Islamic Transactions

- The sold item must **not be gold or silver** or any monetary equivalents when sold on credit.
- **Gold must not be sold on installment**, as Islamic law requires **immediate hand-to-hand exchange** ("Yadan Bi Yad") when dealing with gold of the same kind.

## Definition

Term	Definition
Asia Islamic Bank of Iraq	The bank referred to in this policy.
Board of Directors	The board of directors of the bank.
Chairman of the Board	The chairman of the board or his delegate in credit matters.
Credit and Credit Risk Policy	The credit and credit risk policy of the bank.
Executive Management	The authorized managing director or their deputy.
Higher Credit Committee	A committee formed by the board concerning credit and credit risk.
Credit Committee	A committee authorized to approve credit within specific authorities and limits granted to the managing director.
Regulatory Authorities	The Central Bank of Iraq or other central banks regulating the bank's activity, in accordance with relevant commercial laws and IAS 24.
Customer	Any natural or legal person granted or proposed to be granted credit or who guarantees another customer's credit.
Guarantor	A natural or legal person who guarantees a customer with a collectible guarantee such as a salary or real estate collateral.
Qualified Holding	Any individual or entity intending to own more than 10% of the bank's subscribed capital.
Board Member	Any member of the bank's board, whether executive, non-executive, or independent.
Regulatory Capital	Total of elements defined by the Central Bank of Iraq for capital adequacy requirements.
Credit Concentration	Total credit granted to a single customer or group of related customers, as per regulatory limits.

## Credit Policy

Term	Definition
Credit Officer	Any employee or officer involved in the credit process at the bank.
Credit Products	A combination of credit facilities tailored to the customer's needs, funding gaps, and repayment ability.
Islamic Finance Instruments	Islamic finance tools such as Murabaha, Ijara, and Qard Hasan.
Customer Obligations	Total outstanding direct and/or indirect credit obligations of the customer, including those as guarantor.
Estimated Property Value	Appraised value of the property by the bank's approved expert.
Shared Property	Property owned jointly in shares, excluding demarcated apartments.
Market Value	Current market value assessed by certified bank appraisers, reviewed periodically to assess property risk.
Forced Sale Value	Property value in case of urgent/forced sale without waiting for market improvement.
Market/Sales Value	Average local sales price of similar properties at the appraisal date.
Creditworthiness	The ability to obtain credit; better creditworthiness allows for more credit, with a concentration limit of 25% of the bank's core capital.
Credit Limit	The credit limits granted or to be granted to the customer for direct and/or indirect credit.
Credit Restructuring	Rearranging credit facilities such as rescheduling installments, extending duration, or grace period.
Rescheduling of Facilities	Rescheduling non-performing facilities after agreement with the customer per regulatory instructions.
Guarantor's Obligations	Total obligations guaranteed by a specific guarantor, based on balances or limits (whichever is higher).
Group of Related Customers	Two or more persons/entities forming a single credit risk due to control, shared guarantees, common funding source, or similar reasons.
Real Estate Collateral	Legal mortgage granting the bank the right to sell the property if the customer defaults, and recover the debt.
Tangible Collateral	Transfer of ownership rights of certain materials to the bank as guarantee; includes precious metals, credit balances, and securities.
Personal Guarantee	A pledge by a known person to repay on behalf of the client, with submitted guarantee and past dealings.
Official Third-Party Guarantee	A commitment issued by a legal entity such as a state, governmental, or international institution.
Bank Guarantees	Letters of guarantee issued by banks.



Term	Definition
Borrower's Age	Must be at least 20 years old and not older than 60 at loan maturity.
Debt Burden	Total current and past obligations (direct and indirect) should not exceed 50% of monthly income.
Credit / Credit Facilities	Credit granted for a set term against repayment with profit and fees, or off-balance sheet obligations like guarantees and letters of credit.
Credit Classification	Classification of the credit portfolio based on credit quality, collateral, repayment performance, as per IFRS 9 and regulatory guidelines.
International Standard	International Financial Reporting Standard (IFRS) 9.
Profit	The difference between the actual purchase cost (plus expenses) and the deferred sale price in Murabaha or Ijara contracts.

