USAID-Funded Economic Governance II Project

Assessment of Iraqi State-Owned Banks

Volume II

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The USAID-Funded Economic Governance II program is pleased to present this report entitled ***Assessment of Iraqi State-owned banks* -Volume II**, on the State's **four specialized banks**. The report provides the findings of a team of commercial bank restructuring experts assigned to six of the seven Iraqi State-owned institutions. This document contains analyses based on employee-provided data. Given significant weaknesses in the operational and finance functions, the validity of financial indicators remains in question. As well, given the ongoing security concerns in Iraq, the advisory team's onsite presence was significantly impacted. Under such limitations, the ability to conduct an in-depth review of each banking department was not possible.

The purpose of this assessment was to determine the financial condition of the institutions in light of the emergence of a new Iraqi financial system. Efforts have been in place since summer 2004 to identify a strategic approach to the State-owned banking dilemma in Iraq, focusing on possible options to be conducted by the new Government of Iraq (GoI). As a critical foundation of economic reform, it was determined that a baseline assessment must be conducted in order to provide the necessary data to the GoI. As experienced throughout emerging markets, a key component of economic reform is a well-regulated, vibrant banking system that cannot only provide credit to the emerging private sector but also can do so in a transparent manner. In order to begin such steps in Iraq, a baseline must be established whereby these six institutions may be addressed to support the reform.

The focus of this review was on the six historical State-owned banking institutions. These six banks comprise 90 percent of the total banking system's assets. Rafidain Bank and Rasheed Bank account for approximately 86 percent of total banking assets and about the same share of the banking system's deposits. These two large commercial institutions account for about $6.5 billion in assets and operate approximately 310 domestic branches, of which about 286 are currently open.[1] Together, the two banks have more than 2.8 million deposit accounts and employ approximately 13,000 individuals.

Iraq also has four smaller, specialized, State-owned banks: the Iraq Bank (formerly known as the Socialist Bank), the Industrial Bank, the Real Estate Bank, and the Agriculture Bank. Collectively, these banks account for approximately 7 percent of the total banking system's assets, and 66 branches are operational.[2] As of year-end 2004, the four banks only account for total assets of approximately USD 348 million, and together, the four smaller banks hold more than 66,350 deposit accounts and employ 2,248 individuals. Although they were originally founded to support particular sectors of the Iraqi economy, in 1997 they were authorized by the former regime to conduct general commercial banking activities. They now are direct competitors of the two large State-owned banks as well as of the emerging private commercial banking sector.

[1] November 2005 data.
[2] November 2005 data.

In June 2005, the advisory team contributed to a co-authored workplan with members of the US Treasury – Iraq Reconstruction Management Office (IRMO) banking team. The purpose of this collaborative effort was to conduct the necessary investigations in each of the six institutions to support a strategic banking system options paper for the GoI. Thus, the findings of our assessment are of a financial and operational nature and do not provide recommendations. Rather, the assessment provides critical information to the US Treasury IRMO team.

We believe the findings of this **two-volume** report provide the data components necessary to develop appropriate options for the financial remediation of the Iraqi State-owned banks. We encourage your thorough review of the information presented herein.

Very truly yours,

Gareth Davies
Chief of Party
USAID-Funded Economic Governance II Project

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INTRODUCTION

1 INTRODUCTION

Following the 2004 Coalition Provisional Authority's handover to the new sovereign Interim Government, international donor organizations enacted broad economic reform programs. The United States Agency for International Development (USAID) has been a key implementer in these programs. As a component of Iraqi reconstruction, the financial sector has been identified as a fundamental component to support these efforts. As such, focus on the condition of the State-owned banking system became a key concern.

The USAID-Funded Economic Governance II Project has taken critical steps in providing the information necessary to contribute to the larger State-owned banking restructuring program. This two-volume document, *Assessment of Iraqi State-owned Banks*, represents USAID's contribution to the development of a broad-based banking strategy for the Government of Iraq (GoI). As a component of the IMF's 2004 Emergency Post-Conflict Assistance (EPCA), criteria were developed which would set the framework for State-owned banking reform. In conjunction with this report, the United States Treasury – Iraq Reconstruction Management Office (IRMO) banking team will propose a banking strategy for consideration of the GoI. USAID's BearingPoint advisors provide critical data to the US Treasury team in the body of this document.

BearingPoint was tasked under the USAID-Funded Economic Governance II Project and in conjunction with US Treasury's IRMO to assess the **Financial Condition** and the **Operational Status** of six Iraqi State-owned banks: Rafidain, Rasheed, Iraq (formerly Socialist), Industrial, Real Estate, and Agriculture. The seventh State-owned Bank, Trade Bank, was excluded from the Assessment at the request of the Iraqi Minister of Finance.

SCOPE OF ASSESSMENT

2 SCOPE OF ASSESSMENT

The Assessment covered six of the seven wholly owned Government banks, as stipulated by the Minister of Finance at the outset of the reviews. The Government feels that the Trade Bank of Iraq is well enough capitalized, established sufficiently, and managed capably enough that it can be considered separately in any future bank restructuring project. The Assessment was carried out from July 2005 through November 2005.

The project goal was to ascertain the actual current condition and viability of each of the six banks through detailed data gathering and review. This was not meant to be an audit, as such effort was beyond the scope and capability of the five reviewers' time and terms of reference. An audit could be conducted in the future in preparation for whatever final action the shareholder may plan to take, but this was not deemed necessary or appropriate for this effort.

One standard set of guidelines often followed in diagnostic reviews and financial assessments of banks is based on the Uniform Financial Institutions Rating System (UFIRS), commonly known as the "CAMELS" system **(C**apital adequacy**, A**sset quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to market risks**)**. This review, however, assessed the functional areas of each bank for financial condition and viability, operational standards, organizational efficiency, compliance with modern operating, credit, and reporting standards.

The Assessment covered the subject areas at the head office levels, with reviews of branch positions via standard, periodic consolidating reports and spot visits. Data and information were obtained from monthly, quarterly, and annual financial statements as available, and from worksheets, interviews, first hand observations, and questionnaires. The conversion rate of IQD 1460 to one US dollar is used throughout this report.

There were major constraints encountered during the Assessment. Due to the universal manual accounting, transacting, and reporting procedures of the banks, and the poor communications between head offices and branches, regular delays were experienced, and amounts and data could not always be reconciled or considered reliable or accurate. Normally during a detailed assessment, full, frequent, and first hand access to bank staff and records is necessary. Further, due to the security situation in Iraq, advisors were not able to travel to head offices or branches as often as desired, which placed restrictions on timing and length of meetings and ability to gather report data.

Five advisors were engaged to conduct the Assessment, each with experience in the major banking areas of responsibility. Each advisor conducted an in-depth investigation of his respective area for each of the six State-owned banks according to the terms of reference outlined below:

Accounting and Reporting Advisor

- Select and train a task force of nationals to assist in implementing Assessment tasks.
- Conduct detailed review of accounting department and functions of State-owned banks.
- Determine, to the extent possible, the reasonableness, accuracy and reliability of accounts.
- Restate financial statements for December 31, 2004, conforming with IAS where possible.
- Assess financial viability of banks.

Credit Management Advisor

- Select and train a task force of nationals to assist in implementing Assessment tasks.
- Review organization of credit department in each bank.
- Estimate level of competency of the staff of the credit departments.
- Assess credit policies and procedures presently in effect in each bank.
- Review loan portfolios to determine the present status of the loans and action to be taken.
- Undertake a "classification" of portfolios to determine "current" status of loans.

Loan Recovery and Bad Debt Resolution Advisor

- Select and train a task force of nationals to assist in implementing Assessment tasks.
- Establish loan classification criteria, review loan portfolios, and classify all problem loans.
- Segregate problem loans and remove them from bank for eventual separate follow up and resolution.
- Compile relevant information on problem loans (name, balance, collateral, estimated recovery, etc.).
- Feed other assessment areas with information as required to complete their assessments.
- Supervise establishment and management of Remedial Asset Unit (repository of all bad debts).
- Constitute work out committees and set parameters for collections and/or write-offs.
- Identify viable banks and closedown candidate banks.

International Accounts and Debt Reconciliation Advisor

- Ascertain State-owned banks' total correspondent bank account balances confiscated.
- Work with MoF and US Treasury advisors to link balances to DFI and OFAC records and assist in reconciliation.
- Identify and list unpaid Letters of Credit balances booked as loans and L/C deposits.
- Identify total foreign bank and commercial claimants and amounts due.
- Coordinate with Ernst & Young on the reconciliation of these banks' accounts obligations and letters of credit and correspondent bank accounts and balances.
- Determine impact of reconciliation of external debt (Paris Club, non-Paris Club, and Commercial Claimants) on the State owned banking sector.

