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CHALLENGES CONFRONTING THE BANKING SECTOR IN IRAQ

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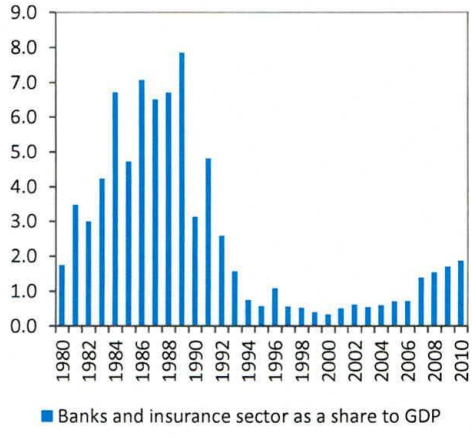
CHALLENGES CONFRONTING THE BANKING SECTOR IN IRAQ

The Iraqi financial sector is still dominated by the banking system, accounting for more than 75 percent of the financial assets. There are currently 46 banks—seven of which are state-owned. Private commercial banks are generally quite small and 20 have been established relatively recently, in the period following the second Gulf War (Appendix, Table 1). Seven of the private banks have foreign participation. As of end- 2010, total assets of the system amounted to ID 329 trillion– ID 285 trillion (87 percent) and ID 13 trillion (4 percent), belonging to Rafidain Bank and Rasheed Bank respectively. Official figures indicate that private bank assets only amounted to 3 percent of total assets, but this understates the real picture. Total assets according to official figures are very large in relation to GDP when compared with the average for MENA countries (318 percent of GDP compared to 130 percent for the MENA average) however, as explained below, official numbers significantly overstate the real picture.

Figure 1: The Financial Sector's Contribution to GDP is Limited

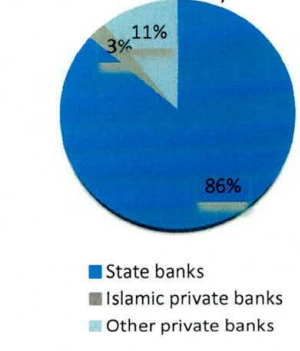


Source: Central Bank of Iraq (2010).

I. Introduction

When looking at the banking system it is important to keep the general political/economic environment in mind. The difficult security situation imposes certain costs on banks (security, transport, and communication). Moreover the legacy of prevailing state intervention has not yet been fully addressed. Full transition to a market oriented system is still a long way off, requiring liberalization of large parts of the real sector from state control. Both of these factors impacts on the ability of banks to find creditworthy clients.

Figure 2: Iraq's State Banks Dominate the Banking Sector in Terms of Assets (*percentage share in 2010*)



Source: Central Bank of Iraq (2010).

The comparison between state-owned and private banks is significantly skewered because the two large state-owned banks' balance sheets are inflated by public sector assets and liabilities accumulated under the previous regime, which have not yet been fully cleaned up. Out of total assets of ID 302 trillion for Rafidain Bank at end 2010, ID 257 trillion reflected valuation losses from previous

periods.[1] Once the financial restructuring of the state-owned banks has been completed, the balance sheet of the state-owned banks could be reduced by as much as ID 259 trillion.[2] Thus assets of the state-owned banks could amount to as little as ID 60 trillion, nevertheless still dwarfing the ID 10 trillion for the private banks (Table 1). The new state-owned bank, Trade Bank of Iraq (TBI), would account for ID 17.8 trillion, and rising rapidly. These figures are more in line with data on credit and deposits. Private banks accounted for 31 percent of credit (non-government) and for 11 percent of deposits (excluding government deposits, private banks accounted for 17 percent of deposits). The revised estimate of assets would be equivalent to 73 percent of GDP (compared to the MENA average of 130 percent).

Overall, credit remains low by international standards, amounting to an estimated 9.8 percent of GDP in 2010. This is much lower than the average of 55 percent of GDP for all MENA countries, but not too far from that of "state-led" countries in the MENA region, which showed an average of 13 percent of GDP.

Table 1: Illustrative Adjusted Balance Sheet Items (2009-2010) *(in Trillions ID)*

	Total Assets		Credits to the Economy		Deposits	
	2009	2010	2009	2010	2009	2010
Rafidain Bank	23.6	25.9	1.7	3.4	18.0	21.8
Rasheed Bank	8.5	13.5	0.7	2.0	7.5	10.6
ITB	16.7	17.8	0.4	0.3	14.4	15.5
Other State-owned Banks	2.6	3.1	0.6	0.8	1.2	1.2
Total State-owned Banks	51.4	60.4	3.4	6.5	41.4	49.2
Private Banks	8.1	9.7	1.9	2.9	4.9	5.8
Total	**59.5**	**70.1**	**5.3**	**9.4**	**46.0**	**55.0**

Source: Staff estimates.

Credit is rising fast from a small base. 2010 saw an increase of 75 percent, reflecting a near doubling of credit by the state banks and a 50 percent increase in credit from the private banks. Indeed, over the last 3 years credit to the economy has expanded by close to 40 percent on average.

Deposits have also risen relatively rapidly, albeit more slowly than credits. Over the last three years Broad Money rose by 26 percent on average. Deposits in 2010 amounted to ID 55.0 trillion, equivalent to 57.3 percent of GDP, somewhat below that of the average for MENA countries of 75 percent. However, Government deposits at the state-owned banks account for a significant share of deposits, and adjusting for these, the ratio to GDP drops to 37 percent of GDP.

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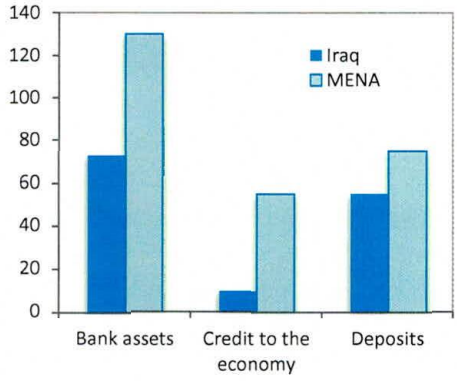
[1] Rafidain Bank used to borrow on behalf of the Government. The Exchange rate at the time was US$1=ID 0.33 but is now US$1=ID1180, which led to a large exchange valuation loss. Since Rafidain Bank borrowed on behalf of, and is owned by, the Government, these losses and the offsetting liabilities should be removed from the balance sheet. The calculation is complicated by a number of other issues, see below. It should be noted that preliminary data provided by Rafidain Bank differ slightly from that reported by the CBI.

[2] The team was not able to obtain any official estimate of the magnitude involved and the number given should be viewed as an illustrative approximation. They are based on an internal Rafidain Bank calculation for 2009, which was provided to the team. That calculation showed a reduction in total assets of Rafidai Bank from ID 288 trillion to ID 29 trillion.

Some progress has been made over the past few years in strengthening the banking sector despite the complex security situation. This is evident in the start of financial and operational restructuring of the state-owned banks, the strengthening of the supervisory and regulatory authority, and improving the institutional financial infrastructure. Several measures to improve the banks' governance have been taken. In an effort to strengthen the financial sector infrastructure, a set of prudential regulations applicable to all commercial banks was recently issues. However, overall, progress has been slower than initially envisaged.

Figure 3: Iraq's Banking System is Relatively Small with Credit



Source: Central Bank of Iraq (2010).

II. State-owned Banks

The Government of Iraq has embarked in February 2009 on a two-phase Banking Sector Reform Strategy (2008-2012) with the support of the World Bank, with the objective of modernizing its banking system. Financial sector work in Iraq has thus far focused on strengthening the two state-owned banks and on improving the overall regulatory framework. The assessment of the state-owned banks is complicated by shortcomings of data; some data has been lost because of the conflict and the reliability of others is questionable. Little work has focused on enhancing the (small) private banks and the non-bank financial sector, and it is unclear to what extent the new regulatory framework has succeeded in enhancing the viability of financial institutions.

Box 1: Rafidain Bank and Rasheed Bank

Rafidain Bank was established as a private bank in 1941 but was nationalized in the 60s. Rasheed Bank was established in 1988 by carving out non performing assets from Rafidain Bank. Both banks suffered losses during the two gulf wars and economic sanctions, including through looting and physical damage to branches. Both banks have been performing quasi-fiscal activities including certain treasury functions without fees, directed lending, and foreign borrowing on behalf of the Government. The latter led to very large foreign exchange valuation losses because of the sharp depreciation of the Dinar following the second Gulf war. Past losses on account of war and valuation changes are still carried on the books of the banks, and assets are accordingly highly inflated (revaluation losses were equivalent to 185 perent of GDP in 2009).

Rafidain Bank is the largest bank in Iraq and Rasheed Bank is the third largest; together they account for 62 percent of Staff adjusted bank assets (but more than 90 percent of bank assets, according to official figures). They also have the only nationwide branch systems (165 for Rafidain Bank and 137 for Rasheed Bank. Depositors believe Rafidain Bank and Rasheed Bank carry an implicit Government guarantee, which gives them an advantage in deposit mobilization. They are also recipient of Government deposits. These advantages are to some extent balanced by non-remunerated treasury functions on behalf of the Government.