## Credit Classification

### Based on the Regulatory Guideline

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Credit Classification	Description
<b>Excellent Credit</b>	Includes credit backed by highly liquid and easily realizable collateral such as <b>precious metals</b> (e.g., gold and silver), pledged <b>fixed deposits, savings accounts, stocks and bonds</b> (with at least double the credit value), <b>government guarantees</b> , or guarantees from <b>OECD banks</b> . These credits are <b>not subject to provisioning</b> until maturity.
<b>Good Credit</b>	Credit that is <b>not yet due</b> and involves <b>normal risk</b> , strong repayment sources, and financially sound borrowers. It must <b>not be renewed or rescheduled</b> . Includes <b>unfunded commitments</b> (off-balance-sheet credit), while any <b>drawn portion</b> of such commitments will be classified as per the appropriate section and date of drawdown.
<b>Moderate Credit</b>	Credit that is <b>due</b> but has <b>not exceeded 90 days past due</b> . Requires <b>follow-up</b> to prevent deterioration into non-performing credit.
<b>Substandard Credit</b>	Credit with overdue payments <b>exceeding 90 days but less than 180 days</b> , or any credit that has been <b>renewed or rescheduled once</b> from the date of renewal or rescheduling.
<b>Doubtful Credit</b>	Credit overdue <b>between 180 and 360 days</b> and <b>not repaid</b> , or credit that has been <b>renewed or rescheduled twice</b> from the date of the second restructuring. No further rescheduling beyond two times is allowed.
<b>Loss Credit</b>	Credit <b>overdue for more than one year</b> and deemed <b>uncollectible</b> .

## 2. Credit Classification According to IFRS 9 – Financial Instruments

### Stage 1: Performing Assets (Low Credit Risk)

Includes **on-balance sheet** and **off-balance sheet** financial assets that have **not experienced a significant increase in credit risk** since initial recognition and are considered to have **low credit risk** as of the financial reporting date.

**Credit risk is considered low if the following conditions are met:**

1. **Low probability of default.**
2. The **debtor has strong short-term ability** to meet obligations.
3. The **bank does not expect significant changes** in the economy or business environment in the long term that could adversely affect the debtor's ability to repay.

### Stage 2: Underperforming Assets (Significant Increase in Credit Risk)

Includes **financial assets on and off the balance sheet** that have experienced a **significant increase in credit risk** since initial recognition, but are **not yet credit-impaired** as there is **no objective evidence** of default.

- **Expected credit losses (ECL)** are calculated over the **entire remaining lifetime** of the financial asset.

**Key indicators for Stage 2 classification:**

1. Weak or lacking **cash flows**.
2. **Economic downturn** in the borrower's sector.
3. **Poor management** of the borrower.
4. No **positive or dynamic operational indicators** from the borrower.
5. Payment **delays of no more than 89 days**.

### Stage 3: Credit-Impaired Assets (Non-Performing)

Includes **non-performing** financial assets on and off the balance sheet that are **credit-impaired** and have **experienced a decline in credit quality** to the point of **default**.

- Expected credit losses are calculated over the **entire lifetime** of the financial asset.

**Key indicators for Stage 3 classification:**

- **Failure to meet obligations.**
- **Deterioration in financial statements.**
- Significant instability or deficiencies in management.
- **Legal issues or disputes.**
- **Delay in payments equal to or greater than 90 days.**

## Islamic Products Offered by the Bank to Customers

### Types of Murabaha

#### A. Banking Murabaha:

It is a type of trust sale in Islamic Sharia, where the price of the requested goods is determined based on the cost incurred, plus an agreed-upon profit between the buyer and the seller. It is also called Murabaha Order to Purchase.

**B. Personal Murabaha:**

These are goods purchased by the bank with ownership retained to ensure the transaction is Sharia-compliant after securing payment guarantees. This product benefits employees who need goods for personal use.

**C. Commercial Murabaha:**

It takes the form of credit ceilings agreed upon with the customer, where the bank determines the amount and finances the customer to use this credit ceiling to purchase needed goods through Murabaha.

**D. Murabaha on International Goods:**

This involves using surplus liquidity from individuals that is not invested and thus subject to Zakat annually. The bank buys goods from international markets with these funds and sells them to other parties in the same market at a higher price with deferred payment terms. This product is low risk with opportunities to achieve acceptable short-term returns.

**E. Documentary Credits by Murabaha:**

This service benefits traders and businessmen by financing the import of goods from international markets through opening documentary credits.

**Conditions of Murabaha**

The sale must be on actual goods, and selling cash via Murabaha is not permissible.

The seller may add any expenses incurred on the goods to the principal price.

The price should be in tangible currency, such as dinars.

