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### RESEARCH ARTICLE

## THE IMPACT OF SHIFTS IN BANKING SERVICES UNDER TREASURY SANCTIONS AND THE INTENSIFICATION OF COMPETITION IN THE IRAQI BANKING ENVIRONMENT

Noor Abdul Razaq Abdul Wahaab

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### Abstract

This research examines the reality of banking services in Iraq, with a focus on the impact of U.S. sanctions imposed in late 2022 on a number of Iraqi banks. The study analyzes the performance of two banks as contrasting models: Middle East Bank, which was subjected to sanctions, and National Bank of Iraq, which was not. The findings revealed that banks heavily reliant on the foreign currency auction window were severely affected after the sanctions (Middle East Bank), while banks with diversified income sources and advanced technological infrastructure were able to adapt and achieve positive outcomes (National Bank of Iraq). The study recommends that relevant authorities in Iraq, whether regulatory or banking institutions, work on establishing flexible and innovative approaches to address international sanctions. This includes building multiple banking relationships and enhancing transparency and compliance to mitigate external pressures and ensure the continuity of banking operations during challenging times.

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### Introduction:-

Banking is one of the main pillars in the economic environment of any country, as it plays a pivotal role in stimulating economic growth and enhancing financial stability by meeting the needs of individuals, companies and governments. In light of the rapid transformations in the global economic environment, the Iraqi banking sector faced many structural and regulatory challenges, especially in light of growing globalization and increasing competitive pressures. The importance of developing banking services in Iraq has increased, especially after the security and economic changes that followed in 2003, and the accompanying reform efforts to enhance financial inclusion and modernize the technological infrastructure of banks.

Despite the steps achieved in this regard, many banks still suffer from limited diversity in sources of income, and poor compliance with international standards, which resulted in the imposition of direct sanctions by the US Treasury Department in 2022 on a number of Iraqi banks, as a result of suspicions related to poor compliance with AML / CFT standards. These sanctions have affected more than 14 banks, including the Middle East Bank, denying them access to the US financial system and making transfers in dollars. This action was a strong shock to the Iraqi banking system, especially to banks that relied almost entirely on the window of selling foreign currency as their main source of revenue. In contrast, some non-punished banks emerged, such as the National Bank of Iraq, which was able to invest the situation to its advantage by strengthening its services and achieving rapid growth in its

profits. This research aims to study the impact of sanctions on the performance of Iraqi banks, through an analytical comparison between a bank that has been subject to sanctions and one that has not, and to shed light on the features of the change in banking models after 2022.

**Research problem:**

The banking system in Iraq faces a range of difficulties, including a lack of diversity of sources of income, heavy reliance on the sale of foreign currencies, in addition to increased pressure from international regulators. These difficulties increased after the US Treasury imposed sanctions on a number of Iraqi banks at the end of 2022, due to non-compliance with international standards in AML / CFT. This led to confusion in the performance of some banks and significant financial losses, while other banks emerged that were able to take advantage of the opportunities available in the market. Hence, the problem of research arises in the following question:

What is the impact of US sanctions on the performance of Iraqi banks, and what is the difference between banks that have been sanctioned and those that have not in terms of their ability to adapt and develop their models to achieve profit by maintaining the diversity of their banking services?

**Research Hypothesis:**

The research proceeds from the premise that there are fundamental differences in the performance of sanctioned Iraqi banks compared to non-sanctioned ones, as banks with a variety of sources of income and advanced technological infrastructure are more adaptable and competitive.

**Target of research:**

The research aims to analyze the reality of banking services in Iraq, highlighting the challenges it faces, with a comparative study of the performance of two major banks, one sanctioned and the other not, in an attempt to understand the dynamics of banking adjustment and provide a future vision for sector reform.

**Research Boundaries:**

Time Dimension: Duration 2016-2024

Spatial dimension: Iraqi economy

Sectoral dimension: Banking sector (Middle East Bank and National Bank of Iraq)

**The first axis: The theoretical framework of banking services between the concept and the need for development:**

Banking services are receiving wide attention from researchers and specialists, due to their vital and active role in the performance of banks and facilitating the lives of individuals. As a result, there are many concepts and definitions related to it, as the countries of the world have taken care of it in various ways according to their level of progress, and this stems from its great impact on their development and growth processes. To understand banking more accurately, its definition should be touched upon, as it is defined as the basic advantage provided to the customer, which in his view is a source to meet his needs, while from the bank's point of view it is a source of profit that contributes to providing a competitive advantage (Wilson et al., 2016: 323).

It is also known as providing banking operations such as loans, payments or deposit accounts as services that benefit from a secure and regulated infrastructure that complies with banking standards based on modern platforms that use the API (Ris, 2022: 121). It is also known as a set of operations provided by banks that contain tangible and intangible elements, as they are provided to customers through their features and utilitarian value. These operations are a source of satisfaction for the current and future needs of customers, and they are also a source of profits for the bank (Al-Dulaimi, 2022: 151).

It is also defined as a set of individual capabilities, necessary resources, traditions and legal regulations that are provided and established in a manner consistent with the client's preferences to enable reasonable banking choices (Al-Bakri, 2021: 82). From the above, the researcher can define banking services as a coherent set of financial and administrative activities and processes provided by banks to meet the needs of individuals, companies and governments. These financial solutions include many services such as deposit, lending, money transfer, and asset management. All of this is done through the use of advanced technology and a comprehensive legal and regulatory system. These services are an essential means to promote financial inclusion, economic stability and sustainable development. It is also an important element for generating revenue and creating a competitive advantage for banks.

Banking is also characterized as a combination of material (e.g. financial products) and immaterial (e.g. trust, relationships, experience) elements, influenced by many factors such as technological developments, changes in consumer behavior, as well as monetary policies and domestic and international legislation.

To understand banking more clearly, it is important to know its basic dimensions, and these dimensions appear through two main axes that express the essence and components of these services (Kerin et al., 2015: 100): 1. **Utilitarian dimension:** This dimension represents the direct financial benefits that the customer, whether a person or a company, seeks to obtain through his dealings with the bank and the purchase of banking services. This aspect is closely linked to the expectations and needs of the customer, making it necessary for the bank or service provider to clearly highlight these benefits in the context of the service offered. This dimension also represents the actual embodiment of a marketing philosophy aimed at benefiting the customer, where the ethics of dealing is determined based on the comparison of benefits versus costs paid. If the benefits are greater than the costs, acting marketing and ethically is acceptable. This dimension starts from an economic perspective that focuses on increasing the benefit to the customer as an indicator of the effectiveness of the service.