The authorities have set up several committees to oversee the process of reforming the two large state-owned banks. The Bank Reconciliation Unit, with the help of Ernst and Young (E&Y) has made only slow progress in reconciliation of conflicting external debt data between the two banks and creditors. Initially the process had been anticipated to be completed by June 2010; the deadline has now been set to June 2011, but is likely to be exceeded. A second working group is looking at nonperforming assets, including loans to defunct state owned enterprises, other losses from previous periods (stemming in part from the two Gulf Wars), and claims related to fraudulent currency exchange. The authorities were not yet able to release official figures on the likely impact on the balance sheets of the two banks of the work of these two committees. As noted above, the clean-up of the balance sheet could reduce very significantly its nominal size. There was strong agreement between participants in the discussions that the restructuring process has taken much more time than anticipated, and needed to be brought to a speedy conclusion. Many examples were given to show that the 2006 MOU and Action Plan with regard to the financial and operational restructuring of Rafidain Bank and Rasheed Bank had not been implemented on many points.

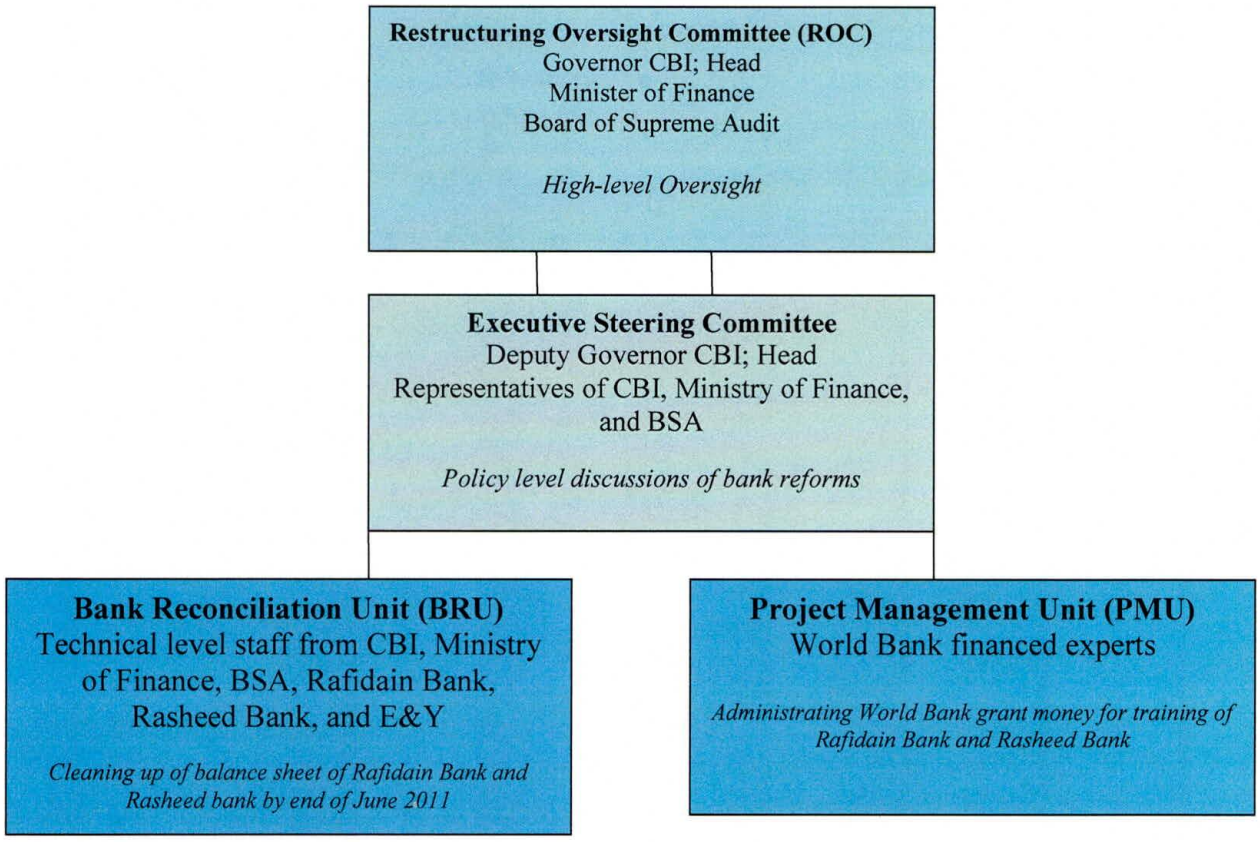
The 2006 MoU (Annex 3 and 4) addresses, with very specific, time bound actions, the full process of operational and financial restructuring, including twinning with foreign banks, a full audit, use of IFRS, putting both banks at arm's length of the Ministry of Finance, and puts these actions in the context of the need for these banks to start providing basic financial services to the Iraqi population as soon as possible, and in a competitive market oriented environment.

The clean up of the balance sheet of Rafidain and Rasheed must be brought to a speedy conclusion so that the banks can focus on moving forward. The best way to do so will be to carve out all the disputed elements listed in paragraph 89 and transfer them to a newly created asset/liability management company. This company should have a minimal staff and no branches and not be allowed to take deposits or extend new loans. Staff of Rafidain and Rasheed should still be called upon to participate in working groups that will be responsible for settling the items that have been transferred to the new company.

The Restructuring Oversight Committee (ROC) has thus far not been very active in setting general policy decisions. The Executive Steering Committee has met 21 times and reported to the ROC on each occasion, but has received little further guidance from the ROC. The ROC only recently held its second meeting, but there is hope that it will become more active under the new Minister of Finance.

With the help of the World Bank funded Project Management Unit, a training project for the two state-owned banks has been started (supported by a US$ 10 million grant). Courses for Branch Managers and on human resources development (HRD); proposals for training on internal audit and compliance risk management; accounting and finance program; and credit and risk management are currently considered.

Figure 1: Structure of Oversight Committees



Some progress has been made towards drawing up new organizational structures for the two banks, and in particular both have set up skeleton structures for the risk management function. However, these need to be fully implemented and staff trained to apply modern banking practices. Progress has also been made in acquiring new IT and accounting systems. But, these are not yet fully implemented, and certainly not at the branch level. Lack of progress is in part explained by the difficult security situation, which has made it difficult to identify qualified foreign expertise to assist with the organizational and operational reorganization. Only in March 2011 did two foreign experts (one in each bank) start work in the field.

On capacity building and training of banks, it is worth noting that a fundamental shift in policy is required to change the structure to be consistent with the international best practices, and, more importantly, the mentality of the state-owned banks. Some observers thought that this could only be accomplished by bringing in a reputed foreign bank to carry out a comprehensive reorganization process. This could either be as a strategic investor, or as a provider of services on a fee basis (twinning) as was done in other developing economies that were successful in conducting restructuring programs. For a description of a good framework for institutional and operational restructuring of the two banks.

In discussions with Iraqi counterparts, there was general agreement, from the Governor of the CBI as well, that state-owned banks had to learn to operate on commercial principles. The Governor believed that an important step in this process was to "corporatize" the structure of the state-owned banks, which would be a positive step moving forward. Operating on commercial principles will also require a discontinuation of the quasi-fiscal activities performed by the state banks. Any services performed for the government should be clearly identified, and properly remunerated. Government must also refrain from any influencing of lending decisions, which should all be subject to proper risk assessments.

The authorities intend to carry out a major recapitalization of Rasheed Bank and Rafidain Bank, but only after the completion of their financial restructuring. While the timetable remained to be confirmed, plans were to increase capital of Rafidain Bank from its current book level of ID 2 billion to ID 400 billion and that of Rasheed Bank from ID 25 billion to ID 300 billion. The Iraqi participants noted that, as a first step, discussions had centered on converting capital and general reserves into share capital. According to current figures on the balance sheet, this could take the capital of Rasheed Bank to ID 67 billion and of Rafidain Bank to ID168 billion. However, it is unclear how meaningful these latter figures are, given the significant prospective changes to their balance sheet. For example, an unofficial internal E&Y document indicated that the current net worth position (including reserve funds) could be slightly negative. But other observers have speculated as much as minus ID 25 billion. It is clear that a major infusion of Government capital is required to bring the two banks to reasonable capital levels.

The Iraqi Government in 2004 set up a new state-owned bank, TBI to handle trade financing, which Rafidain Bank and Rasheed Bank could no longer do because of legal attachments stemming from the situation under the previous regime. The bank was to be a temporary institution that would be wound up, once Iraq's international economic and financial relations were normalized. However, the TBI has been taking on an increasingly important role, and a draft law has been proposed to convert the bank into a universal commercial bank and to allow it to open up more branches. At the same time, control over TBI is opaque, and the ability of the CBI to take supervisory enforcement measures against this institution is not considered strong. Before allowing TBI to expand its business, the CBI must be fully confident that it has the powers and tools to effectively supervise this institution. While in terms of assets TBI is now the second largest bank (after restructuring Rafidain Bank), credit operations are still relatively small (ID 0.3 trillion). Several observers have indicated that some of TBI's operations are particularly opaque and are channeled to well connected parties.