**Murabaha Order to Purchase**

This is when a buyer requests another party (e.g., the Islamic bank) to purchase a specific good and promises to buy it from them at an agreed profit. The requester is called the "Orderer," and the other party (the bank) is the "Agent" or seller.

**Stages of Composite Murabaha:**

A. A promise from the Orderer to the Agent to purchase the good after the agent owns it (preventing the sale of what one does not own).

B. The first sale contract between the Agent and the original owner.

C. The second sale contract between the Orderer and the Agent.

**Conditions for Murabaha Sale under Order to Purchase**

The value of the goods in the first purchase must be known to the Orderer, including all expenses.

The profit must be known to both parties, as it is part of the price.

The first contract must be valid and free of any Sharia defects.

The price in the first contract should not involve riba (usury)-based funds.

If any condition is violated, the buyer has the option to:

Accept the sale as is,

Request a reduction,

Or cancel the contract.

### **Validity Conditions for Murabaha under Order to Purchase**

The Orderer is not obligated to fulfill the promise.

The buyer has the choice to accept or reject the agreed sale.

Banks take guarantees such as checks to ensure payment.

The customer pays a percentage of the goods' cost as a down payment (called "Earnest Money" or "Margin of Seriousness") before the bank purchases the goods.

It serves the interest of buyers who cannot pay upfront and need a mediator to buy goods on deferred terms with an added profit.

Although some consider this a substitute for bank interest and possibly suspicious of riba, it is considered a general interest contract that provides public benefit by the bank purchasing the goods and then selling them at cost plus agreed profit.

**Earnest Money:** An amount paid by the Orderer upon the Agent's request, refundable to the seller for actual damages caused by selling below cost.

### **Ijarah (Lease) Ending with Ownership**

A lease contract that ends with the lessee owning the leased asset, in exchange for lease payments made during a specified period, without the need for a new contract. The lease automatically converts to a sale at the end of the term.

#### **Conditions of Ijarah:**

The bank must own the leased asset with physical possession to enter into a lease contract.

### **Qard Hasan (Benevolent Loan)**

An interest-free loan fully compliant with Islamic Sharia principles to assist customers in overcoming financial difficulties without exploiting their need. The bank does not seek material gain from this service.

### **Internal Guarantees Letters**

#### **Guarantee Letter:**

A commitment issued by the bank upon the request of a customer or orderer to pay a specified or determinable amount to a natural or legal person called the beneficiary, unconditionally when requested.

#### **Guarantee Letter Limits Relative to Bank Capital**

Representing 100% of the bank's capital,

150% for banks not engaged in documentary credits.

If these limits are exceeded, issuing a guarantee letter requires 100% cash collateral held at the Central Bank of Iraq and released only after the guarantee is no longer needed.

#### **Credit Concentration for Customers**

Customer's credit concentration shall not exceed 10% of the bank's capital and sound reserves.

Applies to all granted credits, both cash and contingent.

#### **Parties to the Guarantee Letter**

Guarantor: The bank issuing the guarantee.

Orderer: The natural or legal person (customer or correspondent bank) who requests the guarantee.

Beneficiary: The party in whose favor the guarantee is issued or named.

#### **Maximum Value of Guarantee Letter**

Determined by the bank's GAMEL rating and shall not exceed credit concentration limits.  
For example, with a rating of A3, the bank can issue up to 10 billion IQD per guarantee letter.

#### **Cases of Issuance**

Internal request for benefit of entity inside Iraq.

Internal request for benefit of entity outside Iraq.

External request for benefit of entity inside Iraq.

