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## The Role of the Capital Adequacy Criterion in the Supervisory Control of the Central Bank of Iraq on the Specialized Banks

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### Abstract

*Performance evaluation has become one of the most important factors that contribute to the success of any economic unit. Due to the vital role played by economic units in their various forms, areas of work and objectives in the national economy, the need to study the capital adequacy criterion, which is used as a supervisory control by the bank Central Bank of Iraq in assessing the performance of banks in order to protect deposit funds by taking a minimum capital to prevent the risk that may result from credit risks and protect banks from exposure to real problems as a result of bankruptcy or lack of liquidity, The use of the capital adequacy criterion in evaluating the performance of specialized banks adversely affects their ability to achieve their development objectives, because the use of this standard leads to Disruption of part of the bank's own resources on which the banks specialized in the provision of credit development, which differ from the sources of funds of commercial banks that rely primarily on deposit funds and this is what the standard aims at the application, which leads to the provision of false data on the evaluation of the performance of these In order to prove the above problem, the research was based on the hypothesis that the capital adequacy criterion negatively affects the banks' specialization of their developmental objectives. The main objective of the study was to highlight the requirements of supervisory supervision and capital adequacy standard as one of its important tools In the performance evaluation process, the researcher assessed the performance of the specialized banks with the capital adequacy criterion and then commented on the results and their impact on the possibility of achieving the developmental objectives of the specialized banks. The research concluded with a number of conclusions, the most important of which is that the capital adequacy criterion is not compatible with the nature and objectives The study recommended a set of recommendations that the concerned authorities should perform when evaluating the performance of the evaluation of the performance of the three sectors (agriculture, industry, real estate)*

## **Introduction**

Performance evaluation is one of the most important fundamentals that contribute to the success of economic units, companies, and various productive and service institutions. The better the economic performance of the unit, the closer to achieving its objectives. The greater the interest in the concept of performance evaluation, Specialized banks as one of the most important tributaries of the Iraqi banking system, which contribute to the process of economic development by providing the necessary funds to raise the levels of economic development of the three sectors of the industrial sector and Agricultural and real estate, so it is necessary to evaluate the performance of these banks to determine the levels of performance and know what they need these banks The objectives of the specialized banks on the objectives of the comprehensive commercial banks require that their performance be assessed with indicators commensurate with the objectives of their establishment. This research consists of four topics. The first is a section to the research methodology through which the research problem, its importance and objectives will be mentioned. Research and adaptation to the research sample and its community and the scientific method of research and style Data collection The second section is a collection of previous studies enriched the research in theoretical and scientific aspects on the one hand and on the other highlighted the current research site among the other research listed as previous studies, the second section represents the theoretical framework of research, the first part of which is a study of the criterion of adequacy The third part is a practical framework to prove both the existence of the problem and its hypothesis. Finally, a number of conclusions were identified and recommendations were proposed for them in the fourth topic of the research.

## **Methodology of research**

### **1- Research problem**

The problem of research is that there is a conflict between the objectives of the capital adequacy standard when it is used as a supervisory control requirement and the developmental objectives pursued by specialized banks. The capital adequacy criterion seeks to reduce the risks that the bank may face through exposure to credit risk, The banks must maintain a fixed percentage of capital which must be not less than (12%) towards the provision of credit, which leads to the disruption of part of the funds that specialized banks seek to direct them towards specialized development credit, which leads to the inability of these banks to Achieve its objectives Development in its laws.

## **2- The importance of research**

The importance of research is highlighted by the specificity of sources of financing of specialized banks which seek to grant specialized development credit through them, as well as the role played by supervisory supervision requirements in evaluating the performance of these banks through their role in the development of the economic sectors, And real estate

## **3- Objective of the research**

- a. Definition of Capital Adequacy Index.
- B. Review the supervisory control requirements of the Central Bank of Iraq to assess the compliance and compliance of banks operating in Iraq.
- C. Evaluating the performance of the specialized banks in the Capital Adequacy Index and showing the impact of this indicator in achieving the objectives of these banks.
- D. Put the research results in the form of data to be used by the relevant parties.

## **4- The hypothesis of research**

The research is based on the following hypothesis:

The use of the capital adequacy standard as a supervisory control requirement for the CBI negatively affects the achievement of the objectives of specialized development banks.

## **5-Community and research sample**

The banking system in Iraq is a research society. The specialized banks in the capital Baghdad represent the sample of the research, which is as follows:

- a- Iraqi Industrial Bank.
- b- Agricultural Cooperative Bank.
- c- Real Estate Bank.