2. **Distinct dimension:** This dimension expresses the technical and functional characteristics of an effective banking service, and focuses on the quality of service, its components and its ability to meet customer expectations and goals. The more the banking service is designed with sophisticated features, the greater the level of customer satisfaction and awareness of the value of the service. This dimension is linked to the essence of the service itself, where the focus is on criteria such as accuracy, speed, flexibility, security, and efficiency in performance. All of this enhances the positive image of the bank and provides a better banking experience for the customer.

Banks are constantly improving their financial services because of their great importance in maintaining their customers and enhancing their competitiveness in the market. Improving financial services means adding new services to the bank, even if these services already exist in the market, but they are offered for the first time by this bank. This is one of the basic plans aimed at strengthening the bank's position and aligning it with changes in the financial field. The need to improve financial services comes from several reasons, most notably the increasing competition by other financial entities that have begun to offer directly competing services, prompting banks to offer more innovative and distinctive services.

Banks are also trying to maintain the loyalty of their current customers on the one hand, and attract new customers on the other (Ghali, 2017: 86), and this entails diversifying and modernizing their services. In addition, new markets offer opportunities to make additional profits, which encourages banks to design services to suit the requirements of these markets. Another reason for financial services innovation is banks' desire to reduce the risks associated with providing diverse services, by providing a variety of products and reducing reliance on only one type of activity. Moreover, the diversity of customers' needs and the increase in their financial and credit aspirations require banks to be more flexible and able to adapt to these changes.

It is also important not to ignore the impact of rising money costs, especially in light of the strong competition and the trend towards moving away from traditional systems, which pushes banks to offer attractive returns to attract and retain customers. In this context, successful banking management seeks to provide all the necessary requirements to ensure the provision of quality and efficient banking services, motivate employees and improve their performance, to ensure a rapid and effective response to customer needs. It also seeks to understand the challenges that customers may face and pay attention to their objections, while providing the necessary facilities and adhering to promises, which enhances customer confidence and strengthens the positive relationship between them and the bank (Al-Zoubi and Al-Khatib, 2022: 208).

### **The second axis: the Iraqi banking environment and its challenges:**

The banking sector is one of the most affected economic fields due to the rapid developments and changes faced by the global economy as a result of increasing globalization, and the competitive pressures it has caused on the economies of countries. This has greatly affected the banking sector in terms of increasing responsibilities, the magnitude of international challenges, and the need to implement stabilization and economic reform programs. Since banks play an important role in achieving economic development goals because of their ability to collect savings and use them effectively, we see the challenges and problems facing the Iraqi economy, especially in that sector that suffers from a delay in development, which represents an obstacle to the development and growth of

economic institutions. This is especially evident with the expansion of the banking market, increased competition and higher risks as a result of globalization in banking activity.

The banking sector in Iraq faces structural imbalances that are not commensurate with the trends of the economic and social system and are not in line with the government's approach to future economic development. However, it can be said that the Iraqi banking system is moving towards freedom, and believes in the development of the private sector in several areas. Banks have become more than just a need to regulate the economic affairs of individuals, they also assist in the economic operations of the private and public sectors.

Instability in security is one of the most prominent reasons that hinder the development of the banking sector in Iraq, as this sector cannot operate and develop in an insecure environment. In addition, economic stability and sound economic policies play an important role in improving the banking sector, so the unstable economic conditions facing Iraq are another reason for the slow and undeveloped banking activity. The improvement of the banking sector cannot be separated from the general state of economic policy, so it is necessary to work to enhance the chances of success of choosing and implementing appropriate economic policies in line with the current state of the economy. In addition, low banking awareness has played a major role in undermining the development of banking activity, as this awareness is one of the basic things that enhance banking activity by understanding the tools and methods of banking and increasing the number of customers with this sector. Ultimately it is individuals who come into contact with banks by depositing, requesting loans and other banking services (Abdolreza, 2008: 105).

One of the most prominent challenges that can be selected about banking activity in Iraq lies in the low level of awareness resulting from many factors, some of which are objective and some of which are historical related to both society and banks, where there is a lack of trust between dealers and banks. As for objective factors, they are directly related to the work of banks and depend on the quality of banking services and the extent of competition between banks, as well as the role of the media in spreading banking awareness and informing the public about it on an ongoing basis. As for historical factors, they include the public's view of banking and credit operations, that is, they are related to the thought and society that was previously established among those dealing with the banking sector. Undoubtedly, this is evidenced by the existence of ideas and concepts rooted in the past in Iraq, and it seems that these ideas are not related to objective factors in terms of the quality of banking services or competitiveness, but rather opinion is based on the psychological impact on objective factors.

Some are sure to ask, what does the banking sector mean for ordinary people? The answer may vary depending on the circumstances, as it is only a means of transferring funds for traders and storing them with interest to beneficiaries. These traditional methods of dealing have merged with two aspects, the first of which is psychological related to bank customers since a long time ago. The second focuses on the nature of these dealers, as some see them as unacceptable usurious banks, while others believe that Iraqi banks lack efficiency to protect funds, especially after the events of 2003 that witnessed robberies. This is reminiscent of what happened in the Netherlands, where people's appetite for banks declined due to poor security and money protection. In a survey conducted by Dutch banks, it showed that the decline in transactions in 2011 was due to the decline in the level of security provided by banks to customers. Therefore, it is important for stakeholders to find ways to convince people that there are procedures in place to ensure the safety of their funds (Jonker, 2005: 7).

Improving the banking system is one of the basic elements of modernizing the financial field and increasing its efficiency. This improvement is shown by adopting new financial innovations, such as sophisticated banking tools and methods. To achieve this goal, it is necessary to create an environment that supports development and is flexible so that these tools can be spread and accepted by individuals and companies. The main driver of this change is the continuous changes in the banking markets as a result of technological progress, as these changes offer real opportunities to reduce the costs of banking services using modern tools, which increases the profits of banks and as profits increase, banking institutions can expand their activity in providing loans and financial assistance to investors, which contributes to the revitalization of the economy and leads to positive results in growth and improvement of banking performance in general.