### **Duties and Responsibilities of the Credit Department and its Related Divisions**

#### **Credit Management**

- 1- The Credit Department is divided into several divisions, each assigned specific tasks and operating within the Credit Department management. Its purpose is to receive credit applications, which are then submitted to the Credit Management. This management is responsible for studying the credit file (at a micro level), reviewing, and streamlining credit studies and recommendations. This includes the study of credit transactions, examination, verification, and validation of the principles upon which these transactions are based. Recommendations are then raised, especially for clients classified as major companies and SMEs, based on their assets. These tasks precede the credit committee decisions. Additionally, there are supervisory duties related to monitoring and following up on dues, violations, guarantees, and risk mitigators that come after credit decisions. This department plays a fundamental role in managing credit portfolios at various levels (sub-portfolio and total portfolio), coordinating with the bank's management, setting credit limits, identifying violations, and reviewing credit policy with stakeholders at the overall level.
- 2- Divisions Associated with the Credit Department
- 3- To achieve fast work completion and provide the best services to customers easily and confidentially, the divisions handling facilities have been organized as follows:
- 4- 1. Cash Credit Division and Localization Division
- 5- These divisions are responsible for studying and managing customers' cash credit facilities according to the approved definitions, including but not limited to:
- 6- Duties and Responsibilities
- 7- Credit Granted to Individuals
- 8- Receiving and meeting the customer to identify their needs.
- 9- Understanding the customer and the reason for requesting credit.
- 10- Structuring credit facilities to meet the customer's financial needs while ensuring repayments are within the customer's financial capacity in terms of amount and timing.
- 11- Studying the indebtedness of the customer and guarantor (direct and indirect current liabilities should not exceed 50% of the monthly income, supported by official documents such as salary, rent, or a personal budget prepared by the Iraqi Accountants Syndicate).
- 12- Conducting inquiries about the customer and guarantor at the Central Bank of Iraq.
- 13- Collecting and analyzing necessary data regarding the sector in which the customer operates.

- 14- Checking the customer and guarantor against international or local sanctions lists.
- 15- Taking appropriate guarantees and comparing them with the granted credit.
- 16- Preparing the credit study according to customer requirements.
- 17- Preparing a file containing all the above information along with personal documents (Unified ID card, passport, residence card for borrower or guarantor, and all legal documents used to document the credit facilities and guarantees). These documents must be legally certified to be binding on all parties, enforceable in all competent courts, registered with the relevant official departments if available, or notarized in contracts or similar documents ensuring the right to liquidate and/or own and/or possess the asset (guarantee) within a reasonable timeframe in case of customer default, insolvency, bankruptcy, or breach of agreed conditions considered a failure event.
- 18- Including a checklist in the file.
- 19- A signed contract from the borrower or guarantor and the bank's authorized manager, according to the product nature and official contracts approved by the bank.
- 20- After completing all the above, the file is submitted to the bank's credit manager for study and signature, then forwarded to relevant departments (first risk, then internal audit, then awareness), and finally to the bank's credit committee.
- 21- Regularly visiting the customer to monitor their current status, future projects, visit warehouses, and inspect inventory.
- 22- Following up on how facilities are utilized.
- 23- Following up on repayment methods.
- 24- Following up and completing credit documentation within responsibilities.
- 25- Monitoring violations and dues of the customer to assess their status.
- 26- Monitoring unused credit limits and encouraging customers to utilize them through visits and offering advice.
- 27- Monitoring due dates of facilities and renewing them on time.
- 28- Organizing and updating basic customer data.
- 29- Developing a business plan and budget estimates according to targeted sectors.
- 30- Conducting market studies related to the corporate sector to understand its requirements.
- 31- Adhering to credit risk ceilings and being familiar with the customer's sector and industry currently and in the future, including their risks, competitive strength, and added value in their working field both as a sector and industry. Also, understanding the maturity level of the product/industry/sector.
- 32- Commitment to approved unified models in the credit process and the unified study methodology in financial and credit analysis and the credit process in general.
- 33- All granted credit facilities must have at least one independent source of repayment, which may include the second party to liquidate the guarantee.
- 34- The purpose of the credit must be justified, legally legitimate, and consistent with the credit policy and credit risks.
- 35- Credit Granted to Companies
- 36- Receiving and meeting the customer to identify their needs.
- 37- Understanding the customer and the reason for requesting credit.