## **6-Spatial and temporal boundaries of research**

### **a. Spatial boundaries:**

The general departments of the specialized banks represent the research sample of the spatial boundaries of the research.

### **B. Time limits:**

The financial statements of the specialized banks, the annual reports of the banks and the years (2010-2012) represent the research time limits.

## **7-Methods of data collection**

A number of books, researches, papers and university letters have been utilized in the maturation of the theoretical side of the thesis as well as the supplementary laws and instructions for the research study, which were obtained from the sample banks and the Central Bank of Iraq. Necessary to enrich it.

## **8- Method of research**

a. The descriptive and historical approach / on the theoretical side:

To rely on a set of scientific books that dealt with the concepts of evaluation, evaluation and performance and traditional financial indicators for assessing banking performance as well as specialized banks, as well as research on higher diploma, master's thesis and doctoral dissertations related to the subject of research and periodicals, and finally the international network of information.

B. Analytical and quantitative approach / in the practical aspect:

The researcher adopted this approach to analyze the nature and indications of traditional financial indicators and test them.

## **The second subject / theoretical framework of research**

### **First Pillar: Capital Adequacy Standard**

1- Capital adequacy: A term that describes the relationship between the sources of the bank's capital and the risks surrounding the bank's assets and any other operations (short dictionary 612,157). The capital function is not limited to the basic and traditional function of the source of finance, The protection needed to absorb risks that may result in potential losses, and helps the capital to maintain public confidence in the Bank's ability to play its role as an intermediary to attract and employ funds, Capital is generally defined as the difference between the assets and liabilities of an enterprise. There are two capital concepts, one of which is limited to the paid up capital and the second is extended to all declared and undeclared shareholders' equity. The paid capital is usually the first core of any economic establishment, Of fixed assets and financing the direct inputs of this activity. The establishments usually seek to increase their paid-up capital through their productive process and to strengthen it by accumulating reserves to support their ability to expand and to cope with the various risks they may face (Shuwrahi, 2002: 68).

2- Capital adequacy ratio in accordance with Basel II decisions:

The Basel Committee has established a unified rate of capital adequacy by setting minimum capital ratios in a more comprehensive sense on the one hand and risky assets and liabilities on the other, with weights of 8%, with the right of any country to be more stringent, That assess the solvency of

banks in the field International transactions are related to the extent to which they meet the limits of this standard, which is based on credit risk and also means the need to pay attention to the quality of the assets and the adequacy of the allocations to be created. (Shehab, 2008: 112).

This reform is reflected in the latest amendment to each of the credit risk: the risk of the debtor failing to meet its obligations as well as the risks of the countries as well as market risks, including interest rate risk, exchange rate and investment risk in securities, Doubtful and other provisions. Taking into consideration all items within the bank's budget and beyond. Extra-budgetary items are meant to be the traditional incidental obligations arising from the issuance of letters of guarantee for loans or for the execution of business, the opening of documentary credits and others as well as the obligations arising from dealing in derivative contracts. (Abu Rahma, 2007: 5).

## **The second axis: performance evaluation**

### **1. Performance evaluation**

Performance evaluation was also defined as "comparing actual performance with pre-defined indicators by the management of the organization with a view to detecting deviations and then taking what is necessary to correct them by comparing what is actually achieved and what is planned or targeted" (Husseini and Al-Dori, 2000: 232) The concept of performance evaluation as "administrative function represents the last link of the series of continuous administrative work and includes several actions taken by senior management to ensure that the results are achieved in the form required and the highest degree of efficiency and the lowest possible cost (Alaa and Mashhadani, 2011: 75).

The performance evaluation is intended to mean "all administrative procedures that ultimately lead to judgment on the extent to which the intended goal is achieved within a specified period of time and quality (Abbas, 2012: 250).

The first definition is based on the financial and economic status as a subsequent process of decision-making aimed at examining the financial and economic status of the organization at a given date, and the second definition is based on subsequent decision-making. Evaluation is the decision-making process based on information To reorient the activities of the project to achieve the objectives set out previously.

Through the above definitions, a comprehensive definition of performance assessment can be developed as a supervisory management process carried out by senior management or external regulator in a systematic and

systematic manner to ensure that the operational procedures adopted for the purpose of achieving the objectives have been properly implemented. Criteria for facilitating efficient, effective and economical decisions and decisions to correct deviations, if any.

