



**REPORT ON LOANS
CLASSIFICATION**



USAID-funded Economic Governance II Project

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Executive Summary

At the request of both the Central Bank of Iraq and the USAID Contractor, the State Owned Banks started late August, 2005, to classify their loans according to International Rating Standards and Basel II principles.

This process, which is entirely new for the Iraqi Banks, proved to be an excellent tool and test to show the real quality of the performing loans portfolio and the risk presented. It also verified that pre war loans are generally of a lesser quality than post war loans.

It is likely that many clients take advantage of the war and the present situation to stop or delay the repayments of their borrowings. It is also true that collateralization of the loans and facilities are largely sufficient to cover cash flow shortfall, as long as a proper action is taken to foreclose on delinquent loans. It seems that this is not the case at the present time.

The following tables indicate a partial *loans* classification (Not including the *facilities*) for several Banks, but they are sufficient to formulate a first opinion on the condition of the “performing” loans.

Meaning of Ratings

| Ratings | Classification | Considerations | Provisions |
|----------------|-----------------------|--|-------------------|
| A | Standard | Good repayment sources. Loan repaid on time | 2% to 5% |
| B | Watch | Loan less than 90 days passed due. Needs follow-up | 10% |
| C | Sub Standard | Loan is Past due more than 90 days and less than 180 | 25% |
| D | Doubtful | Loan is Past due more than 180 days. Risk of loss | 50% |
| E | Loss | Loan is over one year. Considered un-collectible | 100% |

State Owned Banks Risk Considerations

1. Rafidain Bank:

- a. **Rating of Post-war USD Loans** – 84 percent of the number of loans is in category A and B while the 87 percent in amount is in the same categories. There are no loans in the loss category. This is mitigated by the fact that many loans in category A are not yet due.
- b. **Rating of Post-war Loans in IQD** – Close to 100 percent of Post-war loans in IQD are in category A and B. many are new loans not due yet.

2. Rasheed Bank:

- c. **Rating of Post-war USD Loans** – 77 percent of the number of loans is in category A and B while 78 percent in amount is in the same category. Two percent in number and in amount is in the loss category. It shows a certain consistence in the average amount of the loans.

- d. **Rating of Pre-war USD Loans** – The situation is reversed for the pre-war loans. There are no loans in the standard category. More than half the loans are in the categories over 90 days past due.

3. Iraq bank:

- a. **Rating of Post-war Loans in IQD** – 88 percent of the number of loans and 86 percent of loan amounts are in category A and B. Less than 2 percent are in the loss category. This has to be mitigated as some of the loans in category A are in fact advances to employees secured by their salaries. Nevertheless these loans represent only 18 percent of the total amount in the same category.
- b. **Rating of Pre-war Loans in IQD** – Pre-war loans are for the most part in the categories D and E. There are 84 percent in numbers and 85 percent in amount. There again a certain consistency may be seen.

These percentages relate to the classification at the end of August. Results at the end of September vary slightly, but the same consistency can be observed

4. Industrial Bank:

- c. **Rating of Post-war loans in IQD** – There are only four loans posted after the war. All of them are in category A.
- d. **Rating of Pre-war loans in IQD** – Most loans in IQD were booked before the war. Many have been rescheduled. Fifty five percent are in category A and B and 27 percent are in the E category, but the Bank is still trying to collect them.
- e. **Rating of loans in USD:** There are only eleven loans in USD. All pre-war. Two are in category B and nine in D.

5. Real Estate Bank: Partial results

- a. **Rating of Post-war loans in IQD** – Even if this is a partial rating, it shows that many loans are past due. In numbers, twenty five percent of the loans only are in category A and B and in amount fifty percent.
- b. **Rating of Pre-war loans in IQD** – All loans are in category C, D and E. It shows the poor quality of the portfolio.

6. Agricultural Bank: Partial Results

- a. **Rating pre and post war** – The information provided by the Bank indicates only the loans in category A, B and C for a total of 679 loans and an amount of IQD 3,6 billions. Other information obtained, concerning the total portfolio is not reliable enough to make proper assumptions. Nevertheless it is suspected that a large part of the loans is past due or have been rescheduled.