Four smaller state-owned banks continue to operate with relatively low capital levels. These banks, as their names imply (agriculture, real estate, industry, Iraq), were mainly set up to support development in key economic sectors. Total assets for these 4 banks amount to ID 3.1 trillion, or 4.5 percent of adjusted banking sector assets. The authorities' intentions for these banks have not yet been spelled out. In the context of establishing a more level playing field, these intentions should be made clear as soon as possible, in order to establish how these banks will compete with the private banks, and what their role can be in providing basic financial services to the population.

As noted above, credit extended by the state-owned enterprises (SOEs) to the private sector and state owned enterprises nearly doubled in 2010 to reach ID 6.5 billion in 2010. This amount is exceeded by claims on the Government of ID 7.7 trillion and dwarfed by deposits with the CBI of ID 28.9 billion.

Table 2: Iraq Structure of Banks Adjusted Balance Sheet (2010) *(in percent)*

Assets						
	Foreign assets	Deposits with CBI	Claims on Government	Credit to the economy	Other assets	Total
State owned banks	18.7	47.8	12.7	10.8	9.9	100.0
Private banks	14.4	30.9	7.2	29.9	17.5	100.0
Of which: conventional	14.2	32.5	9.0	29.9	14.3	100.0
Of which: Islamic	15.0	25.0	0.0	30.0	30.0	100.0
Total	**18.1**	**45.5**	**12.0**	**13.4**	**11.1**	**100.0**
Liabilities						
	Non Govt. Deposits	Govt. Deposits	Foreign liabilities	Capital, reserves, and provisions	Other liabilities	Total
State owned banks	50.0	31.5	2.8	5.3	10.4	100.0
Private banks	59.8	0.0	0.0	30.9	9.3	100.0
Of which: conventional	63.6	0.0	0.0	29.8	6.5	100.0
Of which: Islamic	45.0	0.0	0.0	35.0	20.0	100.0
Total	**51.4**	**27.1**	**2.4**	**8.8**	**10.3**	**100.0**

Source: Central Bank of Iraq (2011)

The structure of the balance sheets of the state owned banks differ significantly from that of the private banks as shown in table 4. [3]The state owned banks are surprisingly liquid, with two thirds of their assets in the form of foreign assets and deposits with the CBI. As noted, credit to the economy only accounts for 11 percent of assets, while credits to the Government accounts for 13 percent. On the funding side, the State owned banks draw heavily on deposits (81.5 percent of liabilities), a large share of which emanates from Government. By contrast, the share of capital, reserves, and provisions is quite small when compared to other banks.

According to official figures, all the state banks are profitable. Net income declined slightly from 2009 to 2010 because of a decline in non-interest income (see Appendix). Income in relation to capital is significantly higher than for the private banks, because of relatively low capital levels. However, revenue to assets is low by international standards amounting to 0.9 percent in 2010[4] compared with an average for the MENA region as a whole of 1.9 percent.

III. Private Commercial Banks

The strength and business expertise of the 36 small private banks appears to be improving. However, the range of services provided by many of many of them is still limited, and the financial strength of a few of them is weak (see below). Foreign banks have shown increasing

[3] The table draws on Annexes 11-15.

[4] Based on the staff estimate for assets contained in table 1.

interest in conducting business in Iraq. Seven banks have foreign participation, including a 70 percent share by HSBC in Bank of Dar el Salam. Eight banks operate according to Islamic principles.

None of the private banks have country-wide branch networks, but many are increasing their networks. One bank has 61 branches, three banks have more than 30, and 9 banks between 10 and 20. In total, private banks have 383 branches, or roughly the same number as the state-owned banks.

The private banks compete on an unlevel playing field with the state-owned banks. State-owned enterprises and government agencies are not permitted to do business with the private banks, which is a major impediment to the development of a viable private banking sector. Government, government agencies, and state owned enterprises are not allowed to place deposits with private banks. Nor can state owned enterprises receive loans. Moreover, payments to the government (taxes and other payments) cannot be effected by check drawn on a private bank.[5] The large state-owned banks benefit from an implicit government guarantee on deposits. In contrast, depositors in the private banks are not protected. Discussions are under way among private banks to set up a self-funded deposit guarantee fund, but these do not appear to be at an advanced stage.

Private banks have very little access to the lucrative business of issuing letters of credit for imports by the government and state owned enterprises. Several banks are now able to issue such letters of credit.[6] The state-owned TBI was set up explicitly to handle trade finance and has a monopoly on issuing letters of credit to the government and State-owned enterprises. In principle, the TBI may delegate letters of credit of less than $ 5 million to one of the private banks. In practice it does so only for LCs less than $2 million. Procedures for doing so are not fully transparent.

A review of the web sites of private commercial banks indicate that they offer an increasingly wide range of services, In the area of business lending, banks generally offer trade financing, including letters of credit, guarantees, bills discounting, working capital and project lending, domestic and external settlements, and foreign exchange transactions. The bulk of loans are short term, although some banks offer project financing and several banks are granting SME financing at up to 3 years maturity. Also some Islamic banks provide funds of longer maturity. As private banks are relatively small they are not able to take on large projects as syndication of loans is not yet used.

Many banks have introduced, or are in the process of introducing, retail lending services. Retail loans offered by some, but not all, include car loans, appliance loans, vacation loans, and unspecified personal loans. A number of banks also offer real estate loans; most real estate funding, however, appear to be for construction of housing projects. So far only a few banks have issued credit cards and ATM cards.

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[5] The Ministry of Finance stipulated this in a decree, following difficulties in two of the smaller banks that led to problems with cashing their checks.

[6] Frequently foreign banks insist on an endorsement by an internationally recognized bank (such as HSBC), which increases costs.

In spite of the increased sophistication, interviews with banks and market participants, as well as available statistics, indicate that the services of most banks are still generally rather limited, and that trade financing, foreign exchange dealings, and payments services continue to constitute the bulk of banking business. The amount of retail loans is relatively low, albeit growing fast from a very small base.

A clear difference between the composition of lending between private banks and state-owned banks is seen in table 5, which shows the heavy concentration of private lending to wholesale and retail trade.

Table 3: Iraq, Breakdown of Credits (2009) *(in percent)*

	Rasheed Rafidain	Other state-owned banks	Private banks	Total
Agriculture, Forestry, Hunting & Fishing	3.2	2.5	1.0	2.1
Mining & Quarrying	0.0	--	0.0	--
Manufacturing Industry	4.5	10.8	5.3	6.2
Electricity & Gas	1.0	--	0.3	1.3
Wholesale, Retail Trade & Hotels	30.8	5.3	67.4	37.0
Transport, Communications& Storage	3.4	--	2.6	2.2
Finance, Insurance, Real Estate & Business Services	8.4	--	5.2	4.9
Social services	42.2	--	5.9	21.8
External World	0.0	--	1.2	0.5
Building & construction	6.4	81.4	11.1	24.1
Total	**100.0**	**100.0**	**100.0**	**100.1**

Source: Central Bank of Iraq (2011).

Interest on excess deposits at the CBI is a major share of banks' earnings, as banks are quite liquid because of low lending levels. Other major revenue earners are trade financing and fees on foreign exchange transaction. All banks recorded profits, except a few banks that were in the process of starting operations. Profits are relatively high, although showing a significant decline from 2009 to 2010. Net income of private banks in relation to assets declined from 3.3 percent in 2009 to 2,4 percent in 2010 (Appendix, Table 8), but remained above the level of 1.9 percent which was registered for the MENA region as a whole, and significantly above that of the state owned banks. Net income in relation to capital and reserves declined from 12.1 percent in 2009, which is relatively good, to 7.3 percent in 2010, which is not a stellar performance. Income indicators were broadly similar for Islamic and non-Islamic private banks. The revenue performance in 2010 indicates that banks will need to find additional income generating opportunities as minimum capital requirements are increased.

Private banks are in general well capitalized. Capital adequacy ratios in 2010 exceeded 100 percent for some banks and were only below 20 percent for two banks.[7] The CBI publishes its

[7] It still needs to be confirmed whether some banks include loan loss reserves in the calculation of capital.

CAMEL ratings of private banks on its web site. Most banks have a camel rating of 3 or less, and only a few have ratings of 4 and 5. While internationally a 3 rating is considered to warrant supervisory attention, the CBI awards the 3 rating to what they consider to be good banks. The CAMEL ratings have generally improved over the last three years, supporting some observers' contention that the financial strength of banks is generally improving. Non-performing loans amounted to 4.5 percent of credit in 2009.