- 38- Structuring credit facilities to meet the customer's financial needs while ensuring repayments are within the customer's financial capacity in terms of amount and timing.
- 39- The company's articles of incorporation and bylaws must include the right to borrow, and the authority of the authorized manager or board of directors to borrow should be limited by a percentage of the company's capital or not exceed 300% of the company's capital if unlimited borrowing phrases are stated in the bylaws without specifying a percentage. If a borrowing percentage is specified, it must cover the company's obligations to the bank and the banking system.
- 40- If the guarantee provided for the facilities is registered in the company's name, the manager must have the authority to mortgage movable and immovable assets.
- 41- Verify the manager's authority, company capital, and shareholders' names by submitting the latest certification of the company issued within the financing year.
- 42- Provide certified financial statements from the legal accountant for the last two financial years.
- 43- Check the company, authorized manager, and shareholders against international or local sanctions lists.
- 44- Study the company's indebtedness through the last two years' financial statements prepared by the Iraqi Accountants Syndicate.
- 45- If accounts receivable are high, investigate reasons such as difficult-to-collect debts or funds not yet due per the financial statements.
- 46- Study accounts payable and reasons for their balances.
- 47- Conduct inquiries about the customer and guarantor at the Central Bank of Iraq.
- 48- Collect and analyze necessary data about the customer's sector.
- 49- Take appropriate guarantees and compare them with the granted credit.
- 50- Prepare the credit study according to customer requirements.
- 51- Prepare a file including all the above data and personal documents (Unified ID, passport, residence cards of the manager and shareholders, and all legal documents used for credit documentation and guarantees). Documents must be legally certified, binding, enforceable in competent courts, registered with relevant official departments if available, or notarized, ensuring the right to liquidate and/or own and/or possess the asset (guarantee) within a reasonable timeframe in case of customer default, insolvency, bankruptcy, or breach of agreed conditions considered failure.
- 52- Include a checklist in the file.
- 53- Signed contract from the authorized manager or bank's authorized manager according to product nature and official contracts approved by the bank.
- 54- After completing all above, submit the file to the bank's credit manager for study and signature, then forward to relevant departments (risk, internal audit, awareness), then to the bank's credit committee.
- 55- Regular visits to the customer to monitor status, future projects, visit warehouses, and inspect inventory.
- 56- Follow up on facility utilization.
- 57- Follow up on repayment methods.
- 58- Follow up and complete credit documentation within responsibilities.
- 59- Monitor violations and dues to assess customer status.



- 60- Monitor unused credit ceilings and encourage usage through visits and advice.
- 61- Monitor facility due dates and renew timely.
- 62- Organize and update basic customer data.
- 63- Develop business development plans and budget estimates according to targeted sectors.
- 64- Conduct market studies related to the corporate sector to identify requirements.
- 65- Adhere to credit risk ceilings, understand the customer's sector and industry, their risks, competitiveness, and added value, and product/industry/sector maturity level.
- 66- Adhere to approved standardized models in the credit process and unified methodology in financial and credit analysis and credit processes.
- 67- All credit facilities must have at least one independent repayment source, possibly including the second party to liquidate the guarantee.
- 68- The purpose of the credit must be justified, legal, and consistent with credit policies and risks.

### **Matters to Consider for Renewal or Requesting Additional Credit**

In addition to what has been mentioned above, great caution should be exercised when determining the size and structure of credit facilities. It is important to assess the customer's ability to obtain additional facilities, service them, and their capacity to increase capital when necessary to meet any circumstances.

### **Recommendations and Approvals**

After completing all the above, the file is submitted from the Cash Credit Division to the Credit Department Manager for review and issuance of the granting recommendation. It is then forwarded to the supervisory departments such as Internal Audit and Risk Management, followed by the Awareness Department, and then to the Credit Committees and the Sharia Board for issuing the decision within the scope of the authorized manager's powers.

For credit requests beyond the authorized manager's powers, all the above procedures are carried out, and the recommendations are submitted to the authorized manager for escalation to the bank's Board of Directors for a final decision.

### **Guarantee Letters Division**

#### **Duties and Responsibilities Assigned:**

1. Receiving the customer.
2. Verifying the official status of the customer.
3. Obtaining a request from the customer along with the related tender referral issued in the customer's name or the tender announcement in case of participation in the tender.



4. Ensuring that the customer has a current account in one of the bank's branches.
5. If the guarantee letter is for a company, the company's Articles of Incorporation and bylaws must include the issuance of guarantee letters. The authorized manager or the person empowered by the company's bylaws must have the authority. If an agent represents the company, the company must provide a valid notarized power of attorney explicitly stating the agent's right to withdraw, deposit, and issue banking guarantees or guarantee letters without ambiguity.
6. Conducting inquiries about the customer at the Central Bank of Iraq and screening against international and local sanctions lists.
7. Collecting guarantees according to the regulations and instructions of guarantee letters issued by the Central Bank (No. 9/390/ح dated 09/10/2022), which are amended as per instructions issued by the Iraqi Bank and are binding.
8. Collecting cash deposits of at least 15% of the letter amount in case of tender participation, and commercial papers covering 85% (check or promissory note), according to the conditions of the check and promissory note stated below.
9. For performance bonds or operational advances up to 150 million IQD, collect a minimum cash deposit of 15% of the letter amount and commercial papers of 85% (check or promissory note) as per the conditions below.
10. If the letter amount exceeds 150 million IQD and is for operational advance, performance bond, or any other reason, guarantees must be collected according to the conditions specified in the issuance regulations of guarantee letters numbered 9/390/ dated 09/10/2022.