## **2 - The importance of performance evaluation**

Performance appraisal is an increasing concern for most economic organizations, whether profit-making or non-profit, which helps them make the best use of their resources by maximizing their available capacity, paying attention to the development of production elements, and continuously seeking to increase their capacity.

(Karkhi, 2001: 5).

There are a number of points that highlight the importance of evaluating the performance of the most important:

1. Provides a comprehensive picture of the various administrative levels on the Bank's performance and its role in the economy and the mechanisms of such enhancement (Sisi, 2010: 242).
2. Helps in particular the financial level in ensuring the availability of liquidity and measuring the level of profitability under investment and financing decisions and the accompanying risks (Karajah, 2001: 26).
3. Performance assessment helps management plan ahead, justify the need for resources based on scientific and objective foundations, and promote accountability based on evidence and objective evidence (Haddad, 2007: 127).
4. Helps to reveal the degree of harmony and harmony between the different objectives and strategies adopted and their relationship to the competitive environment (student and witness, 2011: 76).

## **3. Performance evaluation objectives**

The overall objective of the performance appraisal currency is to ensure that the actual performance is in accordance with established and planned plans. However, some other performance appraisal objectives can be summarized and can be summarized in the following points:

- 1- To assess the level of achievement of the economic units compared to their predetermined objectives. (League, 26: 2013).
- 2- Paying the activities of the organization towards achieving the goals and prevent them from deviation, which can only be achieved through continuous follow - up work in the sense that the evaluation of performance is not once once the completion of the work but is a continuous process. (Abbas, 2012: 250)

- 3- Performance evaluation is a measure of the success of the enterprise by seeking to continue its activity in order to achieve the goals, success is a composite measure that combines efficiency and efficiency (Zubaidi, Hamza, 2011: 92).

### **Third axis: Supervisory supervision**

#### **First. The Concept of Supervisory Oversight:**

In general, control is a means by which to verify the extent to which the goals are achieved efficiently and effectively in a timely manner and thus aim to measure the effort for the goals to be achieved (Essence, 1999: 14).

It can be said that supervision is a continuous managerial function whereby the performance is verified as determined by the objectives and criteria set by measuring the degree of success of the actual performance in achieving the objectives and standards for the purpose of evaluation and correction, and thus the process of observing the results of the works already planned, Determine the gap between the targeted results and the actual results and take corrective action to close this gap (Abdel Nabi, 2010: 35).

Supervisory supervision is therefore one of the most important functions of the central banks in the world, as it is responsible for achieving the existence of a strong and sound and competitive banking system. This is stated in the Central Bank of Iraq Law No. 56 of 2004 in Article (40) Taking all necessary measures to grant, regulate and control the licenses of banks and their branches as provided in this Law and the Banking Law, including the authority of documentary control and field inspection of licensed banks and their subsidiaries in the manner chosen by the Central Bank and at the time it deems appropriate; And its subsidiaries shall provide all information required by them in respect of mattersThe banks and their clients; and to take remedial action as provided by this law and the banking law to impose the obligation on the licensed banks and their branches of these laws and any regulations or precautionary standards or guidelines or instructions issued by the Central Bank in connection with the implementation of these laws. Any action by any government entity other than the central bank regarding the regulation of bank lending and credit activities "(Iraqi Chronicle, 2004: 28).

#### **Second. Means used in supervisory control requirements**

The Central Banks shall, in accordance with the laws of its establishment, supervise and control the banks registered with them to ensure the safety of their financial positions. The Board of Directors of each central bank shall set the general rules for supervision of the affiliated banks, which shall be summarized as follows:

### **1. Registration of banks:**

The relationship between the Central Bank and the Monetary Authority begins with the banks before its establishment. The group of shareholders who intend to establish a bank must submit their request to the Monetary Authority, supported by the rules of procedure, the establishment contract and the feasibility study for obtaining the necessary license. This bank is registered with the Central Bank. Registration is itself a primary method of continuous monitoring of the implementation of the provisions of the law governing the relationship between the Central Bank and banks.

### **2. Periodic Data:**

The banks shall submit their financial statements to the Monetary Authority on a regular and periodic basis as determined by applicable laws, regulations and regulations. The analysis of these data shall facilitate the central bank's role in taking the measures it deems necessary for the impact on the volume of credit and its type and the monitoring and conformity of its activities with the requirements of economic and financial policy. Country .