Bank Operations, Automation, and Human Resource Advisor

- Select and train a task force of nationals to assist in implementing Assessment tasks.
- Determine if the banks have a centralized database.
- Assess the banks' capability to perform central processing.
- Determine the capability of the banks having a Transaction History file.
- Analyze and assist Rafidain to conclude current RFP process and three final bidders.
- Review the head office operations and staffing levels.
- Review the branch office operations and staffing levels.
- Obtain and analyze branch transactional activity to determine if staffing levels are appropriate.
- Review branch security procedures.
- Review existing personnel and staffing policies and organization charts.
- Assess numbers of staff per department and ascertain optimal number needed.
- Review compensation policies and salary scales and benefits.
- Assess existing retirement and pension programs with view toward large scale RIF program.
- Review banks' organization charts.

BACKGROUND

3 BACKGROUND

Iraq's six State-owned banks have suffered twenty-five years of deterioration, stemming from continuous Government pressure, interference, directed lending to support a dictatorial and war torn economy, and some thirteen years of economic sanctions, leaving the banks vastly overstaffed, under trained, undeveloped, and undercapitalized.

In general, the six State-owned banks are in poor physical condition and require substantial rehabilitation of their facilities. During the recent conflict and in its aftermath, the banks were subjected to severe damage and looting; a significant number of bank branches and, in a few cases, headquarter buildings, were destroyed and remain closed. In addition, many bank files and records were lost, and essential communications and information systems were destroyed. Several of the banks have worked hard to reconstruct and renovate branches, and all but a few are once again open and operating. All banks' branches located in the Northern governorates, cut off since the Gulf War, are still operating separately with no communications with Baghdad head offices and without being consolidated into the global financial statements. This includes 10 branches of Rafidain, 12 branches of Rasheed, 3 of Real Estate, and 3 of the Agriculture Bank.

Funds distribution and a transfer network remain completely manual and cash-based. The communication and transfer of data between bank branches and headquarters is inadequate and will require major investment in information technology. All banking functions, transactions, and reporting continue to be performed manually, and accounting procedures are weak in all six banks.

Iraq's State-owned banks offer a very limited product range. While Rafidain and Rasheed operate the primary salary and pension payments offices for State and military employees, the four specialized banks serve many Government offices and State-owned enterprises, providing financing for operations and projects, retail account services for Government employees, home loans to the public, and rural services to farmers. These services and underlying transactions are all manual and inefficient. The State banks offer the general public current and limited checking accounts, savings and time deposits, overdraft and bills discounted facilities, as well as short-term loans and advances. However, ATM services, credit cards, wire transfers, online services, drive-in facilities and other customary retail products and services are not available.

The State's four formerly specialized banks, under the controlled economy, historically were not permitted to hold accounts abroad with correspondent banks and as a result were not directly affected by attachment risk or accounts confiscation. Like the State's two large commercial banks, the four smaller banks also suffered from war damage losses, looting, and non-performing loans resulting from an extended period of Government-directed lending, repayment of which has been halted due to the war and sanctions.

The six State-owned banks account for approximately 90 percent of banking system assets and about the same share of banking system deposits. As of November 2005, Iraq's two large State-owned commercial banks, Rafidain Bank and Rasheed Bank, together have about 310 domestic branches, of which about 286 branches are currently operational and account for about IQD 9.5 trillion (USD 6.5 billion) in assets, or about 86 percent of the total assets in the banking system. Together, the two banks have more than 2.8 million deposit accounts and 13,000 employees. In contrast, the four smaller banks operate about 66 domestic branches (as of November 2005). As of year-end 2004, the four banks only account for total assets of approximately IQD 508 billion (USD 348 million), and together, the four smaller banks hold more than 66,350 deposit accounts and employ 2,248 staff.

Six State-owned Bank	# Branches	# Employees	# Accounts	Total Assets (USD)
Rafadain & Rasheed	286	13,000	2.8 million	6.5 billion
Iraq, Industrial, Real Estate, & Agriculture	66	2,248	66,350	348 million

ASSESSMENT

IRAQ BANK

4 ASSESSMENT

4.1 IRAQ BANK

4.1.1 EXECUTIVE SUMMARY – IRAQ BANK

Iraq Bank (formerly the Socialist Bank) is the smallest of the State-owned banks employing over 247 people in its head office and five branches in Iraq, with an estimated annual payroll of 1.1 billion Iraqi Dinars (approximately USD 753,000). The Iraq Bank services approximately 2,153 accounts. Operationally, accounting and processing procedures are manual and archaic. The overstaffing and the low daily transaction volumes, and the Bank-wide manual accounting and reporting system, result in very inefficient services and low deposit/staff and transaction/staff ratios. This is primarily a retail/consumer type bank serving government employees, military, and pensioners, yet services are slow and inefficient.

The Bank has very limited functionality and low performance, with no connectivity between the head office and the branches. Lack of automation and telecommunications, plus the Government directed policies have severely hampered modernization.

After restating the 2004 accounts, the following major effects are noted:

- Based on the Bank's 2004 Comparative Statement of Condition, adjusted total capital and retained earnings is IQD 1.0 billion (USD 690,000). The Bank should include in its capital the IQD 4.5 billion of set-offs taken by the Bank under the McPherson action during 2004. According to these findings, the Bank is in a reasonably strong financial condition compared to peer banks.
- The Bank's local liabilities consist of private sector deposits of IQD 1.6 billion (USD 1.1 million), and of Government related deposits of IQD 1.0 billion (USD 718,000).

Detailed analyses can be reviewed in the following section, 4.1.2.1 Accounting and Reporting – Financial Condition and in financial statements, attached hereto as Annex A.

Iraq Bank used to specialize in personal loans to different categories of individuals. The Government or the Ministries mandated these loans, which for the most part were interest free. A review of the Credit Department of Iraq Bank shows the present organization and functions improving during the past twelve months, although it does not yet meet international standards of Credit Management. Though credit initiation and documentation are fair, the processes of credit analysis, approvals, and risk rating (a new concept to the Bank) are still weak. Lending to individuals is based primarily on collateral and not on creditworthiness or cash flow. Risk management is perfunctory and ineffective. Specific training and a change in credit culture are required at the Bank.

Commercial loans have been extended since 2000, and since the war of 2003 and a recent change in senior management, they have in fact become the core activity of the Bank, though it now can lend to all sectors of the economy. The Bank continues to lend to its own Bank employees, but Government mandated loans to individuals have been discontinued and are for the most part past due.

Bad and Doubtful Debts resulting primarily from the past decades of strife and sanctions, but also from poor credit policies, have left an inordinate number of past due and uncollectable loans (over 1,291 accounts) on the books of the Bank. The follow up, collection, administration, and prosecution efforts with respect to the Bank's delinquent borrowers, including Government entities, are informal and inefficient. There are no written procedures and only inadequate documentation of actions taken. This represents a difficult and potentially costly area for future correction by the Bank.

4.1.2 ASSESSMENT OF IRAQ BANK

4.1.2.1 Accounting and Reporting – Financial Condition

Intra-Government Obligations

CPA Order of 19 September 2003 (referred to as the McPherson Memo) netted and canceled intra-governmental obligations. State-owned banks were to offset loans and deposits banks had with Government entities and State-owned enterprises, with offsetting entries to capital and reserves. The Iraq Bank has closed Government accounts totaling IQD 4,460,107,000 and has reclassified these deposits as Other Liabilities rather than as Retained Earnings.

Financial Ratios

Based upon the Bank's financial statements, attached hereto under Annex A Exhibit I *Comparative Statement of Condition (unaudited)*, Exhibit II *Comparative Income Statement*, and Exhibit III *Select Branch Data*, financial ratios were derived for 2004 and are presented below:

Return on Average Assets	2.30%
Return on Average Capital	31.03%
Return on Average Capital Plus Government Debt	5.3%
Non-earning Assets as a % of Total Assets	50%
Yield on All Average Loans	2.85%
Yield on Average Loans Less Interest Free Loans from Gov't	7.99%
Yield on Investments	4.36%
Cost of Average Deposits	1.13%
Cost of Government Loans	0.10%
Efficiency Ratio	73.3%

Financial Statements Analysis

The only adjustment made to the Bank's financial statements was to reclassify (debit) the Due from Banks Overdraft by credit to Due to Banks, which increased the asset item as well as deposit liabilities. However, the above ratios are exclusive of the adjustment.

Currently, the Government provides the Bank with a long-term non-interest bearing loan in order to fund non-interest loans to specific borrowers. The amount of this loan as of December 31, 2004 was IQD 5.2 billion and represents 34 percent of total Bank assets and nearly five times year-end capital of IQD 1.1 billion.

Total loans granted by the Bank were IQD 8 billion at year-end, and after deducting the Government-mandated loans, the remaining loan portfolio is IQD 3.4 billion. The Bank's total deposits are IQD 3.6 billion resulting in a loan to deposit ratio of approximately 95 percent.