Although prudential indicators overall appear relatively strong, market observers mention that questionable business, accounting, and auditing skills is still a problem for some private banks. Other observers have pointed to the fact that most of the private banks are currently family controlled banks, and that this tends to weaken governance and impede progress towards a modern full-service bank. The CBI placed recently two banks under conservatorship. No track record exists at this time of the effectiveness of the new prudential regulations in reinforcing the viability of financial institutions.

The authorities believe there is a need for consolidation of the private banking sector. Partly also to diversify ownership away from family control, the CBI has required that banks increase their capital to ID 100 billion by June 2011 and in two further steps to ID 250 billion by June 2013 (equivalent to US$ 214 million). Several banks are well on the way to achieve the first step increase. At end September 2010, six banks had capital of ID 100 Trillion; eight banks had between ID 70-90 Trillion; most clustered around ID 50 Trillion, and five had less than ID 30 trillion. Market observers expect some consolidation. With perhaps 10 banks to be merged with others or closed by 2013. The effect of the decision to require more capital is not fully clear, as the true capital positions of the state-owned banks still has not been determined, and the private banks are not engaged in extensive risk bearing lending operations, given the large deposits they hold at the CBI. Under these conditions, the return on equity of the private banks would decrease if capital were increased without a corresponding increase in the asset side of the balance sheet.

IV. Islamic Banks

There are nine Islamic banks operating in Iraq (as shown in Table: 1, Annex 18). The Islamic banking activities in Iraq started in 1993, where the Iraqi Islamic Bank for Investment and Development was established as the first Iraqi Islamic bank. Iraqi Islamic Bank for Investment and Development was the only Islamic bank operating in Iraq till 2000. In 2001, Elaf Islamic Bank was established as the second Islamic bank in Iraq. The Islamic banking industry in Iraq increased rapidly since 2005, with seven new Islamic banks being established (Kurdistan International Bank for Investment and Development (2005), Islamic National Bank (2005), Dijah & Furat Bank for Development and Investment (2006), Al-Bilad Islamic Bank for Investment & Finance (2006), Islamic Regional Cooperation Bank for Development & Investment (2007), Ceyhan Bank for Investment and Islamic Finance (2008) and Abu Dhabi Islamic Bank (2010)). Islamic banks now have 83 branches and 1504 employees, with the ratio of branches and employees of the Islamic banks to that of all private banks being broadly similar at 19 percent and 17 percent (see Annex).

The Islamic banks in Iraq offer the following products: Murabaha (Profit-sharing); Musharakah (joint ventures); Mudarabah (Financing); Ijara (Renting); Istisnaa (Industrial - Financing); and Assets and Liquidity Management. In general, financing is of longer term than that of other private commercial banks.

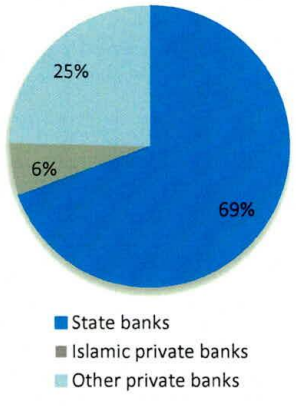
Most financial ratios and earnings performance are broadly similar to that of other private commercial banks (Annex 17). However, in general Islamic banks rely more on capital and reserves as a funding source than do other private banks (and much more so than the State owned banks). CAMEL ratings are only listed for seven of the nine Islamic banks. For six of these, CAMEL ratings are better than the average for private banks as a whole. One Islamic bank is facing difficulties, and the CBI is exploring whether a buyer can be found.

The Islamic banks face some challenges in working without specific Islamic banking law and regulations except the internal instructions that were issued in 2006. Also, there is a shortage of qualified people who understand Islamic banking practices not only in the banks but also in the CBI.

V. Access to Finance

In terms of bank finance, there is insufficient data is available to conduct a rigorous assessment of access to finance in Iraq, but overall data on credit and other available indicators clearly shows that access to credit is low. As noted above, credit to the economy in relation to GDP is very low compared with other MENA countries and other country groups. Also, the number of branches in relation to the population size is relatively low.[8]

Figure 4: Banks' Share in Credit
(percentage share 2010)



Source: Central Bank of Iraq (2010).

The Center for International Private Enterprise estimated that family savings and retained earnings accounted for three quarters of financing for businesses in Iraq in 2007, while bank financing accounted for only seven percent.[9] While bank credit has increased, the fundamental magnitudes are unlikely to have changed much. The share of bank financing of enterprises is thus significantly lower than in other MENA countries (13 percent) and in other middle-income countries (19 percent).

Latest household data also refer to 2007. As shown in table 6, only 3.4 percent of household borrowing in Baghdad emanates from banks. Significantly more households borrow in Baghdad (80.8 percent of households) than in the other regions.

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[8] Data on number of deposit accounts and number of loans is not available.

[9] "Business Attitudes toward Political and Economic Reconstruction in Iraq," Center for International Private Enterprise, February 29, 2008, slide 14.

Interviews with market participants and donor estimates indicate that access by small and medium enterprises (SMEs) to bank finance is very low.[10] A 2005 ILO estimate put the total number of registered SMEs with 3 or more employees at 622,000. An additional 719,000 SMEs are registered as self-employed. And finally ILO estimated that another 1 million of SMEs were not registered.

Table 4: Iraq Household Borrowing (2007)

	Friends and family	Banks	Other	All borrowers	Borrowers share of all households
Kurdistan	81.9	3.1	15.0	100.0	49.1
Bagdhad	88.9	3.4	7.7	100.0	80.8
Other regions	79.7	7.2	13.1	100.0	57.9

Source: Iraq Household Socio-Economic Survey – IHSES (2007).

A USAID Project team estimated that less than 5 percent of the SMEs in the formal sector have ever received a bank loan and that fewer than 10 percent of them have a bank account.

With assistance from a USAID funded project, 26 private banks have jointly set up an institution to extend credit to SME—the Iraqi Company for Financing SMEs (ICF). Also private banks have set up an institution to provide guarantees on loans up to 75 percent of the value of collateral—The Iraqi Company for Bank Guarantees (ICBG). These initiatives have contributed to an increasing level of lending to SMEs, but from a small base and amounts remain low. The ICF has issued $15 million in loans since its inception in 2007 and at end 2010 outstanding loans amounted to $6.6 million distributed over 781 loans (equivalent to less than 0.1 percent of registered SMEs). The ICBG have guaranteed US$ 28 million on 2,100 banks loans (equivalent to less than 0.2 percent of the number of registered SMEs).

Mobile phone banking could contribute significantly to banking penetration, but, like in the rest of MENA countries, has not taken off in Iraq. No initiative has been started in this area yet, but it will presumably be considered in the context of the USAID funded retail-banking project.

Microfinance. The authorities, and donors, have only recently started to focus on micro-finance institutions, and coverage is limited. A USAID funded project since 2004 has helped set up 14 micro finance institutions with a network of 100 offices covering all 18 provinces. The regulatory framework has improved with the adoption of a new law in March 2010, which explicitly allows for micro finance institution, which till then had been implicitly illegal. Total loans outstanding at end April 2010 amounted to US dollar 85.5 million (equivalent to about 1 percent of bank credits). Loans reached 62,000 clients, estimated to be less than 1 percent of Iraq's poor.

[10] USAID in its publication on micro finance notes that: "Bankers in Iraq lack experience lending to SME segment, thus limiting financial intermediation. Many banks are new, with inadequate skills for analyzing credit risk and in conducting cash-flow analyses. Other obstacles include loans with repayment terms that are too short to accommodate longer term investments, and collateral requirements in excess of 150 percent of loan amounts".

Factors hindering access to finance. Weak financial infrastructure is a clear impediment to access to finance in Iraq. Actions are needed in all areas, including credit registry, the collateral framework, judicial systems, and accounting and auditing skills.

Iraq is alone in the MENA region in not having established a credit reporting system. World wide it has been found that credit reporting systems can play an important role in the early stages of financial development. Public credit reporting systems (PCR) are generally managed by central banks or bank supervisors and collect information from supervised institutions. Private credit bureaus (PCB) are generally owned by private international or local providers and collect information from a greater number of sources, including records of payments to other entities than bank (retailers, utilities, credit card issuers, mobile telephones). PCBs can therefore develop a more complete picture of a borrower's financial dealings. PCBs have been established in more than 90 countries including in most middle and high-income countries. PBCs have been established in less than half of MENA countries. PCBs are best introduced through a customized law.

The collateral system is still very underdeveloped. Like in other countries in the MENA region, Iraqi banks have difficulty in all the components of the secured lending chain: registration, enforcement, and selling of collateral. Unlike most MENA countries, Iraq does not have a central collateral registry. Moreover, banks and other market participants stressed that collateral enforcement was a very time-consuming and unpredictable process.

Weak accounting and auditing skills also makes life difficult for bankers. Essentially, bankers cannot have sufficient faith in the accuracy of the balance sheets of their clients and will have difficulty in lending on the basis of projected cash flow of the client alone. And as noted above, collateral has its own problems.