In this context, efforts in Iraq have tended to keep pace with this progress through the introduction of electronic payment systems since the mid-2000s, with the aim of improving and modernizing the banking sector. This included promoting the use of electronic means in the exchange of funds, which helps reduce reliance on traditional paper-

based means and also supports operational efficiency and transparency in financial transactions (See: Arner et al., 2016); (See: IMF, 2023).

The banking sector in Iraq suffers from a lack of technical capacity and capabilities required to manage investments effectively, which has made it as underdeveloped as banks in neighboring countries. This delay in modernization and technology has negatively affected the perception of customers towards Iraqi banks, as they have become considered traditional and late institutions, lacking advanced banking services that meet the changing needs and desires of customers. As a result, the banking sector, especially private banks, has seen a marked decline in the numbers of customers who preferred to deal with more sophisticated and efficient institutions. This problem has been exacerbated by a lack of confidence in some banks, especially after a number of them failed to meet requests to withdraw funds from deposits, which led to a significant decrease in deposit rates in most banks.

This decline in deposits is worrying, as it directly affects the ability of banks to finance projects and investments, weakening their role in supporting economic activity and achieving development. These have demonstrated the urgency of keeping pace with rapid advances in technology, so that the banking sector can take advantage of the significant opportunities presented by ICT. The aim of this orientation is to improve the methods and systems of providing banking services, and increase their quality to meet the needs of customers more efficiently. It also requires the creation of new banking applications that take into account the standards of speed and accuracy in performance, which helps to improve the customer experience through sophisticated and secure services that comply with global standards and match modern digital trends (See: Al-Fatlawi, 2021).

As for the most prominent banking services provided by the banking sector, they can be summarized and explained as follows (Al-Shammari, 2022: 148); (Al-Masri, 2019); (International Monetary Fund, 2023); (Abdullah and Abdul Sattar, 2021): First: Accepting deposits of all kinds, current, savings and fixed, as the deposit acceptance service is one of the most important and prominent services provided by the banking system, as it constitutes the main source of financing on which banks rely in their financing and investment activities.

Second: Providing credit facilities of both cash and pledge types, as the first represents the provision of direct cash funds to customers under certain conditions, and includes loans and advances granted by banks to their customers of various terms, as well as the service of the debit current account (overdraft). As for the second type (pledge credit), it is used to support commercial operations without providing funds directly, but rather through bank undertakings and guarantees, and includes the service of opening credits and providing letters of guarantee

Third: Exchange of currencies through the purchase and sale of foreign currencies for the benefit of its customers. These operations are based on the idea of the exchange rate, and this service is used for purposes such as travel, trade or investment. Fourth: Deposit insurance to protect depositors' funds, where banks pay insurance amounts commensurate with the size of their deposits, to ensure that depositors are compensated in the event that the bank is unable to meet its financial obligations. This service aims to enhance confidence in the banking system and reduce the risk of losing funds.

Fifth: Providing financial intermediation service (brokerage) represented by the implementation of the purchase and sale of shares and bonds as requested by customers. Sixth: Localization of salaries by providing employees with prepaid cards that are used to receive salaries electronically after transferring the amount to the employee's account. The card can also be used to withdraw cash, pay bills or buy goods and services, which is a comfortable and safe alternative to the use of paper checks.

Seventh: Internal and external transfers through the transfer of funds through electronic means, such as telephones, computers or magnetic tapes. One of the most prominent examples is the Western Union service that allows sending and receiving remittances inside and outside the country and in different places in the world, without the need for a bank account for the recipient. Eighth: Electronic banking services, which is one of the most prominent innovations that resulted from the technological development in the financial sector, as these services rely on new technologies such as computers and communications to help people carry out banking transactions without the need to go to the bank. The most prominent of these services are ATMs, mobile services and home bank

Ninth: Renting iron safes as a safe option to keep valuable property for customers, such as gold, jewelry, official documents and securities. This service is also known as "safekeeping", because it provides a high level of security

and privacy, as the contents are stored in protected boxes inside fortified rooms, which can only be opened in the presence of its owner or whoever gives him official authorization.

### **The third axis: Banking Services and US Treasury Sanctions:-**

Iraq's banking sector has undergone gradual changes, including attempts at reform and security and economic challenges, followed by a phase of partial openness and digital growth, before facing significant pressure from the United States such as restrictions and sanctions on a range of banks. The situation in Iraq was unstable as political and security conditions overlapped with the economic situation, which directly affected banking services and how they developed. From the events of 2003 until 2014, features of improvement in banking performance began to appear thanks to the efforts of the supervisory authorities, represented by the Central Bank of Iraq, to enhance the efficiency of the banking system and expand its activities.

The Central Bank began improving the electronic clearing system, implementing programs that promote the principles of good governance and transparency, in addition to launching new financial services such as electronic payment cards and increasing the number of ATMs. In this period, some private banks also tried to imitate advanced banking patterns, but their efforts were limited compared to the many structural challenges faced by Iraqi financial institutions. However, these reforms suffered a major collapse when Iraq suffered a deterioration in the security situation and ISIS entered in 2014, seizing several provinces, which led to the closure of many bank branches in areas under its control. This poor security reality affected people's confidence in banks, in addition to the decline in economic activities in general, which reduced the movement of bank trading and increased the dependence of individuals on cash instead of official channels. The sharp drop in oil prices in that period also reduced financial liquidity in the state treasury, forcing the government to increase domestic borrowing from banks to cover the deficit, creating additional pressure on banks and reducing their ability to support productive sectors.

With the gradual decline of Daesh and the return of the liberated areas under the control of the state. The period between 2018 and 2021 witnessed a kind of gradual recovery in the banking system, especially with the relative stability of the security situation and the start of reconstruction efforts. At this time, the government worked to enhance the concept of financial inclusion by expanding electronic payment services, especially through the "salary localization" system, which obliged state employees to open bank accounts to receive their wages. This step increased the number of bank accounts and introduced a wide segment of citizens into the formal banking system. Some private banks have also entered the competitive side by providing modern services, such as smart phone applications, online banking services and providing high-value text messages for financial transactions. Some private banks have also begun to implement new models for SME financing. But this positive dynamic faced external challenges linked to international financial policies, especially from the US Treasury Department, which began to impose strict control over dollar transfers to Iraq due to concerns about money laundering and financing illegal networks.