If the Bank were to: a) repay the IQD 5.2 billion loan to the MoF by transferring the IQD 4.6 billion loans made on behalf of the Government back to the MoF, b) pay cash of IQD 641,502,000 for the loan differences, and c) properly classify the intra-Governmental obligations, the Bank's adjusted Statement of Condition would approximate:

	(000) IQD
Cash and Due from Banks	5,529,937
Investments	245,328
Net Loans	3,442,492
Fixed and Other Assets	769,513
Total Assets	**9,987,270**
Total Deposits	3,634,673
Other Liabilities	836,320
Capital	5,516,277
Total Liabilities and Capital	**9,987,270**

The adjusted statement above depicts excess cash on hand maintained by the Bank, which could be invested in Treasury Bills or some other investment. Also, the Bank is overcapitalized for the type and volume of lending and investing it is practicing. By law, however, the minimum capital requirement for banks is IQD 10 billion, for which the deadline was March 31, 2005. As of November 2005, the Bank's capital was unchanged. Under these financial conditions the Bank is viable and can continue operations. It can increase significantly profitability by utilizing its assets more effectively.

Financial Viability

This Bank can represent an opportunity for the MoF to sell the Bank, excluding the MoF related loans, to the local private banking community or investors. The MoF could sell the Bank net of the cash and the capital, which would approximate a return of funds to the MoF of approximately IQD 5 billion, in addition to the amount received for selling the Bank. Annex A Exhibit III indicates the five offices of the Bank are profitable with many accounts from the private sector. In this scenario, the purchaser could retain many employees.

If a fair price cannot be obtained, then the Bank could be merged with an existing State-owned bank. It is not economically realistic to maintain the required high level of capital in such a small bank, when other State-owned banks require significant capital infusion.

4.1.2.2 Credit Management and Policies

Credit Department Organization Overview

The credit department of Iraq Bank is fairly small, with a simple structure. There is only one credit unit with eight employees under one supervisor.

Loans are originated in the five branches (four in Baghdad and one in Kut). Two Baghdad branches are presently located in the Head Office building, as their own dwellings are in a state of disrepair.

The branches have the exclusive relationship with clients, but the Head of the Credit Department sees at least 50% of the clients to check their characters. The branches receive the loan requests and gather all the necessary documentation. After review all the original documents are sent to the Head Office for approval. Branches have some lending authority, but do not exercise it at the present time.

The entire lending process is done manually. As of November 2005, there are only three computers available to the Credit Department, one of which is dedicated to inputting risk rating data.

Products

Iraq Bank offers a very limited number of products. Term Loans can be in USD or IQD, but the bulk is in IQD for lack of demand and sources in USD. Only two loans in USD have been granted.

Facilities are all in Iraqi Dinars. The Bank has granted facilities to only nine clients, each with an overdraft and discounted bill line of credit.

Pricing depends on the tenor of the loans or facilities, and there is no other risk consideration. For facilities and loans in IQD, interest charged is 11% for short term, 12% for medium term and 13% for long term. For loans in US, interest is 5% for short term and 7% beyond one year.

Loans to employees are priced at 8%.

Iraq Bank can now lend to all sectors of the economy, trade, real estate, construction, industry, tourist hotels, and professionals. But the largest term loans amounting to circa IQD 35,000,000 (five such loans) are all for personal or commercial real estate. There is no policy limiting the maximum amount of a loan.

Process

Loan requests are processed at the branch level, which prepares a file, appraises the collateral and registers the assets. The branch manager reviews the file and recommends the loans. He has a lending authority, which is not being used at the present time. Loan requests with original documents in file are sent to the head office for approval. (See section **Credit Approval/Credit Committee** below)

Loan processing is not subjected to formal credit analysis. The Bank relies entirely on its knowledge of the borrower and the fixed assets assigned. These fixed assets are mainly real estate. A committee of three persons including an outside expert appraises equipment. The appraisal determines the borrowing potential. Loan to value ratio can be as low as 12%. Only in the case of facilities is financial information required. For special projects the Bank asks for a feasibility study.

The bank has created its own internal credit policies and procedures (CPP) based on the instructions from CBI. These policies are amended according to necessity and are fairly recent, but are only a series of memos, letters, and circulars, rather than a bound, permanent, single source manual of CPP for easy reference by credit staff.

Loan Portfolio

During the period from January to July 2005, Iraq Bank extended 415 new loans totaling IQD 2,200,500,000. The total outstanding portfolio for performing facilities, *term loans* and *other loans* as of August 2005 amounts to the equivalent of IQD 10,018,081,000. These figures include all loans and personal advances granted pre-war and post-war (Annex B, *Iraq Bank Credit Portfolio and Loan Ratings*).

Commercial domestic loans account for IQD 4,255,614,000 and USD 26,750, and facilities account for IQD 110,000,000.

Pre-war loans are essentially loans for social purposes granted at the request of the Ministry of Finance. Disbursement of these loans was phased out after the 2003 war.

Outstanding pre-war government-mandated loans to individuals and students amount to IQD 4,954,486,000 are all past due. Very few are being repaid, and there is no collateral to secure the loans. Personal loans average $2,000 equivalent. Loans made during the 1990s to students and to MoF sponsored individuals average today the equivalent of USD 2 to USD 3 only.

The Bank should write-off these small troublesome loans, which are for the most part uncollectable. The Bank has suggested that the authorities in charge of paying pensions require a letter from retirees certifying that they do not owe any money to the Bank in order to receive their pension. Even if this works, it would probably take years to recover some of the loans.

Credit Approval/Credit Committee

The branches have an official delegation of authority for small amounts in IQD, which at the present time is not used. All loans and facilities are approved either by the General Manager up to IQD 10,000,000, and by a Credit Committee up to IQD 25,000,000. Above this amount, requests go to the Board of Directors Committee. The Committee consists of three persons:

- General Manager
- Head of the Credit Department
- One director (Advisor of Rasheed Bank)

The lending decisions are made on the basis of quality and amount of the collateral offered as security for the loan. Financial information is irrelevant, and cash flow is not considered.

Bad Loans

Loan Ratings (Classifications)
The following table indicates a partial loan classification (not including the facilities), but they are sufficient to formulate a first opinion on the condition of the "performing" loans.

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 Past due over one year; considered uncollectible	100%

According to the bank, most pre-war loans are non-performing. This was confirmed by the recent classification carried out by the Credit Department. Out of 667 pre-war loans, 460 are in category D and E, for a total outstanding amount of IQD 696 million. On the contrary, post-war loans are performing better. Out of 1,003 loans, only 35 are in D or E. Nevertheless, many of the post-war loans are recent and have no currently due repayments. The rating on these latter loans was based on the interest repayments and the quality of the collateral.

Pre-war government sponsored advances and personal loans are all past due and should either be dealt with in an efficient manner or written off.

Risk Management

Risk Rating

Until recently, loans were not rated according to International Standards. Further to a recent instruction from the Central Bank of Iraq that directed the banks to perform the ratings, and with the assistance of the Project's advisor, all the pre and post war loans have been classified. Hopefully, this is just the beginning of risk management and reporting that will be followed by proper periodic reviews (Annex C, *Loans Classification Report State-owned Banks*).

Risk Diversification

Though there is no formal information system, the Credit Department tracks manually the breakdown of loans and facilities, by industry and branches. The Bank's credit staff, compared to other State-owned banks, does a very good job in producing useful statistics and charts.

Loan Reviews and Follow-up

After a loan disbursement, the Bank does not follow-up to control that loan funds are actually used for the intended purpose. Iraq Bank does not perform systematic periodic loan reviews.

4.1.2.3 Bad and Doubtful Debts – Loan Recovery

Delinquent Loan Collection Procedures of Iraq Bank

Iraq Bank has developed over time a method of administrating delinquent loans. Its model for structuring loan collection efforts is based on the procedures used by Rafidain Bank. Iraq Bank has made variations to these procedures to address their special needs, and the nature of their loan portfolio. These procedures are traditional and have never been put into a comprehensive written form or manual. This means that there is no documentation to judge the performance of the handling of delinquent loans, nor an ability to assign responsibility for specific actions. Also, the procedures are changeable without notice or review.

However, Iraq Bank was the most responsive to the requests for information for Bank data. Iraq furnished the most complete and accurate information in a timely manner. The Bank staff entered every delinquent loan into a database. Also, totals supplied were reconcilable with figures given to other members of the Assessment Team.

The branches of Iraq Bank are responsible for originating loans and facilities. Each debt is assigned to a lending specialist, who is supervised by the branch manager. Subsequently, if a loan becomes delinquent, the specialist has the primary responsibility of collecting and resolving the debt. This responsibility remains with the branch. Collection activity at the branch level ceased during the war, and branches have only recently restarted their collection efforts. There has also been an attitude among borrowers that debt incurred before the war would be forgiven by the new Government. These factors have led to a situation where loan delinquencies have greatly increased. The branch manager is responsible for notifying the borrower of the delinquency either by letter or in person. The Bank has attempted to allow easy repayment options, but there has been limited success in restructuring repayments. The branches are responsible for negotiating restructures of loans and facilities. Approval of restructures is solely at the discretion of the Director General of the Bank. Previously, there was a delegation of authority to branch managers, but this has been cancelled by the Bank DG. With the amount of delinquencies outstanding, this is not an efficient way to handle approvals.