The difficult security situation poses its own particular problems for strengthening the banking system in general, and access to finance in particular. Institution building is a time consuming process and requires hands on expertise to be imparted to Iraqi counterparts. However, given security concerns it is not possible for foreign donors to provide the kind of hands on training they would do otherwise. Security concerns also likely explain the so far limited support for micro finance institutions.

VI. Financial Institutional Infrastructure—Payments System

The Iraqi payments system is relatively well developed. This represents in part significant technical support from foreign donors but since 2008 the CBI has taken administrative and financial responsibility for the technical support. A RTGS system was implemented in 2006, and after a slow start has witnessed a significant increase in volume. The number of subscribers rose from 16 banks in 2006 to all banks in 2010. The number of daily transactions also increased from 120 in 2006 to 500 in 2010, for a monthly volume of approximately ID 10 billion. These numbers remains relatively low compared to RTGS systems in similar countries. The RTGS system has entailed a sharp reduction in timing of process, as settlement is now instantaneous, as opposed to 3 days in 2006. CBI continues to provide capacity building to its staff, as well as those of banks.

The Payments System Department undertook a brief self-assessment of the RTGS systems observance of the Core Principles for Systemically Important Payments systems. While the Bank team did not undertake a rigorous assessment, interviews based on this self-assessment support the Iraqi findings that the RTGS is likely in observance of all but one of the ten core principles. Principle III is not observed because of the insufficient procedures to manage credit risks and liquidity risks.

To further strengthen the payments system and promote financial inclusion, a full Automatic Clearing House was established in 2006 for small payment orders. It is a netting system, and is fully operational. An average of ID 16 billion is exchanged per month.

Until recently, all checks were cleared physically in paper form. Checks are cleared intra region if both payer and beneficiary are within the same region, otherwise the instrument is transferred physically to the payers region and cleared inter region. Accordingly the settlement of paper checks can be quite long (more than one week). An electronic check clearing system was started in January 2011 with a pilot project including 6 banks. The system is expected to be broadened to include most banks by end-2011.

A system to handle CBI and Ministry of Finance auctions Government Securities Registration System (GSRS) went live in November 2008. Currently, 22 banks are participating in this system.

The authorities are aware that continued work is required to enhance the payment system. For the RTGS, a major shortcoming is that although the system permits it, a mechanism for the provision of intra-day liquidity to facilitate settlement has not yet been put in place. If a bank does not have funds, any of its payments will therefore be rejected, which could create a negative cascade in the system. This has not caused any problems thus far, as banks in general are quite liquid.

Another shortcoming is that the RTGS system is not yet integrated with the core systems of many of the banks, but is operated via freestanding terminals that are integrated with the RTGS system at the CBI. A large value transfers therefore have to be inputted manually, with greater risk for errors.

The retail payment system needs to be developed further. While some banks have introduced bankcards, these are bank specific and cannot be used at other banks' terminals. The retail payment system is being supported by a US Treasury project funded by an USAID grant that will help develop the system, including through the establishment of a universal switch to link payment cards from different banks.

In spite of the above progress, cash payments still play a very important role in Iraq. This reflects in part a thriving parallel economy, but also that there is still some mistrust as to the strength of banks.

VII. Conclusions and Policy Recommendations

For sustainable development in Iraq, it is crucial to enhance the performance of the financial sector, and to ensure that it plays a key role in financial intermediation. To help better balance the economy, a deepening of the financial sector is needed to support growth of the non-oil sector. While work should commence on a broad range of issues, some key decisions need to be taken immediately, while others may be implemented over the medium term. Key issues to be addressed up front include developing a clear strategy for the future of state-owned banks. The authorities need to consider the relative roles they wish to assign to state-owned banks and private banks. This includes the role to be assigned to the Trade Bank of Iraq, which was set up as a specialized bank, but now operates as a general commercial bank and has become an important player in the financial system. As part of this overall strategy, state-owned banks must become subject to normal supervision. It is also urgent to accelerate the operational and financial restructuring of Rafidain Bank and Rasheed Bank. A crucial step, also to signal seriousness of intent, is to clean up the balance sheet of these banks, which would require the carving out of disputed items from their balance sheets. Once the balance sheet is cleaned up, the capital of the two banks should gradually be brought up to the level prevailing for private banks.

In the short term it is critical to carry out the overall strategy for Rafidain and Rasheed outlined in the 2006 MOU between the Ministry of Finance and the CBI, and broaden the strategy to include all state-owned banks. Elements will need to include: (i) accelerate the financial restructuring and the cleaning-up of the balance sheet of the state-owned commercial banks—Rafidain Bank and Rasheed Bank by carving out disputed items from their balance sheet and transfer them to a new asset/liability management company; (ii) consider whether a twinning program is needed to ensure a fundamental restructuring of the two state-owned banks; (iii) discontinue quasi-fiscal responsibilities of the state-owned banks. Any agreed payments services for the Government should be remunerated and all loans to government and government entities should carry an appropriate interest rate. Government should refrain from intervening in lending decisions, which must all be subject to commercial risk assessments; (iv) decide on the role of the TBI, whether it should be wound up as initially planned or will it be allowed to stay as commercial bank. If the latter, it should be subject to normal CBI regulations and there is no need for a special law; (v) continue the operational and institutional restructuring of the two state-owned banks, and provide training programs.

It is very important to level the playing field for state-owned banks and private banks, through: (i) gradually increase the amount of letters of credit that private banks are allowed to execute for the state, and eliminate all restrictions over two years; (ii) allow private banks to lend to, and take deposits from, state enterprises; (iii) allow tax and other payments to be made in instruments (including checks) drawn on private commercial banks; (iv) ensure financial strength of private banks by effectively implementing new prudential regulations; (v) implement the planned gradual increase in capital requirements. Further strengthen the payment system is needed by introducing intraday liquidity facility for the RTGS system; and fully implement electronic check clearing system.

In the medium Term, the Iraq authorities should carry out a well formulated strategy for the role

of state banks. Measures to be taken include, clarifying the mandate of the smaller state-owned banks, and consider consolidation and conversion into a development banks, which will not take deposits. Ensure state-owned banks work according to commercial principles and on a level playing field. Early corporatization of state-owned banks should be considered a key element. Over time the authorities should consider gradual privatization of the key state-owned banks. It is essential to carry out a well-planned training program for the implementation of IFRS for all banks.

On the institutional front, there is a need to strengthening auditing profession by introduction of international auditing standards and training, as well as set up appropriate training facilities for commercial bank staff, perhaps in the form of a Banking Institute as is currently under development via a USAID funded project. In addition, enhance governance of commercial banks by the introduction of the OECD Code on Good Corporate Governance Practices. A review of corporate governance practices should also form part of on-site banking examinations, as well as implement credit reporting system, set up centralized collateral registration system, strengthen judicial system, and the financial integrity at all levels. Further improvement of the regulatory framework for micro-finance is critical for improving access to finance.

In terms of developing the Islamic banking industry, the Iraq authorities need to issue the Islamic banking law as soon as possible; implement the international standards of Islamic banking issued by the Islamic Financial Services Board (IFSB); and the implementing Basel II Accord according to the Islamic banking rules, as well as providing extensive training programs on the Islamic banking.

Creating a level playing field for all banks is essential. An immediate priority should be to announce the removal of all impediments for private banks in doing business with the government and state-owned enterprises. Given some concerns over the strength of private banks, some elements, such as the size of letters of credits, could be phased in, to permit enhancement of the effectiveness of banking supervision to take hold, as well as, some consolidation of the banking system following the increase in minimum capital levels. It is clear that this potential expansion of private banks' business opportunities entails keen vigilance on the part of the banking supervision department to ensure the safety and soundness of the private banks.

All these reforms need to be underpinned by a strong legal and regulatory framework. It is critical to align the Iraqi banking supervision system to international standards. For the CBI to be able to fully deploy effective supervision, three main conditions need to be met: (i) the political will to let the CBI perform its tasks without interference; (ii) assurance that the state-owned banks which hold by far the majority of banking system assets, are effectively supervised by the CBI; and (iii) the CBI has the necessary resources—in terms of quantity and quality to take on the supervision of these large institutions with their many branches.