The most important periodic statements that the Bank is committed to submit to the Monetary Authority are:

- a- Assets and Liabilities Data Assets & Liabilities Statement.
- b- Legal Liquidity Ratio.
- c- Cash reserve ratio.
- d- Ratio of credit to deposits.
- e- The ratios that measure the solvency of the capital.

### **3. Inspection of banks:**

The inspection of this paragraph is not an audit insofar as it is an assessment. It aims at verifying the correctness of the information provided by the bank to the monetary authority by directly identifying the sources of this information in the bank's records. The inspection team then starts to examine the extent of the bank's implementation of the regulations and instructions issued to it , Either from the Monetary Authority or from the various government agencies or from the Board of Directors of the Bank itself, and the inspection team must verify the compatibility of the accounts and the effectiveness of the means of control and internal control in the bank and the inspection team provides a detailed report of the results of its work, Notes and suggesting the necessary corrective actions, and this guidance represents a task carried out by the inspection in the end.

### **4. Control of prices of banking services:**

The Central Bank shall set limits on the prices of banking services provided by banks to its clients such as the commission charged by banks on issuing guarantees, opening and renewing credits and exchange rates of some currencies.

### **5. Study of auditors' reports:**

The laws of the central banks emphasize the need for each licensed bank to appoint an external auditor for its accounts, which shall be approved by the Central Bank. The Controller shall prepare a report at the middle and end of each financial year on the financial position of the Bank, The auditor is responsible for the validity of his report, as most of the laws give the central bank the right to reject the auditor if he found that he did not seek the accuracy and honesty in his examination of the accounts of the bank Charged with monitoring it.

### **Third. Supervisory supervision of the Central Bank of Iraq on banks**

The Central Bank of Iraq exercises the function of banking supervision on the performance of banks to identify weaknesses in their performance in the financial, administrative and operational aspects by determining the degree of banking risks to which banks are exposed in order to maintain the financial integrity of the banking sector. ) Issued in 2004 through Article 53 on inspection of banks, the Central Bank of Iraq monitors the banks on a consolidated basis in the following manner.

1. The Central Bank of Iraq shall review the data, documents, information, clarifications and evidence  
Provided by banks in application of this law.
2. The Central Bank of Iraq may request banks or any affiliated or affiliated entities  
To submit and prove in writing when it deems necessary any additional information, reports, documents, explanations or proofs.
3. The Central Bank of Iraq shall conduct an on-site inspection of the Bank or its affiliated or affiliated entities carried out by one or more of its employees or by one person or another or other persons designated by the Central Bank of Iraq for this purpose. The inspection shall review the operations of the Bank to verify its financial position and compliance with Laws and regulations governing the administration of its activities and internal policies  
The Central Bank of Iraq conducts a regular inspection of all banks at least once a year, with the exception of representative offices, which are inspected at least once every two years.
4. Any person authorized under this Article shall be subject to the inspection of a bank for confidentiality requirements and may request any director, officer,

employee or agent in the Bank or its affiliated or affiliated entities to have access to all necessary books, accounts, documents and records, In the time of the inspection, any information deemed necessary by the inspector shall be submitted and requested.

5. The inspectors shall report to the Central Bank of Iraq on the results of the inspection and notify the Central Bank of Iraq of the Board of Directors of the bank concerned with the results of the inspection.

#### **Axis IV: Development goals for specialized banks**

Before identifying the objectives of specialized banks or what is commonly called development banks, a set of definitions that provide a clear indication of what these banks and what their objectives:

Are those banks that often appear in developing countries in particular in order to stimulate their economic sectors and provide the necessary financing for them not to be channeled by commercial banks in these countries (Ghazi, Falih, 1976: 30), development banks that may be public or private (Tudaro, Michelle, 2009: 755). Another definition of specialized banks as " Financial institutions specialized in granting credit to certain sectors, whether agricultural, industrial or real, aimed at financing these sectors to promote them economically and these institutions are practicing various banking operations through the exercise of comprehensive banking "(Hussein, Faten, 2015: 22), and important definitions that do not Is a departure from the previous definitions that the researcher agrees with, which highlight the capital of these specialized banks, which are often borrowed from the government and local institutions. The definition refers to "institutions that offer long and medium term loans for projects aimed at financing them. Are determined by their sources of funds, which consist mainly of long-term loans and concessional terms from governments and local and international institutions "(Samurai, Said, 1983: 107).