In 2022 and 2023, the United States imposed sanctions or restrictions on more than 14 Iraqi banks for engaging in suspicious transfers or failing to comply with international AML / CFT standards. Among these banks were the Ansari Bank, the Middle East Bank, and the Holder Bank, which were active in the field of foreign transfers and the purchase of dollars from the Central Bank. These measures led to a reduction in the amount of dollars available in the official market, which resulted in a rise in the exchange rate in the parallel market and increased pressures on the local economy, especially on traders and importers. These sanctions also posed additional challenges for the Central Bank of Iraq, which was forced to adjust its monetary policies, increase control over commercial banks, and launch an electronic platform to document and analyze the movement of foreign remittances.

Despite these steps, the compliance problem persisted due to the lack of financial monitoring infrastructure and the lack of technical expertise in many banks. Overall, banking in Iraq from 2010 to 2024 showed gradual progress that was subjected to continuous trauma, whether those shocks were security, economic or political. Although there are signs of a shift towards digitization and the promotion of financial inclusion, these efforts have always faced obstacles related to corruption, weak confidence and the fragility of the regulatory system, which has made the sector vulnerable to internal and external fluctuations. In the context of studying the impact and development of banking services in Iraq, it is important to distinguish between two different time periods: the first period preceding the sanctions imposed by the US Treasury Department and the second period during which sanctions were imposed. Prior to the imposition of these sanctions, Iraqi banks relied heavily on the transfer of funds in US dollars as a main way to make profits, especially through their participation in the foreign currency sale window managed by the

Central Bank of Iraq. However, after the imposition of sanctions, and the subsequent restrictions on some Iraqi banks, there have been significant changes in the way they operate. Those banks found themselves forced to stop making transfers in US dollars, which was the basis of their profitable activity.

This sudden change prompted those banks to rethink the modalities of their operational policy and make a change in the structure of their services, by returning to traditional banking methods, such as providing loans and financing, developing electronic payment services, increasing the number of customers, and activating retail and corporate banking services within the local market. This made them enter into direct competition with banks that were not subject to sanctions, which were able to continue to make international transfers, which increased the importance of the excellence of the quality of services to compensate for the financial shortage that resulted from the absence of the dollar.

In this context, competition between banks has become a means of pressure and development at the same time, as some banks have tended to invest in financial technology, improve digital infrastructure, and expand their services to customers, which has helped drive innovation in the Iraqi banking sector, despite the challenges it faces. It is important to note that allowing Iraq to continue making some specific transfers by the United States was a limited but important opportunity, which contributed to maintaining a minimum level of foreign exchange movement, but optionally and under tight control, which further complicated competition among Iraqi banks, and rearranged their strategic priorities in unstable economic and financial conditions.

Accordingly, the changes imposed by the US sanctions not only affect the short term, but also lead to radical changes in the Iraqi banking sector in the long term. On the one hand, these sanctions prompted banks to gradually move away from total reliance on foreign currency sales, which made it necessary to diversify sources of revenue and enhance financial independence. Some banks have begun to change their business models, shifting towards new banking services such as microfinance, online banking, and local commerce services, helping to create a more sustainable financial base.

In addition, competition between sanctioned and non-sanctioned banks has increased, resulting in a distinction between institutions, as resilient banks have emerged as engines of future growth (such as the Bank of Baghdad and Al-Ahli Iraq), while banks unable to evolve are facing deflationary trends or merging with larger banks. This crisis also showed the urgent need to enhance compliance with international standards in banking, especially with regard to AML / CFT, and transparency in international transfers. This will force the Central Bank of Iraq to strengthen supervision, modernize banking systems, and impose stricter standards in financial governance. Accordingly, the long-term impact of this crisis may be positive in some aspects, if the challenges are exploited as a way to reform the sector, and transform it from a dollar-based system to an inclusive banking system that plays an influential developmental role in the Iraqi economy. However, if the reforms continue as mere manifestations or partial, the risks to the stability of the banking sector, such as loss of confidence both domestically and internationally, may increase over time.

In this context, the Middle East Bank is a model for banks that have been severely affected as a result of being included in the sanctions list, while the National Bank of Iraq represented a different case as a non-punished bank, which was able to take advantage of the vacuum left by the sanctions to enhance its services and develop its market share. Middle East Bank started its banking business in Iraq as a private bank, following a comprehensive strategy to offer a range of commercial and investment banking services. The purpose of this was to contribute to the development of the national economy and meet the growing needs of the financial market. Since the beginning of his career, he has had a strong desire to expand his banking services both domestically and internationally, with a focus on diversifying the financial products he offers.

These products included the opening of various types of accounts, the issuance of internal and external remittances, the provision of loans and credit facilities, the issuance of bills, as well as the provision of brokerage services for the purchase and sale of foreign currencies, stocks and bonds. In line with the developments of the banking sector at the regional and global level, the bank continued to modernize its technological infrastructure, enhance electronic payment systems, and increase the number of its customers by enhancing the quality of services and developing the skills of the team. These efforts have contributed to improving its reputation and position in the Iraqi banking market, making it one of the leading financial institutions in providing integrated and effective services. In light of this, it is keen to maintain its distinguished position in the banking sector, through its great interest in developing

and modernizing its banking systems and operational programs, in line with the latest global technical and financial developments, especially in the fields of electronic payment and digital services. This approach aims to enhance efficiency in performance and expand the range of services, ensuring a comprehensive banking experience of quality, speed and accuracy. In addition, the Bank attaches special importance to the development of its employees through continuous training programs aimed at enhancing the efficiency of employees and improving their skills, which ensures the achievement of the best levels of professional performance, and contributes to the provision of professional and smooth banking services, which enhances the Bank 's position and good reputation rooted in the Iraqi banking environment.