ANNEX 1: CONSOLIDATED STATEMENT OF STATE-OWNED BANKS (2010)

(Million ID)

End Of Period	Assets							
	Reserves			Claims on				
	Currency	Current Deposits with CBI	Foreign Assets	Govt.	Private Sector & Others	Bank Premises	Other Assets	Total Assets or Liabilities
Rafidain	1,479,418	15,004,459	1,569,801	3,466,098	3,358,015	155,643	259,854,990	284,888,424
Rasheed	1,133,434	5,731,810	742,473	2,444,976	2,045,355	46,731	1,378,110	13,522,889
Trade Bank	81,523	6,622,306	8,950,580	1,228,590	304,725	30,518	586,555	17,804,797
Agricultural	53,087	726,221	28	477,842	57,547	9,478	74,779	1,398,982
Real Estate	30,733	371,225	0	50,322	675,118	2,312	17,448	1,147,158
Industrial	7,034	446,520	2,714	0	53,927	2,993	43,452	556,640
Iraq Bank	1,639	31,435	37	0	6,214	1,733	257	41,315
Total State-owned	**2,786,868**	**28,933,976**	**11,265,633**	**7,667,828**	**6,500,901**	**249,408**	**261,955,591**	**319,360,205**

End Of Period	Liabilities								
	Deposits (Private & Others) Sector								
	Current	Time & Saving	Deposits Vs. Guarantees & L / C	Govt.	Foreign Liabilities	Credit from CBI	Capital Reserves & Provisions	Other Liabilities	Total Assets or Liabilities
2010									
Rafidain	14,405,104	2,917,721	6,473	4,487,854	1,160,403	0	454,634	261,456,235	284,888,424
Rasheed	7,211,764	1,833,973	6,144	1,639,805	563,126	0	646,658	1,621,419	13,522,889
Trade Bank	2,585,086	94,902	884,096	11,950,331	624		1,899,955	389,803	17,804,797
Agricultural	32,424	82,321	93	845,044	0	0	32,093	407,007	1,398,982
Real Estate	54,345	7,179	0	27,848	0	0	143,718	914,068	1,147,158
Industrial	42,271	1,593	0	52,621	0	0	52,487	407,668	556,640
Iraq Bank	1,734	8,042	0	4	0	0	1,639	29,896	41,315
Total Governmental	**24,332,728**	**4,945,731**	**896,806**	**19,003,507**	**1,724,153**	**-**	**3,231,184**	**265,226,096**	**319,360,205**

Source: Monetary and Statistics Division

ANNEX 2: CONSOLIDATED STATEMENTS OF COMMERCIAL BANKS (2010)

(Million ID)

End Of Period	Assets								Liabilities								
	Reserves			Claims on					Deposits (Private & Others) Sector								
	Currency	Current Deposits with CBI	Foreign Assets	Govt.	Private Sector & Others	Bank Premises	Other Assets	Total Assets or Liabilities	Current	Time & Saving	Deposits Vs. Guarantees & L/C	Govt.	Foreign Liabilities	Credit from CBI	Capital Reserves & Provisions	Other Liabilities	Total Assets or Liabilities
Warka	4,989	27,009	9,814		556,373	62,199	54,015	714,399	228,553	113,927	95,991	4,304	1,311		199,162	71,151	714,399
Baghdad	68,630	294,173	184,979	119,140	207,646	33,336	20,882	928,786	568,796	206,074	11,037	0	0	0	140,448	2,431	928,786
Basrah	2,263	8,434	76	0	163,567	26,927	207,511	408,778	75,390	20,272	29,839	0	0	0	77,847	205,430	408,778
Al-Bilad Islamic	9,764	81,619	57,902	0	209,976	177,112	55,427	591,800	84,370	134,741	47,144	0	7,001	0	157,261	161,283	591,800
Iraqi Middle East	17,447	144,343	185,908	0	147,661	61,243	20,352	576,954	161,435	270,991	13,185	11,308	0	0	98,130	21,905	576,954
North Bank	48,137	391,527	63,966	0	252,135	28,968	39,254	823,987	229,924	241,558	145.199	2.473	0	0	150,661	54.172	823,987
United Bank	1,867	198,176	6,539	0	265,052	11,364	23,756	506,754	126,392	51,545	100.485	43	-		208,707	19.582	506,754
Dar Alsalam	10,966	202,255	82,988	132,000	19,009	11,092	3,840	462,150	183,458	138,056	60.119	0	-	0	79,432	1.085	462,150
Credit Bank	18,605	378,954	43,306	121.840	25.654	4,589	4,945	597,893	329,229	83,050	5.782	12	8,190		161,073	10.557	597,893
Kurdistan	51,073	91,014	212,793	0	98.201	26,348	15.012	494,441	162,317	70,320	86.802	3.932	0	0	147,554	23.516	494,441
AL-Huda	4,029	177,960	2,278	0	6.189	1,747	2.847	195,050	80,413	3,662	42.356	0	0	0	44,333	24.286	195,050
Mousel	28,451	35,553	16,521	-	66.336	8,795	19.384	175,040	100,262	16,969	22.247	7.925	0	0	69,730	(42.093)	175,040
Gulf	12,585	30,640	23,951	100,000	53.599	20,991	18.974	260,740	61,553	105,927	18.138	0	0	0	77,031	(1.909)	260,740
Investment	9,689	82,861	83,217		89.415	10,446	7.859	283,487	48,792	74,467	14.175				102,446	43.607	283,487
Commercial Bank	6,193	34,660	50,676	100,000	13.845	9,477	1.929	216,780	50,900	26,736	532	0	623	0	117,676	20.313	216,780
Economic	11,793	24,768	64,456	0	159.396	27,296	22.805	310.514	104,831	43,278	28.690	0	0	0	99,798	33.917	310,514
Babylon k	7,593	126,605	5.803	0	28.138	20,640	4.354	193.133	38,905	90,276	330	6.886	0	0	62,978	(6.242)	193,133
Ashur	7,131	103,251	3.280	0	17.150	7,624	1.796	140.232	31,011	14,253	9.008	0	-	0	82,225	3.735	140,232
Dijah&Furat	7.597	63.627	13.377	0	81.338	22,406	8.992	197.337	35,656	20,888	13.064	0	0	0	61,266	66.463	197,337
Mansour	6.555	39.277	27.167	56.500	37.135	4,044	1.337	172.015	28,741	43,310	10.194		178	0	85,723	3.869	172,015
Islamic Regional Cooperation	16.734	69.350	23.803	0	60.774	14,652	4.157	189.470	33,867	29,237	4.875	0	-	0	118,876	2.615	189,470
Union Bank	3.216	34.683	9.954	0	41.300	9,381	6.730	105.264	12,042	11,915	18.042	0	0	0	64,772	(1.507)	105,264
National Bank of Iraq	4.448	34.725	3.958	9.348	43.144	4,646	3.805	104.074	21,458	27,350	994	0	15	0	55,856	(1.599)	104,074
Summer	1.465	20.971	32.161	0	50.845	8,898	2.830	117.170	11,622	19,940	1.850	-	2,742	0	79,939	1.077	117,170

Islamic	7.045	26.540	6.315		18.296	6,588	6.918	71.702	12,194	9,629	1.298				54,546	(5.965)	71,702
Elaf	7.731	66.526	13.345		34.243	20,532	54.497	196.874	24,619	3,166	5.943		0		75,099	88.047	196,874
Trans Iraq Bank	3.462	13.789	67.162		2.679	1,249	767	89.108	13,004	2,638	175		0		68,394	4.897	89,108
Bank Melli Iran	423	18.484	2.497	0	4.873	250	-	26.527	3,989	93	0	0	1,488	0	32,012	(11.055)	26,527
Islamic National Bank	1,118	36.564	2,328	0	19.785	3,657	18,343	81.795	29,967	167	5,189	0	0	0	52,940	(6.468)	81,795
Arab Banking Corporation	0	0	1.408	0	0	121	8.215	9.744	0	0	0	1.065	250	0	7,466	963	9,744
Ziraat Bank	201	4.838	2.345		9	1,334	586	9.313	2,475	153			1,702	0	4,977	6	9,313
Byblos Bank	1.973	46.598	21.962	12,533	7.748	13,943	19.246	124.003	118,300	6,493	11,159	0	14,870	0	12,349	(39.168)	124,003
Gehan Bank	5.079	72.195	18.945		50.485	2,778	5.741	155.223	22,417	11,110	2,055				58,070	61.571	155,223
Intercontinantal Bank	338	20.321	26.938	0	84	1,649	156	49.486	37,595	3,154	420	0	0	0	8,978	(661)	49,486
Erbal Bank	233	6.509	56.004	0	52.250	1,191	1	116.188	14,225	-	1,480	0	0	0	100,856	(373)	116,188
Total Private	388.823	3.008.799	1.428.122	651.361	2.884.330	667,513	667.263	9.696.211	3,088,702	1,895,345	807.797	37.948	38,370	-	3,018,611	809.438	9,696,211