#### **Third topic / Applied side of research:**

##### **First Pillar: Capital adequacy requirements in the Iraqi banking environment**

The Supervisory Oversight Authority for Banks in Iraq has adopted the Basel I decisions on capital adequacy through the instructions issued to banks following the issuance of the Central Bank of Iraq Law and the Banking Law in 2004, which include the following equation to extract the capital adequacy ratio except for the minimum allowed, The Central Bank of Iraq, after examining the Iraqi environment and the credit risks surrounding the banking business, adopted a

minimum of 12% of the capital adequacy ratio held by banks to meet the risks.12 %).

Chapter (3) of the Banking Law No. (94) of 2004 concerning capital through Article (16) stipulates that banks shall keep at all times a capital with proper capital and sound reserves of not less than 12% of the total value of its fixed assets On the basis of taking into account the risk element or any higher percentage determined by the Central Bank of Iraq, and dealt with in Articles 17-20 of Chapter XV of the Instructions for Facilitating the Implementation of Banking Law No. (4) of 2010 concerning the criterion of adequacy of capital, With a capital adequacy ratio of not less than (12%) twelve percent to be calculated According to the consolidated budget of the Bank for each of the branches of the bank and the public administration in the inside and outside Iraq and financial institutions affiliated.

This indicator is measured by dividing the private equity of the basic capital and the supporting capital which is shown in extending the efficiency criterion equation to the risk weighted assets within and outside the budget that appear in the equation equation. The index is written according to the following equation:

Capital base + supporting capital

Risk-weighted assets inside and outside

The increase in this index provides information on the extent to which capital is retained in order to hedge against potential losses or to face risks arising from banking operations that have resulted in losses that would result in the depletion or erosion of part or all of the capital and may exceed those losses The indicator shows the extent of expansion in banking operations and the trend towards granting loans and credit and cash, without compromising the risks of these transactions, which may expose the bank to the risk of insolvency or bankruptcy.

### **The second axis: the use of the capital adequacy standard as part of the requirements of the assessment of specialized banks**

In this section, a performance evaluation will be carried out for the specialized banks in accordance with the Capital Adequacy Standard adopted by the Central Bank of Iraq in assessing the compliance of the banks operating in Iraq with the requirements of supervisory supervision, studying the results obtained and indicating their impact on the possibility of these banks in achieving their development objectives.

#### **1- Capital adequacy index of the Agricultural Cooperative Bank**

Table (1) shows that the highest capital adequacy ratio of the Agricultural Cooperative Bank was 21% for the year 2012 due to the capital increase in this year which amounted to JD (50600) million, while the lowest ratio of capital adequacy in the years of research 8 This is due to the increase in net risk weighted assets in this year by 69%, indicating that the Bank maintains capital adequacy ratios commensurate with the percentage specified in the Instructions for Facilitating the Implementation of Banking Law No. 4 of 2010 (12%) of the capital.

**Table (1)**  
**Capital adequacy of the Agricultural Cooperative Bank for the years (2010-2012)**  
**(Million dinars)**

year	(Net core and supporting capital) (1)	Growth rate (1)	(Net assets within and outside the risk weighted budget)	Growth rate (2)	1/2 (3)
<b>2010</b>	<b>46766</b>	<b>%1</b>	<b>352971</b>	<b>%19-</b>	<b>%13</b>
<b>2011</b>	<b>48141</b>	<b>%3</b>	<b>595252</b>	<b>%69</b>	<b>%8</b>
<b>2012</b>	<b>148978</b>	<b>%209</b>	<b>712368</b>	<b>%20</b>	<b>%21</b>

**Source: Based on the data on the financial position list and the list of loans and advances to the Agricultural Cooperative Bank.**

### **Capital adequacy index of the Industrial Bank of Iraq**

Table(2) shows that the highest percentage of the capital adequacy of the bank amounted to (63%) was for the year 2012 due to the capital increase in this year, which amounted to (125) billion dinars, while the lowest proportion of capital adequacy in the years of research 25 Due to the increase in net risk weighted assets this year by (50%) for the Bank's expansionary policy in the granting of credit and investment, indicating that the Bank maintains capital adequacy ratios higher than the percentage specified in the provisions of the Facilitation of Implementation of the Law Banks numbered (4) for the year 2010, amounting to (12%) of the capital in all years of evaluation.

The reason for this apparent discrepancy in the increase in the capital adequacy ratio is due to the high net growth rate of net risk weighted assets (50% and 44%) for 2010 and 2011, respectively. The net capital growth for 2011 and 2012 (100%, 48% Due to the increase of the capital of the bank from (25) billion to (75) billion for the year 2011 and increase to (125) billion in 2012 in order to implement the capital increase requirements demanded by the Central Bank of Iraq for banks operating in Iraq all.