This was the result of the high revenues obtained from entering the window of buying and selling foreign currency, as those revenues amounted to approximately (16.5) billion dinars in the same year, and this indicates the bank's almost complete reliance on this service, and this is confirmed by other short and long investment revenues, as they amounted to only 250 million dinars. Despite this, the diversity of the above services and what they can achieve from revenues is insufficient, as the banker quickly suffered losses during the subsequent years that were caused by focusing on one side of the services provided, as it can be said that the bank is unilaterally focused on commissions for external transfers and participation in the window of buying and selling foreign currency at the Central Bank. When the bank achieved during 2018 approximately (11.8) billion dinars in revenues from participation in the window of selling currency and external transfers, with a decline rate of 29.3%, which led to the bank incurring losses amounting to (2.3) billion dinars.

However, the conditions of the bank and through its correspondents in the outside world quickly improved and its entry into the window of buying and selling currencies increased, which contributed to the increase in the revenues collected from it to reach 13.3 billion dinars, which is equivalent to half of the revenues achieved, which amounted to (23.2) billion dinars, which contributed to the bank's recovery from the previous loss to achieve profits, even if they were low and within the limits of (0.07) billion dinars, as well as enhancing the bank's reliance on the revenues of the currency sale window to maximize its revenues and profits.

The situation continued to be the same, relying on the revenues of the window of buying and selling the currency and participating in it through the Central Bank, as those revenues rose during the subsequent years to reach about (20.7) billion dinars in 2022, despite the bank stopping participating in them due to the US Treasury sanctions imposed on it in November 2022. These revenues accounted for (74.2%) of the total banking revenues of (27.9) billion dinars in 2022. With the profits of the amount of bank expenses, the small profit represented by (14) million dinars is not commensurate with the banking business, which suggests the bank's involvement in suspicious operations and accounting manipulations affecting the quality of the financial statements submitted, as the bank does not improve the expansion of its revenues from the traditional basic banking business of granting credit and the aforementioned services.

As shown in Table (1), the bank achieved net profits in 2016 of about (11.8) billion dinars. This success is attributed to the increase in returns resulting from its participation in the foreign exchange window of the Central Bank. Revenues from this window amounted to about (16.5) billion dinars in that year. This figure shows that the bank relies heavily on this channel to achieve its income, and this is confirmed by the lack of other investment returns, whether short or long-term, which did not reach only 250 million dinars, which indicates the lack of diversity of its sources of income. Although the bank offers a range of other banking services such as opening accounts, managing transfers and providing financing, the resulting returns remained low, and were not sufficient to cover operational costs or enhance its financial sustainability.

As a result of this heavy focus on the currency sales window revenue window and external remittance commissions, the bank began to record losses in the following years. In 2018, despite achieving revenues from the currency window of (11.8) billion dinars, these were 29.3% lower than in 2016 , resulting in financial losses of about 2.3 billion dinars due to the lack of diversity of sources of income. However, the financial performance improved partially in the following year, due to the expansion of the network of external correspondents and the increase in the bank's interaction with the window of selling and buying currencies again, which contributed to the increase in revenues to 13.3 billion dinars, or about 57% of the total recorded revenues of 23.2 billion dinars. This improvement helped in the transition from losses to making small profits of about 70 million dinars, which reinforced the fact that the bank relied heavily on the window of selling currency as a main means to increase its revenues. However, despite this improvement, the business model used remained weak, and this was clearly demonstrated during the



period of the Corona pandemic from 2020 to 2021, as the repercussions of the pandemic directly affected the Iraqi economy and the banking sector in particular during the closure, the decline in business activity and the decline in international transfers, as traditional banking operations witnessed a contraction, which increased the vulnerability of the bank, which was not ready to face such crises. Despite this, the bank continued to rely heavily on the currency sale window, and its revenues gradually increased in the following years, reaching a peak in 2022 of about 20.7 billion dinars, which accounted for 74.2% of the total banking revenues of 27.9 billion dinars for that year.

Despite this increase, the rise in operational and banking costs came against these revenues, eventually showing a small net profit that did not exceed 14 million dinars, which is not commensurate with the size of operations or with the type of real banking activity. It is important to note that this performance came at a time when the bank had stopped participating in the currency sale window in the last quarter of 2022, due to the sanctions imposed by the US Treasury Department in November of the same year. This suspension did not immediately affect the financial results of that year, but the financial analysis of the data shows worrying indicators indicating excessive reliance on unsustainable revenues, with a clear weakness in the returns resulting from traditional banking activities such as loans, provision of facilities and good banking investment.

Rather, this type of financial performance may raise doubts about the possibility of accounting irregularities or non-transparent practices that affect the quality of the bank's financial statements, especially as pro forma profits continue to be achieved despite the decline in income and economic diversification, which indicates that the bank did not achieve the expected growth by expanding its customer base or improving the quality of its basic banking services. Since the Middle East Investment Bank was placed on the sanctions list where it faced a major challenge, it has been deprived of the use of the US financial system, rendering it unable to make transfers in US dollars. This service was very important to him, as it was a key pillar of his business and profits, especially by participating in the sale window of foreign currency managed by the central bank. With the loss of this service, the bank was forced to return to the basics of traditional banking, focusing on granting loans in dinars, opening accounts, and offering deposit and withdrawal services, but they are all services with few profits.

It also tried to expand its electronic services, such as offering simple banking applications, and activating SMS services to inquire about the balance, but the impact of these efforts was limited due to the lack of a strong infrastructure, and low customer confidence in a bank that was subjected to international sanctions. Although the bank tried to improve its electronic services, its weak ability to make international transfers via digital means, and its lack of ability to connect with global systems such as swift or Visa and MasterCard networks, made it unable to meet customer needs well. The sanctions also negatively affected its relations with other banks in Iraq, which led to its gradual loss of part of its banking network, as evidenced by the decrease in its revenues in 2023 and 2024 to (11.3) (2.3) billion dinars, respectively, to incur financial losses of (10.9) (14.3) billion dinars, respectively. Therefore, it is clear that the bank was unable to compete in the Iraqi banking environment under these sanctions due to the intensification of competition on the one hand and the weakness of its role in creating new products and services that can win the confidence of the public and return to the work environment again.