Amount Range	Minimum Cash Collateral	Minimum Mortgages	Minimum Commercial Papers	Notes
151 million – 1 billion IQD	15%	55%	30%	The check must be from another accredited bank, in addition to the promissory note covering at least 110% of the guarantee amount.
More than 1 billion IQD	15%	60%	25%	The check must be from another accredited bank, in addition to the promissory note covering at least 110% of the guarantee amount.

- 1- Regarding the taking of real guarantees (mortgages), the following conditions must be met for each type of guarantee:
- 2- Ensure that the collateral amount is deposited into the current account before issuing the guarantee letter.
- 3- If the guarantee letter is joint for more than one principal, it is required that all parties have a bank account, and all parties must meet the condition mentioned in item 5 above concerning the Articles of Incorporation, internal regulations, and the authorized manager's powers. The bank must be authorized to withdraw the collateral and commissions from the specified account.
- 4- If the guarantee letter is for a foreign company, the following conditions apply:
- 5- If the company is registered in Iraq and operates within Iraq, it is treated the same as Iraqi companies.
- 6- If the company is not registered in Iraq, a 100% collateral deposit is required.
- 7- A minimum cash collateral of 15% of the guarantee amount must be collected in case of tender participation or for performance guarantees or operational advances up to 150 million.
- 8- For performance guarantees, operational advances, or personal guarantees, except for tender participation only and amounts less than 151 million, guarantees must be collected according to the regulations for issuing guarantee letters numbered 9/390/ dated 9/10/2022.

Minimum Cash Collateral	Minimum Mortgage Collateral	Minimum Paper Collateral	Parent Company Guarantee
151 million – 1 billion	15%	55%	30%

**Back-to-Back Letters of Guarantee** shall only be accepted from foreign banks with a credit rating of no less than **BBB-**, in accordance with the instructions of the Central Bank of Iraq.

14. After obtaining and verifying all the above-mentioned requirements, the request must be submitted exclusively by the person legally authorized for the transaction, in accordance with the internal meeting minutes and the authority granted to them for issuance—or by their proxy under a valid notarial power of attorney. The power of attorney must clearly and explicitly state, beyond any ambiguity or doubt, that the agent has the right to withdraw, deposit, and issue bank guarantees or letters of guarantee.

- The total liabilities of the company must not exceed 300% of its capital.
- The customer must be checked with the Central Bank of Iraq and through local and international watchlists.
- The request must be received by the Credit Department employee, accompanied by the referral or announcement.
- Collateral guarantees, such as real estate mortgages and shares, must be obtained prior to the issuance of the letter.
- Ensure that deposits, cash guarantees, and all fees are deposited into the company's current account.
- The contract shall be filled out by the relevant employee in the Letters of Guarantee Section.
- Guarantees (promissory note and check) must be authenticated by the bank's Legal Department.
- The contract must then be signed by the customer.
- A complete file containing all the above requirements shall be compiled.
- All guarantees, fees, and stamp duties must be collected in full before issuance.
- The file shall be submitted by the Head of the Letters of Guarantee Section to the oversight departments (Risk and Internal Audit) for review and recommendations.
- The file is then submitted to the bank's Credit Committee for approval of the issuance.
- After review by the oversight departments and the Credit Committee, the information is uploaded to the Letters of Guarantee Platform by the authorized employee with personal user access.
- The information is uploaded via the platform to the Director of the Compliance Department according to platform procedures, and then submitted to the Central Bank of Iraq for approval.
- An electronic certificate is then printed by the platform in the bank's official format. This certificate bears the document serial number at the time of printing, which is different from the letter of guarantee number.
- The certificate is signed by authorized personnel: the Director of the Credit Department (or their representative) and the Authorized Manager (or their representative).
- The certificate is stamped with the thermal seal and the official stamps of the Credit Department and the bank's General Administration, along with the stamp duty seal. A red imprint (jokar) is also applied, indicating the guarantee amount and currency.
- The letter of guarantee is followed up after issuance to monitor its maturity date or any extension requested by the beneficiary

### Stages of the Letter of Guarantee

- **Extension of the Letter of Guarantee**  
The letter of guarantee is extended upon receiving an official request for extension from the beneficiary **prior to the maturity date or on the maturity date before the end of official working hours**. Otherwise, it will be considered canceled from the department's records. The extension must be processed through the official Letters of Guarantee Platform.
- **Cancellation of the Letter of Guarantee**  
The letter is officially canceled and is no longer considered a liability of the bank **at the close of business on its maturity date**, as indicated on the issuance certificate. Any request for extension or confiscation after this point is considered non-binding and legally invalid. The guarantees shall be refunded exclusively to the account from which they were originally withdrawn. Cancellation must be processed through the Letters of Guarantee Platform.