RAFIDAIN BANK

Ratings of Performing Loans in USD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|---------|------------|
| A | | 222 | | 6,930,530 |
| B | | 128 | | 4,708,818 |
| C | | 53 | | 1,343,227 |
| D | | 13 | | 399,687 |
| E | | 0 | | 0 |
| Total | | 416 | | 13,382,262 |

| | | |
|--------------------|-----|------------|
| Grand Total | 416 | 13,382,262 |
|--------------------|-----|------------|

Breakdown in percentage of loans classification, post war USD

| Rating | Number % | Amount % |
|--------------|----------|----------|
| A | 53 | 52 |
| B | 31 | 35 |
| C | 13 | 10 |
| D | 3 | 3 |
| E | 0 | 0 |
| Total | 100 | 100 |

RAFIDAIN BANK

Ratings of Performing Loans in IQD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|---------|---------------|
| A | | 68 | | 1,621,110,000 |
| B | | 8 | | 268,000,000 |
| C | | 2 | | 21,777,775 |
| D | | 1 | | 70,000,000 |
| E | | 0 | | 0 |
| Total | | 79 | | 1,980,887,775 |

| | | |
|--------------------|----|---------------|
| Grand Total | 79 | 1,980,887,775 |
|--------------------|----|---------------|

Breakdown in percentage of loans classification, post war IQD

| Rating | Number % | Amount % |
|--------------|----------|----------|
| A | 86 | 82 |
| B | 10.20 | 13.40 |
| C | 2.55 | 1.10 |
| D | 1.25 | 3.50 |
| E | 0 | 0 |
| Total | 100 | 100 |

RASHEED BANK

Ratings of Performing Loans in USD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|---------|-----------|
| A | 0 | 133 | 0 | 2,155,000 |
| B | 7 | 12 | 189,200 | 161,500 |
| C | 3 | 29 | 88,500 | 459,373 |
| D | 4 | 10 | 79,630 | 152,000 |
| E | 11 | 4 | 169,350 | 67,800 |
| Total | 25 | 188 | 526,680 | 2,995,673 |

| | | |
|--------------------|-----|-----------|
| Grand Total | 213 | 3,522,353 |
|--------------------|-----|-----------|

Breakdown in percentage of loans in USD post war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | 70 | 73 |
| B | 7 | 5 |
| C | 16 | 15 |
| D | 5 | 5 |
| E | 2 | 2 |
| Total | 100 | 100 |

Breakdown in percentage of loans in USD pre war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | 0 | 0 |
| B | 28 | 36 |
| C | 12 | 17 |
| D | 16 | 15 |
| E | 44 | 32 |
| Total | 100 | 100 |

IRAQ BANK

Ratings of Performing Loans in IQD as of August, 2005

| Rating | Number of Loans | Original Amount (000) | Outstanding Amount (000) |
|--------|-----------------|--------------------------|-----------------------------|
|--------|-----------------|--------------------------|-----------------------------|

| | Pre war | Post war | Pre war | Post war | Pre war | Post war |
|--------------|---------|------------------|-----------|-----------|---------|-----------|
| A | 30 | 884 ¹ | 70,450 | 4,228,725 | 27,904 | 3,523,085 |
| B | 25 | 65 | 55,000 | 404,500 | 25,590 | 313,660 |
| C | 52 | 19 | 118,500 | 144,750 | 65,080 | 122,627 |
| D | 130 | 17 | 270,650 | 75,500 | 171,634 | 63,106 |
| E | 430 | 18 | 729,040 | 84,000 | 524,715 | 76,069 |
| Total | 667 | 1003 | 1,243,640 | 4,937,475 | 814,923 | 4,098,547 |

| | | | |
|--------------------|------|-----------|-----------|
| Grand Total | 1670 | 6,181,115 | 4,913,470 |
|--------------------|------|-----------|-----------|

Breakdown in percentage of loans in IQD post war

| Ratings | Number % | Amount% |
|--------------|----------|---------|
| A | 88.10 | 85.95 |
| B | 6.50 | 7.65 |
| C | 1.90 | 3 |
| D | 1.70 | 1.50 |
| E | 1.80 | 1.90 |
| Total | 100 | 100 |

Breakdown in percentage of loans in IQD pre war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | 4.50 | 3.42 |
| B | 3.75 | 3.14 |
| C | 7.80 | 7.98 |
| D | 19.50 | 21.06 |
| E | 64.45 | 64.40 |
| Total | 100 | 100 |

IRAQ BANK

Ratings of Performing Loans in IQD as of September, 2005

| | Number of Loans | Original Amount (000) | Outstanding Amount (000) |
|--|-----------------|--------------------------|-----------------------------|
|--|-----------------|--------------------------|-----------------------------|

| Rating | Pre war | Post war | Pre war | Post war | Pre war | Post war |
|--------------|----------|----------|-----------|-----------|-----------|-----------|
| | A | 31 | 960 | 72,450 | 4,626,725 | 27,805 |
| B | 25 | 64 | 55,000 | 402,000 | 23,906 | 299,274 |
| C | 51 | 19 | 116,500 | 144,750 | 61,737 | 111,393 |
| D | 130 | 17 | 270,650 | 75,500 | 170,559 | 63,106 |
| E | 430 | 18 | 729,040 | 84,000 | 513,045 | 76,069 |
| Total | 667 | 1078 | 1,243,640 | 5,332,975 | 797,052 | 4,287,733 |

| | | | |
|--------------------|------|-----------|-----------|
| Grand Total | 1745 | 6,576,615 | 5,084,785 |
|--------------------|------|-----------|-----------|