**Table (1) Financial indicators of the Middle East Bank during the period 2016-2024 (billion dinars)**

Year	Window Entry Revenues	Total revenue	Net profit
2016	16.5	35.6	11.8
2017	3.4	26.7	581
2018	2.8	22.6	2-3
2019	13.7	23.2	.078
2020	18.9	30.4	2.1
2021	14.5	25.2	0.29
2022	20.6	27.9	0.014
2023	0	11.3	-10.9
2024	0	2.3	-14.3

Source: Prepared by the researcher based on the data of the Iraqi Stock Exchange, the annual bulletins of the Middle East Investment Bank, multiple years, miscellaneous pages.

As for the National Bank of Iraq, it was able to understand the new conditions intelligently, taking advantage of the exit of a group of competing banks from the foreign remittances market, to increase its activity and attract new

customers, especially traders and importers who rely on dollar transfers daily. The bank continued to provide its international services without interruption, adhering to international standards in compliance and anti-money laundering, which strengthened the confidence of the local and international community in it.

More importantly, the bank has not only exploited the increase in demand for remittances, but has modernized its technological infrastructure and expanded its range of electronic services. The bank has launched an integrated banking application on smartphones, allowing customers to open accounts remotely, transfer money within the country, pay bills, and follow up on banking operations at any time. It introduced point-of-sale (POS) electronic payment, and partnered with telecommunications and fintech companies to enhance online payment options and digital wallet services. These steps helped attract young people and professionals, and increased the bank's status as a reliable and sophisticated destination, capable of providing advanced digital solutions in light of the reduced competition due to the sanctions.

As such, it is one of the leading financial institutions offering a comprehensive and distinctive range of banking services. Its services are not limited to local individuals and companies, but also include regional and international companies, taking advantage of the growing network of correspondents at the regional and international levels, which enhances its ability to open up to the global economy and expand its activities. The capital of the bank, which owns the largest share of its shares, is a key element in achieving these goals, as it facilitates financial transfers internally and externally, and provides credit ceilings, in addition to full support for trade finance services, which gives the bank the ability to meet the needs of its diverse customers.

Capital Bank's investment arm, Capital Investments Company, also contributes to enabling the National Bank of Iraq to provide trading services in regional markets to its customers, in addition to providing trading services in the Iraqi stock market through the Iraqi Money Brokerage Company in the sale and purchase of securities, which are wholly owned by the bank. In providing its services, the bank relies on an advanced banking system that enhances its growth and benefits in improving the quality of the service provided. The bank has a great ability to diversify its services to meet the needs of individuals and companies.

It is clear from Table (2) that the bank provided a variety of banking services, including accepting deposits of all kinds, whether current, savings or fixed deposits, and in multiple currencies (dinars, dollars, etc.). It also provides a range of electronic channels and services, such as global e-Visa cards, Internet banking and mobile banking services, as well as a specialized telephone service center that allows quick response to customer inquiries. The bank also has a network of ATMs that enable customers to withdraw cash, check account balances, and make transfers between accounts, while activating various other services, including an SMS service that enables customers to track financial movements on their accounts instantly.

One of the important services that the bank has started to provide since mid-2017 is the salary localization service for workers in the public and private sectors, which has helped to expand the customer base and strengthen the relationship with government and private institutions. The bank also offers various credit facilities, including personal loans and credit cards against salary transfer, in addition to a range of services dedicated to meeting the needs of companies, such as issuing and receiving documentary credits, letters of guarantee, bank transfers, and many others. The bank also participates in the currency buying and selling window organized by the Central Bank of Iraq.

The bank has adopted a specialized banking system known as (I. C. B. S) who manages electronic cards and ATM services, with the aim of raising performance efficiency and improving service quality. This has contributed to enhancing customer confidence and increasing the number of customers with the bank. Thanks to this diversity of services, at the end of 2016, the bank was able to achieve a net profit after tax of 23.5 billion dinars, but these profits declined at the end of 2017 to reach 2.9 billion dinars, despite the bank's continued expansion of its services and the start of the implementation of the salary localization project. The main reason for this decline was the significant decrease in the revenues of the foreign currency buying and selling window, which decreased from JD 12.2 billion in 2016 to JD 2.3 billion in 2017, a decrease of 421%, in addition to the significant increase in operational costs as a result of the expansion of the development of infrastructure and modern technologies, which included the bank's efforts in developing the modernization of the IT infrastructure, expanding the connectivity network, increasing the number of ATMs, and activating the direct sales department by appointing a team specialized in marketing the bank's products. Rapid remittance services have also been activated in cooperation with the Western Union Global

Network, and the Banking Awareness and Public Service Department has been activated in accordance with the instructions of the Central Bank of Iraq. By the end of 2018, the positive results of these efforts began to appear, as the net profit increased to 7.9 billion dinars compared to 2.9 million dinars at the end of 2017, which indicates the success of the bank's strategy to diversify its services and improve its infrastructure.

Financial indicators continued to improve in 2019, as the bank continued to diversify and improve its services, resulting in a net profit of KD 2.9 billion at the end of the year, reflecting the recovery and stability of the bank's financial performance after a period of investment expansion and technological modernization during which the bank incurred high costs to improve the quality of its services and strengthen its position in the local and regional banking market. Not to mention the increase in the bank's income from interest and commissions, which rose from 22.8 billion dinars in 2018 to 30.8 billion dinars in 2019, and a growth of 34.8%.

The bank also strengthened the confidence of its customers by joining the Iraqi Deposit Guarantee Company, which helped raise deposit rates and encouraged customers to deal with the bank more confidently. In 2020, despite the significant economic challenges resulting from the Corona pandemic, the consequent global and local economic recession and the closure of many sectors, the bank continued to strengthen its privileged position in the Iraqi banking sector. The bank did not see this crisis as a hindrance, but rather as an opportunity for growth and expansion, as it worked to increase its investments in government bonds with good returns, while reducing high-risk assets, and improving the quality of its assets through the application of International Accounting Standard IFRS9.

In terms of providing services, the bank continued to provide outstanding performance in all its branches, and introduced many digital initiatives such as the launch of the banking phone application and the SMS service, which improved the experience of its customers and contributed to achieving high operational efficiency. These efforts were clearly reflected in the financial results, as the net profit after tax at the end of 2020 amounted to about 19.8 billion dinars. This improvement was due to the significant growth in net interest income and commissions, which amounted to 15.5 billion dinars, and the net profits of dealing in foreign currencies, which amounted to 4.2 billion dinars.