Credit Department

The responsibility for current and performing loans lies with the Credit Department. They maintain the files, and assure documentation for the client is maintained. When a loan or facility reaches a delinquency of 90 days, either in its final maturity or in a scheduled payment, the Credit Department is supposed to report the loan to the Settlement Department. The Credit Department still maintains the file on the borrower. This procedure is not strictly adhered to and several loans exceeding the 90 day delinquency remain with the Credit Department.

Loans are only segregated when they become past due. There is no mechanism for reviewing the loan portfolio on a continuing basis to identify problem loans before they become delinquent. Also, the bank does not require the ongoing collection of financial information on borrowers and guarantors, needed to make any review effective. Recently, an advisor has started a rating system for loans based on the perceived quality of the credit. Currently, this is being attempted with the very limited information at hand. This could be a first step in quantifying risk in the loan portfolio.

The Credit Department maintains the records on 1,291 delinquent loans (90 days or more), totaling IQD 3,488,569,923. There are nine employees in the Credit Department.

Settlement Department

The Settlement Department at Iraq Bank acts as a department of the Legal Division of the Bank. Its function is to draw up settlement agreements (restructures) for delinquent debts after approval. Iraq Bank does not participate in reporting delinquent credits to the Central Bank, or Rafidain Bank. This was originally because all its loans were very small and not for commercial purposes.

The main difference in Iraq Bank when compared to the other State banks is the size of the individual outstanding delinquent loan. Iraq Bank in the past specialized in very small loans to foster new business and to reward soldiers. Therefore, the balance of the individual delinquent loan is generally very small. The average balance outstanding on each delinquent loan is IQD 2,704,317 (USD 1,852). Although these balances are very small, the Bank maintains them as assets and does not write-off the balance. This is in spite of the fact that it would, because of the small size, be counterproductive to aggressively seek collection. The Iraq Bank Settlement Department currently employs only three people, which, in view of the significant number of delinquencies, is not sufficient.

Legal/Litigation Department
If the efforts of the branch to collect the delinquent debt are unsuccessful, and there is collateral, the loan is forwarded to the Legal Department. The Legal Department, which employs six people, is responsible for initiating the litigation required to sell the collateral. During the recent conflict, the courts were not operating, and no loans were referred for legal action. Now the courts are operating, and the Legal Department is initiating litigation with delinquent borrowers. Currently, the legal department has an active case involving one loan, totaling IQD 4,000,000 in delinquent debt.

Since the balances of individual delinquent loans are usually very small, and the loans are generally not secured, it is often not economically feasible for the Bank to pursue collection through this method (and Iraqi Law does not allow lenders to recover legal costs from litigation). Therefore, Iraq Bank has not utilized litigation as much as the other State-owned banks.

Director General/Board of Directors

In Iraq Bank, all authority regarding delinquent credits is vested in the Director General of the Bank and its Board of Directors. The DG must approve all foreclosures and has the authority to delay payment on any extended credit in an amount of IQD 10,000,000 of outstanding balance. On any amount exceeding IQD 10,000,000, the Board of Directors must approve any delay or restructuring. At one time, limited authority was distributed among the key personnel of the Bank, but this authority was removed by the prior DG of the Bank and has not been reinstated.

Process
Of all State banks visited during the Assessment, Iraq Bank was by far the most responsive. Staff made sure they understood the task to acquire the correct information and then made a plan to obtain the information and deliver it for the Assessment. This may be due in part to Iraq Bank's being the smallest bank. It is also true that the attitude among the employees of the Bank was to seek to preserve their institution by cooperating fully with any review. Iraq Bank was the only Bank that provided complete information as requested. All other banks could only be sampled.

Delinquencies

The following table summarizes the total delinquencies of Iraq Bank:

Date 9/30/2005	Number	Number Delinquent	Percent	Amounts in IQD	Delinquent Amounts in IQD	Percent
Loans[1]	2,425	1,291	53%	7,691,187,602	3,488,569,923	45%
Facilities	18	…..	….	135,900,000	….	….
Overdraft	9	….	….	66,900,000	….	….
Discounted Bills	9	….	….	69,000,000	….	….
Total	**2443**	**1291**	**53%**	**7,827,087,602**	**3,488,569,923**	**45%**

[1] Of the total, 680 loans totaling IQD 2,606,901,618 are classed as "Auday and Qusay's loans ". These loans were made at 0% upon the personal order of Auday Saddam Hussain and Qusay Saddam Hussain. No collection is anticipated on these loans. All loans are delinquent.

Since the war, Iraq Bank has originated 1,021 loans with total outstandings of IQD 4,234,447,000. Of this group, 35 loans are currently delinquent with a total outstanding principal balance of IQD 180,093,220. This shows delinquent loans are 3.43 percent of the total loans made after the war, and the delinquent IQD amount is 4.25 percent of the total amount lent after to war. The overall delinquencies in the portfolio reveal that collection of loans post-war has substantially improved compared to the collection of pre-war loans. Further details may be seen in Annex C, *Loans Classification Report State-owned Banks*.

It is evident that the loans directed by Auday and Qusay had a very negative impact on the portfolio quality of Iraq Bank. If these loans were not included in the Assessment, the delinquency percentages for total amounts outstanding would drop from 45% to 17%. Also, these loans were likely considered as gifts when originally made. With the remaining 611 delinquent loans, the average outstanding balance is IQD 1,442,992 (USD 988).

In looking at the portfolio of delinquent loans, a calculation for write-offs was determined as follows:

Loan Classification	Percent Write-off	Amount of Loans In IQD	Write-off
Auday and Qusay Loans	100 %	2,606,401,618	2,606,401,618
Loans Prior to 2000	100 %	29,030,147	29,030,147
Loans under IQD 730,000	100 %	76,547,998	76,547,998
All Others	50 %	776,590,160	388,295,080
Total		**3,488,569,923**	**3,100,274,843**

Database

As part of the Assessment, a database was developed for the State-owned banks to collect individual delinquent loan information. Iraq Bank was the only bank that supplied all their delinquent loans in the database. While other banks in many cases did not complete the eight basic pieces of information requested, Iraq Bank provided data for all the relevant fields. Additionally, the Bank furnished the most complete and accurate information in a timely manner, and totals supplied were reconcilable with other figures given to the members of the Project team.

4.1.2.4 Operations, Automation, and Human Resources

In meetings with representatives from IT, Operations and Credit departments, it became quite clear that Iraq Bank, although much smaller, mirrored the other State-owned banks in many operational areas of the Bank. This can be perhaps attributed to the fact that most senior officers are former Rafidain staff and carried over the same policies, procedures, and management. The Bank has five branches with a total staff of 247 and an estimated annual payroll of IQD 1.1 billion.

The Assessment Questionnaire (summarized in Annex D, *Assessment Questionnaire Summary*) was distributed to certain department heads and was used, along with interviews, to obtain information from the Bank. This was not an audit. It was an Assessment identifying the condition of key operations and utilization of resources.

Operations

Policy and Procedure manuals should be prepared and standardized throughout the Bank in order to achieve better clarity and understanding. Currently, Bank staff is not in concert when performing its duties. Auditing currently provides oversight for Policy and Procedure compliance, but this is not effective since audit reference and examination is against a loosely filed set of memos and circulars not accessible to counter-level staff.

Compliance to existing internal controls and policies is adequate but the internal controls and systems are not up to date. Policies and procedures need to be modernized, formalized, and documented and staff trained in them.

Reports are scheduled to be produced on a timely basis, i.e. internal reports by the 3rd of each month and statutory reports by the 10th of each month. However, this process is completely manual and the work is frequently duplicated and delayed particularly from remote Governorate branches.

Representatives acknowledged that internal as well as external auditors from the Supreme Audit Board, the Central Bank and MoF regularly audit the bank. As a matter of Bank policy, all audit exceptions are resolved within 30 days.

When queried on the knowledge of banking principles, it was noted that senior management is relatively well trained and experienced. However, middle management has had no formal training due to the past two decades of political and economic difficulties. Managers are requesting management training.

Job descriptions detailing employee duties and responsibilities need structure and standardization. Frustration and lack of self-worth can be experienced by an employee who is not sure of what is expected of him in the performance of his duties. This need is greatest at lower levels of the organization.

Operating Procedures
The Bank has operating procedures documented, but these procedures have not been updated. Instead of having formal operating and accounting manuals available to all operating, accounting, counter staff and department heads, there is only a loose collection of CBI, MoF, and management circulars kept in various files and locations. There does not appear to be significant "information sharing" among the Operations Managers and their staff.