urce: Monetary and Statistics Division

ANNEX 3: CONSOLIDATED STATEMENTS OF COMMERCIAL BANKS WITHOUT ISLAMIC BANKS (2010)*(million ID)*

End Of Period	Assets							Total Assets or Liabilities	Liabilities								Total Assets or Liabilities
	Reserves		Foreign Assets	Claims on		Bank Premises	Other Assets		Deposits (Private & Others) Sector			Govt.	Foreign Liabilities	Credit from CBI	Capital Reserves & Provisions	Other Liabilities	
	Currency	Current Deposits with CBI		Govt.	Private Sector & Others				Current	Time & Saving	Deposits Vs. Guarantees & L / C						
Warka	4,989	27,009	9,814		556,373	62,199	54,015	714,399	228,553	113,927	95,991	4,304	1,311		199,162	71,151	714,399
Baghdad	68,630	294,173	184,979	119,140	207,646	33,336	20,882	928,786	568,796	206,074	11,037	0	0	0	140,448	2,431	928,786
Basrah	2,263	8,434	76	0	163,567	26,927	207,511	408,778	75,390	20,272	29,839	0	0	0	77,847	205,430	408,778
Iraqi Middle East	17,447	144,343	185,908	0	147,661	61,243	20,352	576,954	161,435	270,991	13,185	11,308	0	0	98,130	21,905	576,954
North Bank	48,137	391,527	63,966	0	252,135	28,968	39,254	823,987	229,924	241,558	145,199	2,473	0	0	150,661	54,172	823,987
United Bank	1,867	198,176	6,539	0	265,052	11,364	23,756	506,754	126,392	51,545	100,485	43	-		208,707	19,582	506,754
Dar Alsalam	10,966	202,255	82,988	132,000	19,009	11,092	3,840	462,150	183,458	138,056	60,119	0	-	0	79,432	1,085	462,150
Credit Bank	18,605	378,954	43,306	121,840	25,654	4,589	4,945	597,893	329,229	83,050	5,782	12	8,190		161,073	10,557	597,893
AL-Huda	4,029	177,960	2,278	0	6,189	1,747	2,847	195,050	80,413	3,662	42,356	0	0	0	44,333	24,286	195,050
Mousel	28,451	35,553	16,521	-	66,336	8,795	19,384	175,040	100,262	16,969	22,247	7,925	0	0	69,730	(42,093)	175,040
Gulf	12,585	30,640	23,951	100,000	53,599	20,991	18,974	260,740	61,553	105,927	18,138	0	0	0	77,031	(1,909)	260,740
Investment	9,689	82,861	83,217		89,415	10,446	[illegible]	[illegible]	48,792	[illegible]	14,175				102,446	43,607	283,487
Commercial Bank	6,193	34,660	50,676	100,000	13,845	9,477	1,929	216,780	50,900	26,736	532	0	623	0	117,676	20,313	216,780
Economic	11,793	24,768	64,456	0	159,396	27,296	[illegible]	[illegible]	104,831	[illegible]	28,690	0	0	0	99,798	33,917	310,514
Babylon k	7,593	126,605	5,803	0	28,138	20,640	4,354	193,133	38,905	90,276	330	6,886	0	0	62,978	(6,242)	193,133
Ashur	7,131	103,251	3,280	0	17,150	7,624	1,796	140,232	31,011	14,253	9,008	0	-	0	82,225	3,735	140,232
Mansour	6,555	39,277	27,167	56,500	37,135	4,044	1,337	172,015	28,741	43,310	10,194		178	0	85,723	3,869	172,015
Union Bank	3,216	34,683	9,954	0	41,300	9,381	6,730	105,264	12,042	11,915	18,042	0	0	0	64,772	(1,507)	105,264
National Bank of Iraq	4,448	34,725	3,958	9,348	43,144	4,646	3,805	104,074	21,458	27,350	994	0	15	0	55,856	(1,599)	104,074
Summer	1,465	20,971	32,161	0	50,845	8,898	2,830	117,170	11,622	19,940	1,850	-	2,742	0	79,939	1,077	117,170
Trans Iraq Bank	3,462	13,789	67,162		2,679	1,249	767	89,108	13,004	2,638	175		0		68,394	4,897	89,108
Bank Melli Iran	423	18,484	2,497	0	4,873	250	-	[illegible]	3,989	93	0	0	1,488	0	32,012	(11,055)	26,527
Arab Banking	0	0	1,408	0	0	121	[illegible]	[illegible]	0	0	0	[illegible]	250	0	7,466	963	9,744
Ziraat Bank	201	4,838	2,345		9	1,334	[illegible]	[illegible]	2,475	[illegible]			1,702	0	4,977	6	9,313
Byblos Bank	1,973	46,598	21,962	12,533	7,748	13,943	19,246	124,003	118,300	6,493	11,159	0	14,870	0	12,349	(39,168)	124,003
Intercontinantal Bank	338	20,321	26,938	0	84	1,649	156	49,486	37,595	3,154	420	0	0	0	8,978	(661)	49,486
Erbal Bank	233	6,509	56,004	0	52,250	1,191	1	116,188	14,225	-	1,480	0	0	0	100,856	(373)	116,188
Total Private Non Islamic	282,682	2,501,364	1,079,314	651,361	2,311,232	393,440	498,176	7,717,569	2,683,295	1,616,087	641,427	34,016	31,369	-	2,292,999	418,376	7,717,569

Source: Monetary and Statistics Division

ANNEX 4: CONSOLIDATED STATEMENTS OF ISLAMIC BANKS (2010)

(Million ID)

End Of Period	Assets							Total Assets or Liabilities
	Reserves		Foreign Assets	Claims on		Bank Premises	Other Assets	
	Currency	Current Deposits with CBI		Govt.	Private Sector & Others			
Kurdistan	51,073	91,014	212,793	0	98,201	26,348	15,012	494,441
Dijah&Furat	7,597	63,627	13,377	0	81,338	22,406	8,992	197,337
Islamic Regional Cooperation	16,734	69,350	23,803	0	60,774	14,652	4,157	189,470
Islamic	7,045	26,540	6,315		18,296	6,588	6,918	71,702
Elaf	7,731	66,526	13,345		34,243	20,532	54,497	196,874
Islamic National Bank	1,118	36,564	2,328	0	19,785	3,657	18,343	81,795
Al-Bilad Islamic	9,764	81,619	57,902	0	209,976	177,112	55,427	591,800
Gehan Bank	5,079	72,195	18,945		50,485	2,778	5,741	155,223
Total Islamic	**106,141**	**507,435**	**348,808**	**-**	**573,098**	**274,073**	**169,087**	**1,978,642**

End of Period	Liabilities								
	Deposits								
	(Private & Others) Sector			Govt.	Foreign Liabilities	Credit from CBI	Capital Reserves & Provisions	Other Liabilities	Total Assets or Liabilities
	Current	Time & Saving	Deposits Vs. Guarantees & L / C						
Kurdistan	162,317	70,320	86,802	3,932	0	0	147,554	23,516	494,441
Dijah&Furat	35,656	20,888	13,064	0	0	0	61,266	66,463	197,337
Islamic Regional Cooperation	33,867	29,237	4,875	0	-	0	118,876	2,615	189,470
Islamic	12,194	9,629	1,298				54,546	(5,965)	71,702
Elaf	24,619	3,166	5,943		0		75,099	88,047	196,874
Islamic National Bank	29,967	167	5,189	0	0	0	52,940	(6,468)	81,795
Al-Bilad Islamic	84,370	134,741	47,144	0	7,001	0	157,261	161,283	591,800
Gehan Bank	22,417	11,110	2,055				58,070	61,571	155,223
Total Islamic	**405,407**	**279,258**	**166,370**	**3,932**	**7,001**	**-**	**725,612**	**391,062**	**1,978,642**

Source: Monetary and Statistics Division

ANNEX 5: RATIOS (2010)

(Percentage)

End Of Period	Assets							
	Reserves		Foreign Assets	Claims on		Bank Premises	Other Assets	Total Assets or Liabilities
	Currency	Current Deposits with CBI		Govt.	Private Sector & Others			
Islamic Banks to Total Banks	3.342	1.589	2.748	0.000	6.106	29.891	0.064	0.601
Islamic Banks to Private Banks	27.298	16.865	24.424	0.000	19.869	41.059	25.340	20.406
Islamic Banks to Private Non Islamic Banks	37.548	20.286	32.318	0.000	24.796	69.661	33.941	25.638
Islamic Banks to State-owned Banks	3.809	1.754	3.096	0.000	8.816	109.889	0.065	0.620
Private Banks to State-owned Banks	13.952	10.399	12.677	8.495	44.368	267.639	0.255	3.036
Private Banks to Total Banks	12.244	9.419	11.251	7.830	30.733	72.799	0.254	2.947
State-owned Banks to Total Banks	87.756	90.581	88.749	92.170	69.267	27.201	99.746	97.053

End of period	Liabilities								
	Deposits				Foreign Liabilities	Credit from CBI	Capital Reserves & Provisions	Other Liabilities	Total Assets or Liabilities
	Private & Others Sector			Govt.					
	Current	Time & Saving	Deposits Vs. Guarantees & L / C						
Islamic Banks to Total Banks	1.478	4.082	9.760	0.021	0.397	-	11.610	0.147	0.601
Islamic Banks to Private Banks	13.125	14.734	20.596	10.362	18.246	-	24.038	48.313	20.406
Islamic Banks to Private Non Islamic Banks	15.109	17.280	25.937	11.559	22.318	-	31.645	93.471	25.638
Islamic Banks to State-owned Banks	1.666	5.646	18.551	0.021	0.406	-	22.457	0.147	0.620
Private Banks to State-owned Banks	12.694	38.323	90.075	0.200	2.225	-	93.421	0.305	3.036
Private Banks to Total Banks	11.264	27.705	47.389	0.199	2.177	-	48.299	0.304	2.947
State-owned Banks to Total Banks	88.736	72.295	52.611	99.801	97.823	-	51.701	99.696	97.053