- **Release from the Letter of Guarantee (No Longer Needed)**  
The letter is considered no longer needed only **after the original guarantee certificate is returned** by the beneficiary, clearly **stamped as no longer needed** by the relevant department, and **signed by the authorized representative**.
- **Confiscation of the Letter of Guarantee**  
Confiscation is considered legally valid if the bank receives the official confiscation notice **prior to the maturity date or on the maturity date before the end of official working hours**.
- **Prohibitions and Compliance Measures During Issuance, Validity, and Extension**
- The bank is **not permitted to split** a letter of guarantee for the **same project**.
- **Extension commissions must not be deducted** from the letter of guarantee's security deposit unless the guarantee has been officially canceled in the bank's records, **all due commissions have been collected**, and **the security has been refunded to the customer's account**, along with **any outstanding dues settled**.
- **No valid letter of guarantee may be canceled at the request of the applicant during its validity period**.

### Budgets and Standards Division

- Prepare and reconcile balances related to monthly and quarterly budgets in accordance with the requirements of the Central Bank of Iraq.
- Prepare monthly reports detailing the activities of the Credit Department, including:
  - Number of contracts issued.
  - Types of credit products granted.
  - Outstanding balances of delinquent accounts.
  - Legal ratios such as the credit-to-deposit ratio.
- Submit the bank's balances to the Central Bank on a weekly basis through the dedicated Central Bank platforms.
- Work directly with the individual responsible for IFRS 9 (International Financial Reporting Standard 9) by:
  - Providing all necessary data and requirements.
  - Ensuring the results match the outputs of the financial system.

### Credit Follow-up and Recovery Division

- Identify and classify non-performing loans (NPLs) according to banking standards and the Central Bank of Iraq's guidelines, detailing each client's debt separately.
- Develop an annual recovery and credit resolution plan.
- Follow up on delinquent loans through all available methods, applying treatment strategies appropriate to each debt case.
- Study all requests and matters related to NPLs from various angles, including obligations, guarantees, financial capacity, actions taken, and proposed or possible solutions. Evaluate their suitability for the bank's interest, and submit opinions/recommendations/decisions to the Settlements Committee per the approved authority framework.

- Transfer debts approved for legal action to the Legal Department, prepare required documentation, and continue following up on legal procedures.
- Maintain files for clients under repayment arrangements.
- Initiate foreclosure proceedings on real estate guarantees upon decision, in coordination with the Real Estate Department.

### **Credit Inquiry Division**

- Conduct credit checks on customers through the Central Bank of Iraq.
- Upload and update customer data on a daily and monthly basis in line with the Central Bank of Iraq's instructions and circulars.
- Staff members in this division have official user access approved by the bank and the Central Bank, with permissions granted per each user's role.

Policies on Sharia-Compliant and Banking Guarantees for Financing Formats

Sharia permits obtaining sufficient guarantees to recover debt and protect against negligence, misconduct, or betrayal of trust.

Types of Guarantees and Their Features:

### **Mortgages**

Refers to transferring ownership rights of an asset to the bank as a guarantee. The bank takes ownership in case of borrower default.

#### **1. Residential Property Mortgage**

- The property owner must be of legal age and not a minor.
- Property must not be shared with more than two people.
- The owner's share must be documented in a separate title for an independent housing unit.
- Co-owners must be checked against local and international sanctions lists and with the Central Bank of Iraq.
- Property is appraised by a certified private evaluator and real estate registration committees, documented on the official bank mortgage form.
- Maximum loan-to-value ratio is 60% of the fair value = (valuation controls + real estate registration value) / 2.
- Must be a first-degree mortgage (senior lien).
- Mortgage duration is unlimited.
- Beneficiary of the facility must be recorded in the loan deed.
- The property owner must attend in person or send a legally authorized agent (power of attorney) with a clear, unambiguous authorization for mortgaging the property.
- Financing may be granted to a third party if the owner signs and consents in person on the mortgage form at the bank.

#### **2. Commercial Property Mortgage**

- Same rules as residential mortgage apply:
  - Owner must be of legal age.
  - No more than two co-owners.
  - Independent title deed required.