Process
All processes for products such as current accounts, savings accounts, time deposits, and loans, are being performed manually and are often duplicated. There is a great need for streamlining and automating these processes. The process levels, i.e., the number of people utilized to finalize a process, range between four and five. All such processes should normally be handled and finalized by only two people and, in the case of tellers, by only one person (up to an authorized cash payout limit). Some branch operations staff members are moving in this direction. The objective is to avoid a "check the checker" scenario.

Banking Operations Statistics
A sample of one-month of statistics of Transactions Processed for the total branches of each of the State-owned banks and the averages/cost per Transactions Processed is provided in Annex E, *Transaction and Activity Statistics*. Iraq Bank is second only to Real Estate Bank as having the lowest numbers of transactions and thus the second highest cost per transaction.

Forms
Forms used for processes either do not facilitate easy processing or would not be useful in an automated environment. They need redesigning in preparation for automation. Currently, forms are completed manually, with carbon paper being used for generating duplicate copies.

Branch/Main Office Communications
Current communications between main office and branches are by means of fax, messenger or phone (when available) using a code. This is time consuming and prone to error. There is an urgent need to establish an on-line "due to" and "due from" accounting and advising for better control and timely processing, and elimination of huge volumes of unreconciled accounts. (The issue of "connectivity" is addressed in the Automation section of this Assessment).

The working conditions at the Bank are presently only fair in some locations and poor in others, with conditions exacerbated by intermittent power outages during the workday. Workspace seems to be at a premium, due largely to over-staffing conditions. Most employees appear to be underutilized.

The Bank's risk profile and security procedures are inadequate. For example, branches do not possess any sort of deterrent to discourage or capture a perpetrator. Specifically, neither dye packs, bait money, cameras or police hook-ups are being utilized.

Records retention capability is negligible. Should a fire or flood impact a branch, records retrieval would be very difficult, if not impossible. The Bank does not have a written disaster recovery program that describes, in detail, actions to be taken in the event of a disaster. The program should be formulated, implemented and tested periodically.

Safety Deposit boxes are not available at all branches. Customers may not trust the Bank's security. People still prefer to have physical control of their money.

All staff members interviewed appeared to have a positive attitude towards their job performance and were looking to change for the better.

Automation

The Iraq Bank is primarily a consumer bank and, as such, deals in retail services where counter services normally need to be quick and efficient. These are exactly the sorts of services that need to be automated for the Bank to offer rapid services to a multitude of customers, to remain competitive, and to grow. The Bank, however, remains fully manual in all its operations.

It appears the lack of automation has contributed to an increase in staff in the bank by as much as 30%. Staff re-alignment or reduction needs to be considered to reduce operating expenses and increase income, through better utilization of human resources.

Current customer counter services are subject to human error, cumbersome, slow, and inefficient. These services and related transactions need to be automated.

Reports and subsequent management decisions cannot be taken in timely manner due to lack of connectivity of Branches with the Headquarters.

The inability of the Bank to introduce various banking products and services (ATM, credit and debit cards, on-line banking) is also due to lack of automation and telecommunications.

While the case can be made that automation of one or both of the two large banks, Rafidain and Rasheed, is necessary, it can also be argued that until the Minister of Finance's Office strategically maps out the future of all State-owned banks, no effort and expense should be made to automate these two banks. The remaining smaller four State-owned banks do not warrant a large-scale automation program at this time.

Human Resources

Members of the Human Resources Unit of the Rafidain Bank undertake the responsibilities entrusted to them. Personnel Files are maintained under key control, and access is limited. The Human Resource Department maintains a checklist of the documents held in the file, and the list is used to keep control when documents are needed to be withdrawn from a file. While original Personnel Files are maintained at the head office, copies are distributed to branches, for servicing. Management stresses confidentiality, and feels comfortable that confidentiality is maintained, as required.

Some retiring employees have boxes of records being stored by Personnel, documenting the individuals' long career at the Bank. The average tenure of Managers was approximately 20 + years.

During discussions regarding the wages of employees, it was discovered that overall compensation has not been based on performance and is administered by the Ministry of Finance. Promotions are based on longevity, not performance.

A bank's Human Resources Department is responsible for orchestration of basic management tools such as: Table of Organization design, writing of Job Descriptions, standardization of written Policies and Procedures, and a wage and salary administration program. At Iraq Bank, these disciplines are not well defined or used. Also, there does not appear to be a formal training program for staff.

The Iraq Bank is overstaffed, due largely to government directed hiring, operational inefficiencies, and lack of automation. Of the approximate 247 employees, it is estimated by Managers that the Bank is overstaffed by 30 percent.

Official hiring and terminations are presented and reviewed by committees, with formal approvals reserved for the MoF. A manager can recommend the termination of an employee and notify the MoF, which in turn, notifies the employee that he or she is terminated. Termination is a rare occurrence. Currently, there is a "no hiring" policy, and as attrition impacts the staff complement, responsibilities are apportioned among the staff. Salaries and promotions are established by "law" and an employee may work many years just to have a newer employee equal or surpass the tenured employee in salary.

Staffing Numbers and Salary Distribution by Branch and by Home Office are set out in detail in a comparative chart for all six State-owned banks in Annex F, *Staffing and Salary Distribution*. The chart identifies areas noted for review and assessment.

The average salary for employees at the head office and branches compared closely to other specialized banks (see also Annex F). This may suggest that salaries are set and applied universally by the MoF, rather than having a pay-for-performance program.

Management

A review of the Operating Units of the State-owned banks revealed similarities in the administration and control of their duties and responsibilities. The following units provided in-put: Accounting, Audit, Credit, Human Resources, Operations, and IT.

The Bank's operational systems lack proper internal controls, and have weak, outdated policies and procedures, coupled with a senior management team that has per force had to play a passive role during the past 30 years of dictatorial environment. In addition, a pool of middle and junior management who manage the Bank day to day have had no outside training or exposure to modern bank management techniques. Currently, Iraq Bank has a newly appointed active and forward thinking Acting General Manager seconded from Rafidain Bank who appears to be motivated and has made important changes during 2005.

In reviewing the composition of Iraq Bank's Board of Directors, it was determined that oversight is limited in scope as Bank employees fill six out of the eight board positions. Thus, there are no external inputs, experiences, or skills brought to the Bank by outside board members. The ability of management to adapt has been limited due to political and economic constraints. Management needs to be trained in modern bank management principles.

IRAQ BANK BOARD OF DIRECTORS

	Member Name	Position	Location
1	Muhsin Abid Hussein	General Manager	Iraq Bank
2	Kazim Mohamed Nashoor	Expert	Rasheed Bank
3	Hilal Basheer Dawood	Expert	MoF
4	Zeki Gurji Shalal	Manager of IT Dept.	Iraq Bank
5	Abdul Munim Yasin Hassan	Manager of the Main Branch	Iraq Bank
6	Suhair Jawad Al Mudhafar	Manager of Financial Dept.	Iraq Bank
7	Thikra Ali Said	Manager of Credit Dept.	Iraq Bank
8	Jasim Mohamed. Ali	Manager in the Main Branch	Iraq Bank

Organization Structure

A total of four senior division managers report directly to the General Manager. These include Legal, Audit, and IT. The remainder of the division reports to "Experts" who report to the General Manger. This is a new reporting structure, as previously, all divisions reported directly to the General Manager. This is a manageable span of control.

The individual's reporting relationship, however, is not well defined. There are far too many layers of management for a bank of this size. One key reporting relationship is the role and reporting line between the Internal Auditor and the Board of Directors. It would be more appropriate for the Internal Auditor to report to the Board of Directors, so as to avoid any conflict of interest and to maintain independence.

As discussed with Bank staff, it was noted that the Bank could use improvement in defining the Table of Organization, top to bottom. Other than Division Heads, most sections appear to lack formal clarification as to where they are positioned in the Bank structure. Bank Operation's organizational design could better demonstrate the "chain of command" and help to clarify position responsibilities (see below). However, until back office functions come on-line with the impact of automation, any design structure at this time would be only temporary. A "process flow and re-engineering" effort needs to be planned and implemented. This effort will help to sort out the redundancy or "not needed" positions, which in turn, will reduce staff.