ANNEX 6: BANKING INDICATORS

Table 1: Banking Basic Information 2009*

No.	Bank's Name	Branches No.	Establishment Date	Total Assets or Liabilities (Million ID)	Paid Up Capital (Million ID)
1	Rafidain Bank	165	1941	285,723,148	25,000
2	Rasheed Bank	137	1988	19,800,308	2,000
3	Trade Bank Of Iraq	8	2004	16,833,056	500,000
4	Agricultural Cooperation Bank	52	1935	1,591,514	600
5	Real Estate Bank	17	1948	1,055,993	50,000
6	Industrial Bank of Iraq	7	1946	517,990	25,000
7	Iraq Bank	5	1991	40,059	1,000
	Total of State. Banks	**391**		**325,562,068**	**603,600**
1	Warka Bank for Investment & Finance	61	2000	994,671	75,000
2	Bank of Baghdad	31	1992	804,729	85,200
3	Basrah International Bank for Investment	17	1993	652,058	55,000
4	Al-Bilad Islamic Bank for Investment & Finance	12	2006	630,633	100,000
5	Iraqi Middle East Bank for Investment	19	1993	559,093	55,000
6	North Bank for Finance & Investment	8	2004	515,449	100,000
7	United Bank for Investment	6	1994	440,778	100,000
8	Dar Alsalam Investment Bank	18	1999	421,351	67,000
9	Credit Bank of Iraq	15	1998	366,758	85,000
10	Kurdistan International Bank for Investment & Development	6	2005	361,904	50,000
11	AL-Huda Bank	3	2008	323,920	25,000
12	Mousel Bank for Development & Investment	13	2001	262,375	50,000
13	Gulf Commercial Bank	32	2000	261,493	50,000
14	Investment Bank of Iraq	18	1993	244,216	50,400
15	Commercial Bank of Iraq	10	1992	230,928	60,000
16	Economic Bank for Investment & Finance	32	1999	211,939	70,000
17	Babylon Bank	10	1999	169,479	50,000
18	Ashur International Bank for Investment	4	2005	160,233	57,500
19	Dijah & Furat Bank for Development & Investment	6	2005	157,475	50,000
20	Mansour Bank for Investment	4	2006	142,009	75,000
21	Islamic Regional Cooperation Bank for Development & Investment	6	2007	133,656	50,000
22	Union Bank of Iraq	2	2004	121,108	50,000
23	National Bank of Iraq	5	1995	97,581	50,000
24	Summer Commercial Bank	6	1999	96,039	50,000
25	Iraqi Islamic Bank for Investment & Development	9	1993	87,754	51,192
26	Elaf Islamic Bank	8	2001	74,331	20,000
27	Trans Iraq Bank	2	2006	71,240	56,500
28	Bank Melli Iran - Baghdad	1	2005	35,356	28,663
29	Islamic National Bank	1	2005	24,215	25,000
30	Arab Banking Corporation	1	2004	14,421	8,204
31	Ziraat Bank-Baghdad	1	2006	7,642	8,190
32	**Byblos Bank of Lebanon	2	2006		9,055

No.	Bank's Name	Branches No.	Establishment Date	Total Assets or Liabilities (Million ID)	Paid Up Capital (Million ID)
33	**Emerlard Bank	8	2007		50,000
34	**Gehan Bank for Investment & Islamic Finance	4	2008		50,000
35	**Bank of Beirut & the Arab Countries	1	2009		8,183
36	**Intercontinental Bank	1	2008		8,379
	Total of Private Banks	383		8,674,834	1,833,466
	Grand Total	**774**		**334,236,902**	**2,437,066**

Source: Central Bank of Iraq

*** Banks were arranged according to their Financial Position**

**** Banks within Kurdistan Territory**

Table 2: Non Performing Loans by Sector for All Banks *(In millions of ID)*

	2009
Agriculture, Forestry, Hunting & Fishing	26,023
Mining & Quarrying	-
Manufacturing Industry	33,719
Eelectricity &Ggas	453
Wholesale, RetailTtrade &Hotels	136,846
Transport, Communications & Storage	5,060
Finance, Insurance, Real Estate & Business services	8,045
Social services	15,191
Eexternal world	21
Building & Construction	13,255
Total	**238,613**

Table 3: Loans to Non Financial Enterprises, 2009 *(In millions of Iraqi Dinars)*

	Rafidain/Rasheed	Other state banks	Private banks	Total
Agriculture, Forestry, Hunting & Fishing	59,490	13,798	19,466	106,552
Mining & Quarrying	78	-	-	78
Manufacturing Industry	83,174	59,300	102,041	319,972
Electricity & Gas	18,977	-	5,479	68,114
Wholesale, Retail Trade & Hotels	565,932	29,397	1,299,712	1,924,468
Transport, Communications& Storage	63,164	41	49,533	112,779
Finance, Insurance, Real Estate & Business Services	154,862	-	99,296	254,158
Social services	776,315	-	113,958	1,133,826
External World	503	-	23,394	23,897
Building & construction	117,661	448,801	214,912	1,251,196
Total	1,840,156	551,337	1,927,791	5,195,040

Table 4: Iraq Income and Expense Statement for Banks, 2009-10 *(In billions of ID)*

	State banks		Private banks		All banks	
	2009	2010	2009	2010	2009	2010
Interest Income	554.0	622.8	329.1	302.8	863.2	925.6
Interest Expense	246.1	179.7	149.7	140.5	395.7	320.1
Net interest income	307.9	443.1	179.5	162.4	487.4	605.5
Non interest income	552.5	455.6	298.5	318.5	850.9	774.1
Gross income	860.4	898.7	477.9	480.9	1338.4	1379.6
Non interest expenses	265.4	288.3	162.3	206.0	427.7	494.2
Personnel costs	170.5	180.6	76.2	88.1	246.7	268.7
Other expenses	94.9	107.6	86.1	117.9	181.0	225.5
Provisions	27.2	79.6	32.6	42.4	59.8	121.9
Net income	567.8	530.9	283.1	232.5	850.9	763.4

Table 5: Iraq: CAMEL Ratings (2007-2010)

Bank	Assessment 2007	Score 2007	Assessment 2008	Score 2008	Assessment 2009	Score 2009	Assessment 2010	Score 2010
Iraqi Middle East Bank for Investment	good	3	v.good	2	v.good	2	excellent	1C
Investment Bank of Iraq	good	3	v.good	2	good	3	good	3C
Credit Bank of Iraq	good	3	v.good	2	v.good	2B	v.good	2C
Commercial Bank of Iraq	good	3	good	3	good	3C	good	3C
Warka Bank for Investment & Finance	good	3	good	3	good	3		
North Bank for Finance & Investment	good	3	good	3	v.good	2C		
Mansour Bank for Investment	good	3	good	3	good	3		
Bank of Baghdad	margin	4	good	3	v.good	2B2	v.good	2C
Ashur International Bank for Investment	margin	4	good	3	v.good	2C		
Dar Alsalam Investment Bank	margin	4	good	3	good	3B		
Al-Bilad Islamic Bank for Investment & Finance	-	-	good	4	good	3	v.good	2C
Basrah International Bank for Investment	margin	4	margin	4	margin	4C	weak	5
National Bank of Iraq	margin	4	margin	4	good	3C	margin	4
Economic Bank for Investment & Finance	margin	4	margin	4	good	3B		
Summer Commercial Bank	margin	4	margin	4	good	3B	good	3B
Union Bank of Iraq	margin	4	margin	4	good	3C	good	3A
Gulf Commercial Bank	margin	4	margin	4	v.good	2B1	v.good	2C
Iraqi Islamic Bank for Investment & Development	margin	3	margin	4	margin	4C2		
Babylon Bank	margin	3	margin	4	good	3B	good	3
Regional Cooperation of the Islamic Bank for Development & Investment	-	-	margin	4	v.good	2B	v.good	2B
Trans Iraq Bank			margin	4	margin	4		
Dijah&Furat Bank for Development & Investment	-	-	margin	4	good	3	v.good	2C
United Bank for Investment	margin	4	weak	5	margin	4A	v.good	2C
National Islamic Bank	-	-	weak	5	-	-	-	
Elaf Islamic Bank	-	-	weak	5	margin	4	good	3B
Mousel Bank for Development & Investment	-	-	good	3	v.good	2B	good	3
Kurdistan International Bank for Investment & Development	-	-	-	-	v.good	2C		
AL-Huda Bank	-	-	-	-	good	3	good	3

- Assessment from Top to bottom (excellent, v.good, good, margin, weak)
- Score from strong (sound) to weak (1-5)

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