- Sanctions and Central Bank screening of all co-owners.
- Appraisal by approved experts and registration committees, using the official bank form.
- Maximum financing is 60% of the fair value as defined above.
- Must be a first-degree mortgage.
- Duration is unlimited.
- Facility beneficiary must be named on the loan deed.
- Property owner must appear in person or be legally represented to execute the mortgage.
- Financing to a third party is allowed with the owner's written consent and presence at the bank.

### **1. Precious Metals (Gold)**

- Customer must be checked against local/international sanctions lists and with the Central Bank of Iraq.
- Gold must be inspected by the bank-approved expert jeweler.
- Valuation is based on type (Iraqi, Gulf, etc.) using a specific form signed by the authorized officers (Risk Manager, Credit Manager, or their legal delegates) and the Managing Director or delegate.
- Valuation is based on the global gold price on the assessment day, and the form must include net/gross weight, gold type, karat, and total value.
- Financing is granted at 60–70% of the gold value  $\pm 10\%$ , per the Credit Committee's decision.
- Gold is sealed in fabric bags with the bank's logo, tied and wax-sealed. It may only be opened in the customer's presence when the lien is lifted or if the bank sells the gold due to default.
- Sale is limited to the amount of the debt; any surplus is returned to the treasury until the customer collects it via an official handover record.
- The customer signs an authorization allowing the bank to sell the gold after missing three consecutive monthly installments.

### **2. Credit Balances (Bank Deposits)**

- Deposit must be held with the bank or an approved external bank.
- Customer is checked against local/international sanctions lists and with the Central Bank of Iraq.
- The financing can be to the depositor or another person, with the depositor's consent and presence.
- Deposit is officially blocked in favor of the bank, and unblocked only upon an official bank request in the presence of an authorized representative.
- Block is lifted only after full repayment of liabilities to the bank.

### **3. Securities (Shares)**

- Only listed shares on the Iraq Stock Exchange are accepted; unlisted companies are excluded.
- Financing is granted at 30–70% based on the average of the last three trading prices.
- The share price, company performance, and market position are considered.

### **4. Checks**

- As per Central Bank of Iraq Instruction No. 9/D/390 dated 02/10/2022, checks are accepted as a guarantee when issuing letters of guarantee.

- The check must be from an approved Iraqi bank (not the lending bank).
- It must be issued by an authorized person (e.g., managing director or legally authorized agent).
- The check amount must be at least 100% of the guarantee amount.

#### **5. Promissory Notes (Bills of Exchange)**

- A promissory note is taken for every credit transaction (e.g., guarantees, Murabaha, or Qard Hasan) from the borrower and guarantors.
- The value must not be less than 110% and not more than 125% of the financing (including profits).
- It must be signed by the bank's legal officer and an authorized employee; the borrower and guarantors must provide a left thumbprint.

#### **6. Personal Guarantees**

- A guarantee by a person with prior dealings with the bank and an existing acceptable collateral, committed to repaying in case of customer default.
- Conditions:
  1. Guarantor must be a bank customer with strong history and valid collateral.
  2. Must demonstrate financial capacity via a one-year cash flow analysis.
  3. Must not appear on local or international blacklists.
  4. Background check with the Central Bank to verify financial commitments.
  5. The guarantee remains until full repayment. The guarantor is liable for any costs incurred due to customer default, per the financing agreement.
  6. Guarantor is released upon full settlement by the customer.

#### **7. Government Employee Guarantee**

- Conditions:
  1. Guarantor must be 25–60 years old by loan maturity.
  2. All liabilities must not exceed 50% of the guarantee amount.
  3. Must provide official employment verification, including gross/net salary and name of the person being guaranteed.
  4. Guarantor is screened through the Central Bank.
  5. Upon completing steps 1–4, the employer must confirm the documents using the official bank format.
  6. Guarantor must appear in person with original IDs, review the contract, and sign with a thumbprint and promissory note.
  7. The guarantee remains until full repayment; the guarantor is liable for all default-related costs.
  8. Guarantor is released after full repayment by the borrower.

#### **8. Tripartite Guarantee**

- A type of government guarantee similar to a government employee guarantee (conditions 1–8 above).
- Three borrowers guarantee each other within a group, each pledging their salaries and mutually guaranteeing each other's loans.

### **9. Salary Domiciliation**

- A government employee officially transfers their salary to the bank.
- After a minimum of two months, financing can be granted using the salary as collateral.
- No personal guarantor is needed, but a promissory note is required per the conditions listed above.