FINDINGS

IRAQ BANK

4.1.3 FINDINGS – IRAQ BANK

4.1.3.1 Accounting and Reporting – Financial Condition

- The Bank is not conforming to any generally accepted accounting principles (GAAP), including those of the Republic of Iraq, which has adopted versions of several International Accounting Standards (IAS). Accordingly, financial statements are lacking and deficient in data integrity.
- The Bank does not follow the International Accounting Standards of accruing income and expenses in a standard method throughout the Bank. Thus the Bank misstates results throughout the year and makes reconciliations difficult.
- The Bank's accounting function is dysfunctional and decentralized throughout its five branch network, and coordination is not adequate to allow accurate reconciliation of accounts.
- There is a lack of analysis, comparison, verification, checking, and balancing of accounting transactions and records. Furthermore, the need for a Management Information System is largely unfulfilled. Essentially, the accounting function/system is nothing more than a manual "bookkeeping system", lacking sufficient management attention and involvement.
- Problems exist within the financial infrastructure, wherein the Central Bank of Iraq is evidently unable to provide sufficient regulatory oversight through offsite or onsite examinations, or to exert adequate authority, or to impose sufficient penalties to force banks that are not in compliance with banking laws and regulations. Similarly, the Supreme Audit Body appears unable to provide significant oversight or to bring about compliance through its audits.
- Decision-making is hampered by the lack of a proper, automated, timely, and reliable Management Information System to allow management to identify important elements, including discrepancies, risks, trends, foreign currency exposure, asset quality, and profitability.
- Accounting, Operations, and branch units are significantly overstaffed. Staff lack relevant technical experience, and require training and motivation.

4.1.3.2 Credit Management and Policies

- Technical skills, professionalism, and training are lacking. A dual approach is needed, (1) to develop skills in credit initiation, credit analysis, and credit administration at working levels; and (2) to provide training in credit policies, portfolio management, and risk management for senior management.
- Management still makes its lending decisions on the basis of quality of collateral and guarantees offered.
- Although staff members seem to understand the necessity to switch from collateral-based lending to cash flow lending, upper management has not yet taken any steps to change current procedures. Staff and management of this department demonstrated a keen interest in making these changes.
- The credit committee concept and approval limits are not effective, given market conditions.
- The Head Office Credit Department needs reorganization, automation, and modern filing systems.
- Many loans classified as current are in fact past due.
- Management and employees of the Bank gave a good impression and produced statistical information that the other State-owned banks were unable to provide. They realize the importance of portfolio related data in risk management.
- The Bank was the first to start rating its loans according to International Standards, under the recommendation of the Central Bank and the Project advisor.

- The problem of pre-war Government-mandated loans to individuals has to be addressed to clean the balance sheet of the Bank. Considering the high number of loans, the very small average amount of each loan, and the unlikely ability to collect on the loans, the most practical step would be to write them off, absent any action or pressure from Government on the borrowers (government employees).

4.1.3.3 Bad and Doubtful Debts – Loan Recovery

- The policies of the prior regime in Iraq devastated the financial condition of Iraq Bank.
- Although systems are similar to other State-owned banks, the employees of Iraq Bank demonstrate a better ability to perform their functions than any other State-owned bank.
- Of all the banks assessed, Iraq Bank was the only bank to supply complete bad and delinquent loan information as requested. Additionally, the information appears to be accurate.
- Lending since the recent conflict indicates that Iraq Bank has maintained a lower delinquency rate than the other banks assessed.
- If it is determined that there is a need for the type of services Iraq Bank furnishes because of its smaller size and the apparent quality of its employees, this institution would be the easiest to transform into a viable bank.
- Although there is a large increase in delinquencies, the methods of collection and the resources applied to the problem have remained static.
- Collection of delinquent credits is fragmented with portions of debt distributed over more than one banking area. One area does not represent or include another in the process.
- Solutions are not strategic, but instead are one-off and short-term.
- Although many individuals in the Bank were most cooperative and motivated to do superior work and demonstrated a lack of interest in completing the tasks, information provided included many mistakes. Additionally, many branches did not respond to requests for information or often furnished incomplete or erroneous data in spite of clear direction from management.
- There is a prevailing attitude among borrowers that debts incurred under the prior regime do not require repayment. This was encouraged by the inactivity of bank collections and settlement departments following the recent conflict.
- Under current conditions, the Bank will not be able to resolve the problem of collecting delinquent debt.

4.1.3.4 Operations, Automation, and Human Resources

- Iraq Bank needs to improve and increase its Operational Control by focusing on and implementing in the following areas:
  - Competent and diverse Board of Directors
  - Well-defined and clear Table of Organization
  - Clearly defined job descriptions
  - Detailed Policy and Procedures Manual
  - A viable Audit System
  - Accurate and Timely Reporting System
  - Management Training

- All transaction processing, accounting, management and statuary reporting is done manually with delays and duplications.
- Department staff members are underutilized. The transaction/staff ratio is very low.
- There is no permanent operations manual for standardized procedural guidance for staff.
- Cash controls and branch security procedures are weak.
- Lack of automation has led to the above-mentioned overstaffing, unreliable reporting, and poor customer service.
- Six out of eight Board members are long-time Bank employees, and with no outside directors, there has been a lack of various skills, backgrounds, and views to bring about innovation.
- Senior management is in fact well experienced in banking operations but requires training to be brought up to date with modern concepts and systems.
- Middle management has had no formal training, due to the past twenty-five years of political and economic difficulties. Therefore, management requires training to upgrade skills.
- Functional Managers average 20+ years of experience on the job, but require training to upgrade their technical banking knowledge and skills.
- A manual system of providing customer service is subject to human error, cumbersome, slow, and inefficient. Competition should drive this process towards automation.
- Reports and subsequent management decisions are untimely due to lack of connectivity of Branches with Headquarters.
- The apparent inability of the Bank to introduce various banking products and services (ATM, credit and debit cards, online banking) is due to lack of automation and telecommunications.
- It is apparent that all six State-owned banks operate in a very similar manner. Bank staff explains that this is the result of the banks following Rafidain as an example.
- Although automation of this retail bank can wait until the MoF finalizes its restructuring plan, should the Iraq Bank continue, automation of its accounting system and counter services to make it efficient and competitive will be a necessity
- Iraq Bank HR needs assistance, and this should be the only unit to administer such areas as table of organization design, recruitment, wage and salary, benefits, employee loans, pay-for-performance program, job counseling, training, transfers and terminations.
- The Human Resources department needs to administer such areas as table of organization design, recruitment, wage and salary, benefits, employee loans, pay-for-performance program, job counseling, training, documentation and transfers, and terminations.
- The Bank is experiencing an impediment to the administration of Human Resources, apparently due to involvement of the MoF in hiring and terminating activities at the Bank. Some staff members have indicated that they have no say in certain personnel matters.
- An updated and automated Human Resources unit needs to be defined and developed.
- Iraq Bank needs to consider a Bank-wide plan to manage a downsizing of staff. This effort needs to be well thought out, planned, implemented and monitored.
- Iraq Bank staff members give a clear impression that they are anxious to introduce change and to improve productivity.

ASSESSMENT

INDUSTRIAL BANK

4.2 INDUSTRIAL BANK

4.2.1 EXECUTIVE SUMMARY – INDUSTRIAL BANK

Industrial Bank was founded originally in 1936 as the Agriculture and Industrial Bank, which was then separated into two banks, in 1940. The Industrial Bank has been a lender to private and public sector borrowers for manufacturing and industrial projects and at one time operated nine branches across Iraq (four in Baghdad). Today, the Bank has five branches employing 281 individuals, with an annual payroll of IQD 900 million (USD 616,000). The Bank has approximately 2,100 deposit accounts and total assets of IQD 78.2 billion (USD 53.6 million).

The Bank's year-end 2004 financial statements reveal that it is currently compliant with the revised capital requirements established by the CBI. Additionally, income and yield ratios are positive and high compared to its peer banks (see Exhibits I and II in Annex G). Its reserve for loan losses, however, is insufficient in view of the apparent abnormally high percentage of delinquent loans on the Bank's books still being listed incorrectly as "current". One large transaction stands out – during the Iraqi Currency Exchange in late 2003, the CBI delivered new notes to the Bank's Mosul Branch and missed debiting the Industrial Bank's clearing account for IQD 15.8 billion. This discrepancy has been carried for over a year, the Bank stated that this was resolved in 2005 with the CBI.

If the Bank's financial condition and ratios are fairly represented in its financial statements, then this Bank could be sold to other banks or investors on a profitable basis. However, year-end adjustments and a closer review of the loan portfolio and delinquency levels could result in large write-downs and reduction of Capital. Continued viability will depend on the quality of the Bank's loan portfolio and any related actions the Bank will be required to take.

Though the Industrial Bank is licensed to lend to all sectors, its pre-war activities were focused on Government-directed loans and State-owned enterprises that have now become moribund or defunct. The Bank's commercial portfolio as of July 2005 amounted to IQD 44.3 billion (USD 30 million), primarily overdrafts that fluctuate, plus US dollar-denominated loans of USD 4.8 million. The Bank lists employee loans totaling IQD 7 billion (USD 4.8 million). Many of the loans listed as "current" are in fact delinquent and need to be classified, as addressed in Annex H. Conversely, the amount and number of loans outstanding have decreased between July and October 2005, indicating that the Bank is taking action to recover past due loans. Nevertheless, risk management practices and credit analysis skills of all Credit Department staff and senior management need to be upgraded.