In 2021, global exceptional circumstances continued as a result of the ongoing effects of the pandemic, yet the Bank continued to perform well based on its crisis experiences. As it continues to provide various banking services and the continuous development of technological applications and services, the bank has maintained the loyalty of its customers and succeeded in increasing profits significantly, as the net profit after tax amounted to 1.26 billion dinars, with a growth rate of 31.7%. This is due to the significant increase in total revenue by 58%, driven by the rise in net commissions from the bank's diversified banking services. These results show that the National Bank of Iraq has not only continued to perform during crises, but has also smartly invested in diversifying its services and expanding its technical and financial base, enabling it to achieve strong and increasing financial performance over the years despite the most difficult circumstances.

Although the National Bank of Iraq was not on the list of banks that were subject to US Treasury sanctions in 2022 and its aftermath until today, developments in the Iraqi banking sector during that period affected it directly and indirectly, making it one of the most prominent in this field, both in terms of impact and benefit. With the US authorities announcing the ban on 14 Iraqi banks in addition to the previous four from dealing in US dollars due to lack of compliance with anti-money laundering and terrorist financing laws, and fewer banks capable of providing the market needs of transfers in dollars.

In this context, the National Bank of Iraq has become a reliable choice for not being subjected to sanctions, which has made it the preferred destination for a large number of customers, especially traders and importers who rely on international transfers in dollars. As a result of this situation, the National Bank has witnessed a significant increase in demand for its services, especially in the field of transfers from the currency sale window managed by the Central Bank of Iraq. With the reduction of competition after excluding a number of banks, the National Bank was able to increase its market share significantly, and this was reflected in its profits, as the bank recorded unprecedented profits in 2023 amounting to about 190 billion Iraqi dinars, almost seven times. However, this rapid growth has not been without challenges. It was accompanied by greater scrutiny by Iraqi regulators, especially the Central Bank, which carefully monitored the compliance of non-punished banks, including the National Bank, with the laws and guidelines for external transfers. As a result, the National Bank faced a fine of 30 billion Iraqi dinars imposed by the Central Bank for violations related to transfer mechanisms. Despite this, the bank continued to diversify and

increase its services, especially after eight new banks were prevented in 2022 from dealing in dollars, which increased the confidence gap in some financial institutions and raised the level of challenges facing banks. Under these circumstances, NBI understood that maintaining its position requires more than just meeting the high demand for remittances, it must also include the provision of comprehensive and diversified banking services, whether traditional or digital.

The bank has begun actual steps to strengthen its presence, as it has worked to improve the quality of its services for individuals and companies, and the latest developments in its digital interface to provide advanced electronic services such as remote account opening, online account management, and instant transfers inside Iraq. It has also added a mobile payment system and activated electronic payment services through points of sale, in addition to expanding the ATM network and providing bank cards linked to international networks such as Visa and MasterCard. This expansion was not only to improve profits, but was a smart response to changes in the market and the aspirations of customers who began to prefer ease, speed and digital security in daily transactions, which was clearly reflected in the size of the profits achieved by the bank in 2024 and up to (252.3) billion dinars.

**Table (2) Financial indicators of the National Bank of Iraq during the period 2016-2024 (billion dinars)**

Year	Window Entry Revenues	Total revenue	Net profit
2016	12.2	44.8	23.5
2017	2.3	37.2	2.9
2018	--	13.9	7.9
2019	0.985	34.5	9.2
2020	5.9	54.1	19.9
2021	3.6	83.1	26.1
2022	3.8	108.2	27.5
2023	93.4	343	190
2024	151.1	452	252

Source: Prepared by the researcher based on the data of the Iraqi Stock Exchange, the annual bulletins of the National Bank of Iraq, multiple years, miscellaneous pages.

From the above, it can be said that the analysis of the situation of banks through the differences in performance between a bank subject to sanctions and another does not, shows that the sanctions were more than just political or financial measures, but were a test of the ability of banks to adapt and survive. While punished banks were seeking to compensate their losses through local services and the provision of minimum electronic services, non-punished banks, led by the National Bank, were acting aggressively to expand their market share and renew their business methods to meet modern banking trends.

This change introduced the bank into a new classification stage, where success became dependent on the ability to adapt and respond to digital transformation and comply with international standards and not only on size. The crisis has also shown the importance of a comprehensive strategy for digital transformation within banks, especially in a country like Iraq, where reliance on technology and smartphones is rapidly increasing. We can also provide a comparative analysis that shows the extent to which the National Bank of Iraq and the Middle East Bank rely on revenues to enter the currency sale and purchase window, by monitoring the contribution of those revenues to the total annual revenues of both banks over the period from 2016 to 2024, focusing on fundamental changes and general trends, both quantitatively and qualitatively.

#### **Quantitative (quantitative analysis):-**

It is clear from Table (3) that the Middle East Bank recorded a high dependence on the revenues of the currency sale window during 2016–2022, as these revenues in some years accounted for more than 60% of its total income and reached a peak in 2022 at 73.8%. This over-reliance reflects a single-activity model, which lacks diversification of sources, rendering it vulnerable to any external changes. During 2023 and 2024, revenues from this window stopped completely, as a result of US sanctions, causing the collapse of total revenues from 27.9 billion in 2022 to 11.3 billion in 2023, and then to only 2.3 billion in 2024, which confirms the absence of an alternative plan or a diversified revenue structure capable of compensating for losses.

As for the National Bank of Iraq, in the period 2016-2022, the contribution of the currency sale window was relatively low (less than 30%), indicating a more diversified revenue structure. However, with other banks subject to

sanctions at the end of 2022, its revenues from the window escalated significantly in 2023 and 2024 (93.4 billion and then 151.1 billion dinars) , constituting 27.2% and then 33.4% of the total revenues, which suggests a gradual shift in the bank's strategy towards relying on the window, perhaps to seize temporary opportunities in the market. However, the dependence was not as severe as in the Middle East Bank during the peak years.