Breakdown in percentage of loans in IQD post war

| Ratings | Number % | Amount% |
|--------------|----------|---------|
| A | 89.00 | 87.20 |
| B | 5.95 | 6.95 |
| C | 1.75 | 2.60 |
| D | 1.65 | 1.50 |
| E | 1.65 | 1.75 |
| Total | 100 | 100 |

Breakdown in percentage of loans in IQD pre war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | 4.60 | 3.50 |
| B | 3.75 | 3.00 |
| C | 7.65 | 7.75 |
| D | 19.50 | 21.40 |
| E | 64.50 | 64.35 |
| Total | 100 | 100 |

INDUSTRIAL BANK

Ratings of Loans in IQD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|-------------|-------------|
| A | 10 | 4 | 156,150,000 | 625,400,000 |
| B | 17 | | 191,993,018 | |
| C | 6 | | 123,304,454 | |
| D | 3 | | 42,665,000 | |
| E | 13 | | 87,080,528 | |
| Total | 49 | 4 | 601,193,000 | 625,400,000 |

| | | |
|--------------------|----|---------------|
| Grand Total | 53 | 1,226,593,000 |
|--------------------|----|---------------|

Ratings of Loans in USD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|---------|----------|
| A | | | | |
| B | 2 | | | |
| C | | | | |
| D | 9 | | | |
| E | | | | |
| Total | 11 | | 689,750 | |

| | | |
|--------------------|----|---------|
| Grand Total | 11 | 689,750 |
|--------------------|----|---------|

INDUSTRIAL BANK

Breakdown in percentage of loans in IQD pre war

| Ratings | Number % | Amount % |
|----------------|-----------------|-----------------|
| A | 21 | 26 |
| B | 34 | 32 |
| C | 12 | 21 |
| D | 6 | 7 |
| E | 27 | 14 |
| Total | 100 | 100 |

Breakdown in percentage of loans in IQD post war

| Ratings | Number % | Amount % |
|----------------|-----------------|-----------------|
| A | 100 | 100 |
| B | | |
| C | | |
| D | | |
| E | | |
| Total | 100 | 100 |

Breakdown in percentage of loans in USD pre war

| Ratings | Number % | Amount % |
|----------------|-----------------|-----------------|
| A | | |
| B | 18 | Not available |
| C | | |
| D | | |
| E | 82 | Not Available |
| Total | 100 | |

REAL ESTATE BANK

Ratings of Loans in IQD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|-------------|-------------|
| A | | 2 | | 37,000,000 |
| B | | 2 | | 74,217,975 |
| C | 37 | 12 | 186,428,465 | 41,071,167 |
| D | 4 | | 33,231,000 | |
| E | | | | |
| Total | 41 | 16 | 219,659,465 | 152,289,142 |

| | | |
|--------------------|----|-------------|
| Grand Total | 57 | 371,948,607 |
|--------------------|----|-------------|

Breakdown in percentage of loans in IQD pre war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | | |
| B | | |
| C | 90 | 85 |
| D | 10 | 15 |
| E | | |
| Total | 100 | 100 |

Breakdown in percentage of loans in IQD post war

| Ratings | Number % | Amount % |
|--------------|----------|----------|
| A | 12.5 | 24.25 |
| B | 12.5 | 48.75 |
| C | 75 | 27 |
| D | | |
| E | | |
| Total | 100 | 100 |

AGRICULTURAL BANK

Ratings of Loans in IQD

| Rating | Number of Loans | Outstanding Amount |
|--------|-----------------|--------------------|
|--------|-----------------|--------------------|

| | Pre war | Post war | Pre war | Post war |
|--------------|---------|----------|-------------|---------------|
| A | 58 | 463 | 80,606,654 | 2,830,356,669 |
| B | 13 | 142 | 152,500,750 | 556,750,000 |
| C | 2 | 1 | 2,590,000 | 24,000,000 |
| D | | | | |
| E | | | | |
| Total | 73 | 606 | 235,697,404 | 3,411,106,669 |

| | | |
|--------------------|-----|---------------|
| Grand Total | 679 | 3,646,804,073 |
|--------------------|-----|---------------|

Conclusion

The Banks could not complete the classification of the entire *loan* portfolio before the end of the assessment. In addition the classification was done for *term loans* only. Rating of the *facilities*, and more specifically, the overdrafts will have to be done at a later stage.

Nevertheless this exercise taught the Banks how to rate their loans according to international standards and the meaning and importance of classifying their portfolio, thus allowing the management to have a general overview of its quality.

The results, though partial, show that many loans considered as performing are in reality past due. It also asserts that pre war loans are of a lesser quality than post war loans. This has to be mitigated by the fact that many post war loans are not yet due and therefore are in the A category. In addition the tables indicate a certain consistency in the percentage of loan numbers versus the outstanding amount, in each category.