Collection activities at the branch level ceased during the recent hostilities, and branches have only recently restarted their collection efforts. Due to the many problems created, the Bank has adopted a liberal policy of trying to renegotiate delinquent loans. Basically, loans are only segregated when they become past due. Industrial Bank's method of calculating "past due" allows 270 days to elapse before the Bank Settlements staff initiate collection or legal procedures. There is no review of the loan portfolio on a continuing basis to identify problem loans before they become delinquent.

There is a large number of delinquent loans in relation to the size of the Bank's portfolio. Total *number* of delinquent loans and facilities is 1,114 (66%) out of a total of 1,681. The total *value* of delinquencies amounts to IQD 15.7 billion out of a total amount of credits of IQD 34.4 billion (45 %). The lax manner of handling delinquencies has resulted in a real impairment of the Bank's capital to the point that the Bank's solvency is threatened.

Operations and management practices are very similar to other State-owned banks in that all accounting is performed manually, reports are not completely reliable or timely, there is no single source or manual for operations procedures, and retail services are slow and inefficient. Other than a few stand alone desktop computers for certain applications (obsolete systems software) and one off reporting (not linked to the accounting system), the Bank is not automated in any way. Transaction to employee and deposit to employee ratios are very low (inefficient). Senior management of this Bank is experienced and motivated but the past few years of turmoil have nearly eliminated this specialized bank's market base and have severely hampered growth.

4.2.2 ASSESSMENT OF INDUSTRIAL BANK

4.2.2.1 Accounting and Reporting – Financial Condition

The Assessment of the Industrial Bank's accounts and financial condition was based upon a review of available financial reports prepared by the Bank as of December 31, 2004. This report is not an audit of the Bank's financial statements or an evaluation of its systems of internal controls.

Financial Ratios

Based upon the Bank's financial statements, attached hereto under Annex G Exhibit I *Comparative Balance Sheet*, Exhibit II *Comparative Income Statement*, financial ratios for 2004 are presented below:

Return on Average Assets	1.77%	
Return on Average Capital	15.9%	
Yield on Average Loans	9.9%	
Yield on Investments	15.8%	
Cost of Average Deposits	1.63%	
Non-earning Assets as a % of Total Assets	33.8%	(2003-68%)
Loan to Deposit Ratio	45.3%	
Reserve for Loan Losses to Total Loans	2.6%	
Efficiency Ratio	70.7%	

Financial Statements Analysis

The only adjustment made to the Bank's financial statements was to reclassify the Due from Banks Overdraft, which increased both Due from Banks assets and Due to Banks liabilities. However, the above ratios are exclusive of the adjustment.

The above ratios demonstrate performance that exceeds that of all the other State-owned banks. One reason may be that in 2003 the Bank received a shipment of new Dinars from CBI at its Mosul Branch, but the Bank's clearing account with CBI was not charged by CBI for the cash shipment for over a year. At the end of 2003, the Bank had a debit recorded as an Interbranch transaction (between head office and Mosul branch) for IQD 17.5 billion, and a liability to CBI for IQD 15.8 billion. In 2004, the Bank eliminated the Interbranch transaction, but still recorded a liability to CBI for IQD 15.8 billion. The Bank said the transaction resulted in an increase of vault cash.

During 2004, significant changes occurred in the Bank's asset/liability composition as follows:

	(000) IQD	% Change
Cash and Due From Banks	(3,021,424)	(11%)
Investments	11,968,217	98%
Loans Net of Reserves	17,541,415	176%
Fixed and Other Assets	(20,183,306)	(98%)
Total Assets	**7,812,498**	**11%**
Total Deposits	2,347,482	6%
Other Liabilities	(1,753,629)	(7%)
Capital	7,218,645	154%
Total Liabilities and Capital	**7,812,498**	**11%**

Non-earning assets decreased from 68% to 34% of total assets from year-end 2003 to year-end 2004. Although loans and facilities grew by 176%, related interest income only increased 44%. Similarly, investments increased 98%, but investment income only increased 6%. Total deposits grew 6%, but interest expense decreased 27%. General and Administrative expenses increased 142% as a result of the new salary levels and the government's contribution to a portion of salaries in 2003, and due to a significantly large increase in transformable expenses from IQD 52 million to 680 billion. Net income for 2004 of IQD 1.3 billion represents a decrease of 46% from IQD 2.3 billion in 2003.

Loan loss reserves represent 2.6% of 2004 total loans. However, as described in more detail in the *Bad Debts and Delinquency* section of this report, loans delinquent more than 90 days approximated IQD 16 billion during the month of October 2005. The loan loss reserves of IQD 741 million appear to be insufficient.

Based upon the incongruent relationship of the above growth rates and commensurate income achieved and what the impact will be after repayment to the CBI of 16 billion IQD, a further review of 2005 financial statements is advisable.

The Bank is in compliance with the revised capital requirements established by the CBI.

Financial Viability

If the above ratios and other issues are fairly represented in the financial statements, then this Bank should be able to be sold to other banks or investors on a profitable basis.

However, the low quality of the loan and facilities portfolio (45% delinquent over 90 days) is not accurately reflected in the above financial statements and exceeds total capital of the Bank. This could result in a significant write-off and could impair capital. Thus, the Bank's continued viability is largely dependent on the collection of non-performing loans.

4.2.2.2 Credit Management and Policies

Credit Department Organization Overview

The Industrial Bank Credit Department Head is assisted at the head office by ten employees. In addition there is a credit officer in each of the five branches. The Department is divided in two units, *Loans* unit and *Facilities* unit. Branches have their own credit specialists without a lending authority, with exception for issuance of L/Cs and guarantees with 100 percent cash collateral.

It is a very small department. A separate department manages advances to employees and L/Cs. In addition, most of the credit assessment and administration process is performed in the branches.

Products
Industrial Bank borrowers are primarily individuals and industrial enterprises. The Bank lends for industrial development and commercial projects. Loans are specifically extended to the industrial sector, while facilities are given to the commercial and trade sectors. The five largest loans listed below represent half the total IQD portfolio and are mostly for the acquisition of industrial equipment or factory construction:

- 500,000,000: Construction of an industrial plant
- 200,000,000: Purchase of industrial equipment
- 80,000,000: Purchase of a machine
- 50,000,000: Purchase of a machine
- 50,000,000: Purchase of a machine

Both facilities and loans can be denominated in IQD or US Dollars and are extended for short or long term periods. Facilities are all in the form of overdrafts. The branches and (for unknown reasons) the Accounting Department deal with Letters of Credit and guarantees. The rate of interest varies according to the maturities, as follows:

- Loans:
  In USD: 6.5 %
  In IQD: 9.0%
- Facilities:
  In USD: 7.0%
  In IQD: up to one year 10%; one to five years 12%; over five years 14%

Loans and facilities are collateralized by personal or commercial real estate, equipment and guarantees. Loan to value is usually very low, especially when the loan is secured by equipment. There is no set maximum amount for loans or facilities except as set by Central Bank restrictions.

Process
At Branch Level:
Branches are in charge of the relationship with the clients. The manager receives the clients and discusses their requests and their needs. If the manager is satisfied with the feasibility of a project, he asks the clients to provide collateral to secure the loan. In spite of the fact that there is no proper lending culture or internal policies, the bank seems to have a very conservative approach to collateral standards. Collateral is limited to commercial or residential real estate and equipment.

A team of specialists appraises the value of the collateral and ascertains that it is in good condition. All pertaining identification documents and justifications, business certificates, and some financial information are gathered. Once the manager has made certain that the file is in order, he sends it along with the original documents to the head office for auditing, review and approval. Branch managers do not have any lending authority except for the issuance of guarantees with cash collateral.

At Head Office Level:
Once at head office, the request is reviewed. All documents are checked and collateral verified. Loan applications are not subjected to credit analysis, as the decision is based on collateral. The loan to value ratio depends on the type of loans, but appeared adequate in cases reviewed. Loans are collateralized as follows:

- Housing: Loans secured by housing are limited to 30% of the value of the collateral.
- Commercial property: Loans secured by commercial property are limited to 50% of the value of the property.
- Equipment: Loans secured by equipment are limited to 35% of the value of the equipment,
- Farm land: Loans secured by farm land are limited to 5%

A small number of loans are fully secured by bank guarantees.

After being reviewed, the files are submitted to the Credit Department Manager who makes his recommendation to the Credit Committee.

Loan Portfolio

The outstanding loan portfolio of Industrial Bank as of July 2005 was as follows:

Domestic Loans in USD:	755,250
Domestic Loans in IQD:	1,260,000,000
Facilities in USD:	4,000,000 (overdrafts)
Facilities in IQD:	43,000,000,000 (overdrafts)

As of the end of October, outstanding loans amounts have been reduced to USD 689,750 and IQD 1,226,593,000, as shown in the classification table (Annex H, *Industrial Bank Credit Portfolio and Loan Ratings*). Outstanding facilities reported to the CBI amounted to IQD 37 billion.