**Table (2)**  
**Capital Adequacy Index of the Industrial Bank of Iraq for the years 2010-2012**  
**(Million dinars)**

year	(Net core and supporting capital) (1)	Growth rate (1)	(Net assets within and outside the risk weighted budget)	Growth rate (2)	1/2 (3)
2010	48041	%20	194699	%50	%25
2011	96187	%100	281051	%44	%34
2012	142307	%48	227456	%19-	%63

**Source: Based on the data on the financial position list and the list of loans and advances to the Industrial Bank of Iraq.**

### 3- Capital adequacy index of the real estate bank

Table (3) shows that the Bank's highest capital adequacy ratio was 106% for 2010 and 2011 respectively, while the minimum capital adequacy ratio in the years of research was 84%, which was for 2012 due to the rise in net risk weighted assets (33%) from the previous year, indicating that the Bank uses the funds available to it from capital, reserves and loans received and paid towards financing and lending, which are high ratios compared to the percentage required in the instructions.

**Table (3)**  
**Capital Adequacy Index of the real estate Bank for the years (2010-2012)**  
**(Million dinars)**

year	(Net core and supporting capital) (1)	Growth rate (1)	(Net assets within and outside the risk weighted budget)	Growth rate (2)	1/2 (3)
2010	555239	%22	524633	%29	%106
2011	696955	26%	163415	%22	%106
2012	705660	%1	842994	%33	%84

**Source: Based on the data on the financial position list and the list of loans and advances to the real estate bank.**

The data in the tables above indicate the impact of the assessment of the specialized banks on the capital adequacy standard in accordance with the supervisory control requirements. The use of this standard led to the retention of the average capital adequacy during the years of study by the Agricultural Cooperative Bank, the Industrial Bank of Iraq and the Real Estate Bank

(13%, 41%, 99%), respectively, Which shows the amount of the capital retained for the purpose of complying with the Capital Adequacy Standard, which is reflected in the inability of these banks to pay all their financing capabilities in order to achieve the development goals set out in their laws. Therefore, the researcher finds it necessary to not evaluate the specialized banks This criterion does not match its objectives with its objectives and its application affects the ability of these banks to finance the economic development of their target sectors.

## **Section IV / Conclusions and Recommendations**

### **First: Conclusions**

Through the evaluation of the performance of the specialized banks in accordance with the requirements of supervisory supervision. The conclusions reached by the study are as follows:

1. Accept the research hypothesis that the use of the capital adequacy criterion negatively affects the ability of specialized banks to achieve their development objectives in the development of the sectors they target, by disabling part of the funds available for lending in order to avoid legal liability arising from the application of this standard as a control tool Supervisory of the Central Bank of Iraq.
2. The capital adequacy criterion is not considered an indicator of the performance of specialized banks because there is no need to strengthen the capital of these banks as one of the important lines of resistance to face any potential losses that may be faced due to the non-use of deposit funds as one of the main sources of financing in providing credit , So the use of this indicator negatively contributed to the assessment of the performance of specialized banks on their ability to achieve their objectives and exercise their developmental role because of To disable part of its own funds and government support funds to avoid to fall under the legal responsibility of the Central Bank of Iraq, based on the law of banks and instructions for the implementation of this law, has reached the criterion of capital adequacy of the Iraqi Industrial Bank and the Agricultural Cooperative Bank and the Real Estate Bank (40% 14%, 99%) respectively during the five years of research.
3. The risk factor does not threaten the credit activity of specialized banks due to the fact that they do not use depositors' funds as one of the most important sources of financing. Capital adequacy assessment does not require capital adequacy, as this index provides support to commercial banks to minimize losses when exposed to credit risk.

### **Second: Recommendations**

- 1- Non-evaluation by specialized banks of the capital adequacy criterion because of its negative impact on its ability to provide specialized development credit.

2- Issuing an exception by the Central Bank of Iraq to the specialized banks in relation to the use of the Capital Adequacy Index contained in the Banking Law No. (94) for the year 2004, because this indicator is inconsistent with the nature and objectives of funding for specialized banks.

3 - The need to adopt the Central Bank of Iraq alternative criteria when evaluating the performance of specialized banks to align the results of these standards with the objectives of these banks and the exceptional importance of sources of funding for other commercial banks.

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