**Table (3) Percentage of commission revenues in the window in the Iraqi National Bank and the Middle East.**

Year	National Bank of Iraq	MIDDLE EAST
2016	27.2	46.3
2017	6.2	12.7
2018	--	12.4
2019	2.9	59.1
2020	10.9	62.2
2021	4.3	57.5
2022	3.5	73.8
2023	27.2	0
2024	33.4	0

Source: Prepared by the researcher based on tables (1and 2)

#### **Qualitative aspect (qualitative analysis):-**

It is clear from Table (4) that during the period between 2016 and 2022, Middle East Bank was heavily dependent on profits resulting from the sale and purchase of foreign currencies, as these profits constituted the largest part of its annual income. This indicates the existence of a monolithic model based on a single source of income, with no real diversification in other banking and investment services. This pattern made the bank vulnerable to crises, as happened after the imposition of US sanctions at the end of 2022, as returns saw a significant decline over the next two years, reflecting weak resilience or changing strategies during crises.

In contrast, the National Bank of Iraq shows a greater balance in its sources of income, as it did not rely heavily on the currency selling window during the same period. This provided him with flexibility in reacting to economic and political changes. After 2022, it witnessed a noticeable increase in its total revenues, and it also entered the window of selling the currency, but it followed this option cautiously and according to a deliberate plan, without relying on it as a main source of income. Accordingly, the analysis of the performance of the two banks reveals a great disparity in methods and responses. While the Middle East Bank remained confined to its reliance on one window without looking for alternatives, the National Bank of Iraq was able to achieve balance and diversification in its revenues, which helped it achieve sustainable growth and better respond to shocks.

**Table (4) Comparative qualitative analysis between the two banks for the period 2016-2024**

Theme of Analysis	Middle East	National Bank of Iraq
Window Reliance Pattern	Very High (2016–2022)	(Low to Medium)
Diversity in sources of income	Poor single income model	More balanced
Responding to shocks(e.g. sanctions)	Very fragile; revenues have collapsed	Greater flexibility
Change of strategy	Has not demonstrated the ability to transform after 2022	He began to move towards using the window, but with caution
Total Revenue	Significant decline after 2022	Significant growth after 2022

Source: Prepared by the researcher

#### **Fourth Theme:**

#### **Conclusions and Recommendations:-**

1. The weak diversification of banking services in some Iraqi banks, such as the Middle East Bank, led to excessive reliance on the window of selling foreign currency as a main source of revenue, which made them vulnerable to external shocks and international sanctions.
2. There have been direct effects of U.S. sanctions on the Iraqi banking system , prompting some banks to move away from dollar-denominated transactions and reshape their business models in a traditional way involving limited revenue.

3. The experience of the National Bank of Iraq has shown a high level of flexibility and adaptability to systemic and economic changes, by diversifying sources of income and moving towards digital transformation and online banking.
4. The heavy reliance on the revenues of the currency sale window is an unsustainable model and reflects the weakness of banking strategies followed by some banks, such as the Middle East Bank.
5. The sanctions imposed increased competition in the Iraqi banking market, as non-punished banks such as the National Bank seized the opportunity to expand their customer base and increase their market share.
6. Lack of banking awareness and lack of public confidence in banks has posed a major challenge to the development of the banking sector in Iraq, which requires the implementation of awareness programs and strengthening the relationship with the public.
7. Iraqi banks face a lack of technological infrastructure and sanctions, which restricts their ability to adhere to international standards and exposes them to risks such as money laundering and terrorist financing.
8. The introduction of digital banking services such as mobile apps and salary localization have contributed to enhanced financial inclusion and increased engagement with the formal banking system, especially after 2017.
9. The failure of some banks to cope with crises such as the Corona pandemic and US sanctions revealed a weakness in their resilience and alternative strategies to cope with changes.
10. There is a noticeable variation between banks in how they respond to crises and economic changes, as banks with a renewed and digital orientation have emerged as institutions capable of achieving sustainability and growth, compared to banks that rely on a monolithic pattern of revenues

**The Fifth Axis:**

1. The Middle East Bank needs a comprehensive restructuring of its business policies, focusing on activating its basic banking services (lending, investments, facilities), and reducing excessive reliance on real-time returns from the currency sale window, which was prevented by sanctions.
2. The National Bank of Iraq should pay attention to not drifting excessively towards relying on the window, although its figures are still within acceptable limits, but the rising trend may expose it to a similar fate for the Middle East Bank if monetary policies change or future restrictions are imposed.
3. Stakeholders in Iraq, whether regulatory or banking, should work to establish flexible and new ways to face international sanctions, by establishing multiple banking relationships, enhancing transparency and compliance to ease external pressures, and ensuring that banking operations continue in difficult times.
4. It is important to support successful models such as the National Bank of Iraq, and expand them through interbank programs to develop digital services and promote technological transformation, which helps improve the stability and competitiveness of banks in an ever-changing banking environment
5. Banks need more sustainable business strategies that avoid relying on temporary revenues by investing in employee development, increasing the quality of services, expanding the customer base and offering an integrated package of services to individuals and businesses.
6. Banks that are weak in the market or subject to sanctions should adopt new competitive strategies focused on improving the quality of services and product development, with a focus on the local market to restore customer confidence and ensure continuity in the banking sector in Iraq.
7. The Central Bank of Iraq and officials should develop a national plan to raise banking awareness, including sustainable media and educational programs in cooperation with the media and educational institutions, to correct misconceptions and promote positive interaction with banks.
8. Investment in technology and supervisory infrastructure within Iraqi banks should be enhanced, in addition to developing the skills of banking cadres through technical training and preparation, to pursue international compliance requirements and meet supervisory challenges.
9. Digital transformation efforts in all Iraqi banks must be strengthened by increasing the provision of banking telephone services, points of sale, and electronic payment applications, as this has a significant impact on accelerating financial inclusion, improving the customer experience, and increasing the efficiency of operations.
10. Iraqi banks should prepare strategic plans to deal with potential crises such as pandemics or sanctions, including diversifying sources of income, establishing specialized crisis management units, and following flexible business models that can adapt quickly to economic changes.
11. It is advisable to encourage Iraqi banks to adopt policies based on smart competition and continuous modernization, through the use of tools to assess performance, follow global technological innovations, and promote innovation in the banking field to be able to withstand and grow in unstable situations.

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