Seventy percent of the facilities in US dollars are for the mixed sector, meaning companies in which the Bank has equity participation.

The classification of loans shows that most were granted before the war and later rescheduled. They are kept as performing in spite of the fact that most of them are in fact delinquent. On the other hand, the outstanding amount and number of loans decreased between July and October 2005, indicating that the Bank is taking action to recover past due loans. According to the Department Manager of the Bank, 94% of installments due in July have been repaid. Obviously, Industrial Bank is managing past problems and has not resumed booking many new loans since the war.

Letters of Credit and/or guarantees are monitored by the Accounting Department and not the Credit Department. L/Cs represent a total of approximately IQD 19,800,000. Additionally, the Accounting Department oversees employees' advances amounting to over IQD 7 billion (IQD 4.8 million).

Credit Approval/Credit Committee

All loans and facilities are approved at the head office. Branches do not have any delegation of authority. Requests go to the Credit Committee, and the Committee consists of five members:

- Deputy General Manager
- Head of Credit Department
- Head of Investment Department
- Head of Legal Department
- Head of Control Department

The General Manager is not a member, but he makes the final decision. The Credit Committee simply suggests if the loan should be approved or declined. Above IQD 30 million loan requests are submitted to the Board of Directors.

Bad Loans

Past due loans are dealt with by the originating branch. The branch has full authority to enforce any legal means of collection. After two years, past due loans are transferred to the Legal Department.

Most pre-war loans are either past due or have been rescheduled. Pre-war non-performing facilities amount to IQD 9,553,815,368. In spite of that, Schedule 7of the monthly reports provided to the CBI at the end of each month does not show any past due loans or facilities.

The Bank considers that problem loans and facilities are not a "Loss" as they are fully collateralized by real estate properties.

Risk Management

Risk Rating

Till now, loans and facilities are not rated. A recent instruction from the Central Bank of Iraq has directed the banks to classify the loans to international standards. The advisor explained to the Bank how to proceed and will help the Bank in its effort to enforce this recommendation. The process has started and all the term loans have been classified.

Risk Diversification

The Bank does not keep track of industry concentration and does not manage this risk. There is no statistical breakdown of the portfolio. The fact that the five largest loans represent close to half the total loan portfolio shows the absence of risk management.

Loan Reviews and Follow-up

The Bank does not perform periodic loans review. Nevertheless, every three months the Control Department checks all the files. The auditors focus mostly on the documentation.

4.2.2.3 Bad and Doubtful Debts – Loan Recovery

Delinquent Loan Collection Procedures of Industrial Bank

Industrial Bank has developed over time a method of administering delinquent loans. Its model for structuring loan collection efforts is based on the procedures used by Rafidain Bank. Industrial Bank has modified some of these procedures to fit its needs. These procedures have never been put into a comprehensive written form. This means that there is no documentation to judge the performance of the handling of delinquent loans, nor exists the ability to assign responsibility for specific actions. Also, the procedures are changeable without notice or review. Due to problems created by the recent conflict, the Bank has adopted a liberal policy of trying to renegotiate delinquent loans. For this portion of the Assessment, an attempt was made to gather the information as current as possible using source data (information directly from the branches). This will not reconcile with information collected for other portions of the Assessment. The Bank offers both loans and facilities (lines of credit). For the purposes of this report, *all extensions of credit will be termed as loans.*

Branches

The branches of Industrial Bank are responsible for originating all loans and all facilities originating outside of Baghdad. Each debt is assigned to a lending specialist, who is supervised by the branch manager. Subsequently, if a loan becomes delinquent, the specialist assigned to the credit has the primary responsibility of collecting and resolving the debt. This responsibility remains with the branch. Purportedly, in some branches there are staff members whose primary responsibility is to contact delinquent borrowers and to persuade them to make payment on their debts.

Collection activities at the branch level ceased during the war, and branches have only recently restarted their collections efforts. There has also been an attitude among borrowers that debt incurred before the war began would be forgiven by the new Government. These factors have led to a situation where loan delinquencies have greatly increased. The Bank has attempted to allow easy restructure of debt when a borrower makes a request. However, there has been limited success to date in restructuring repayments. The branches are responsible for negotiating restructures of loans and facilities. The approval is either endorsed by the Director General of the Bank or goes to the Board of Directors for approval. There is no real delegation of authority downward through the Bank, and with the extent of delinquencies outstanding, it appears this is not an efficient way to handle approvals. The individual branches outside of Baghdad initiate foreclosure actions against delinquent borrowers and follow the process described in the *Legal/Litigation Department* section below.

Credit Department

The Credit Department maintains the records on all loans, and on all facilities generated outside of Baghdad. They maintain the files on these relationships when current or delinquent.

There is no mechanism for reviewing the loan portfolio on a continuing basis to identify problem loans before they become delinquent. Also, the Bank does not require the ongoing collection of financial information on borrowers and guarantors, needed to make any review effective. Recently, a Project advisor started a rating system for loans based on the perceived quality of the credit. Currently, this is being attempted with the very limited information at hand. This could be a first step in quantifying risk in the loan portfolio. A loan or facility is not considered delinquent until it has missed three required payments. At that time, the following process is started:

1) A letter is sent to the borrower, notifying him of the delinquency.
2) Thirty days from notification, if borrower does not cure the delinquency, another letter is sent.
3) Forty-five days from the initial notification, a second warning latter is generated.
4) If the borrower does not respond or cure the delinquency within 75 days of the initial notification, the loan is referred to the Legal Department for further action.

The Head of the Credit Department handles the negotiations with delinquent borrowers whose loans are under his department's control. The Credit Department maintains the records on 789 delinquent loans and facilities (90 days or more), totaling IQD 2,609,533,788. There are 14 employees in the Credit Department.

Facilities within Baghdad

The Facilities within Baghdad Department maintains the facilities (lines of credit) generated inside Baghdad. This department is responsible for servicing these accounts and for maintaining the credit file on them, both current and delinquent. Effectively, this department operates as a branch for originating and servicing facilities for customers located inside Baghdad. Past due facilities are defined within the Bank as any facility that is three payments delinquent. This probably means that no facility is considered delinquent until it is 270 days delinquent (assuming that interest is payable every 90 days). Upon attaining the delinquency status, the same process used in the Credit Department is implemented. The one significant difference is that this department has its own staff to initiate foreclosure. This area is overseen by the Bank's Legal Department and follows the same process as used in the Legal Department.

The Head of the Facilities within Baghdad Department handles all negotiations with delinquent borrowers under the Department's control. The Facilities within Baghdad Department handles 350 delinquent facilities, totaling IQD 13,066,242,198. There are 42 employees in this Department.

Legal/Litigation Department

If the efforts of the Credit Department and the branch fail to bring the loan current, the loan is referred to the Legal Department, either in the main branch, or in other branches. The Legal Department is only an implementer and has no discretionary control over the loan. All negotiations take place with the Credit Department, the Branch Manager, or the Head of Facilities within Baghdad Department. Once a loan is referred to the Legal Department, the following process takes place:

1) The outstanding loan balance is confirmed, and a warning letter is sent to the borrower.
2) Thirty days after the warning letter is sent, the matter is referred to the Land Registry for foreclosure sale of the property.
3) Thirty days later the case is referred to the Land Registry for sale of collateral, the borrower's name is published, and the sale is announced.

The representative of the Legal Department stated that borrowers do not respond until the warning letter is received. When the customer contacts the Legal Department, the matter is referred to the Head of the Credit, the Branch Manager, or the Head of Facilities within Baghdad Department. That person has the authority to stop the legal action while a restructure is negotiated. If a negotiation is approved, the matter is removed from Legal. If a loan is renegotiated and fails to reach a successful conclusion under the restructure, it is immediately returned to the Legal Department.

The branches and the Facilities within Baghdad Department both have their own legal experts to initiate foreclosures. The Main Legal Department has an oversight function over all litigation. In spite of this reported oversight function, the Legal Department was unable to report the total number of legal actions against borrowers currently in process. From other sources, it was determined that from the Main Branch, the Al-Zafaraniyah Branch, and the Facilities within Baghdad Department, there are approximately 125 legal actions ongoing against borrowers out of 365 total delinquencies.

<u>Director General/Board of Directors</u>

Although other employees of the Bank are issued limited authority to approve restructures of debt, they do not exercise it currently. The Director General of Industrial Bank has an approval authority IQD 50,000,000. Requests above this amount require approval of the Bank's Board of Directors.

Process

A difference in the way the Bank defines delinquencies (three payments past due) compared to the method used for this Assessment (90 days past the last maturity date) results in a larger percentage of loans past due. No explanation of why such a liberal policy is used was offered. If the Bank waits an extra 180 days beyond the 90-day past due period to pursue delinquent borrowers, a distortion is created from two different standards of classification.

Delinquencies

The following table summarizes the total delinquencies of Industrial Bank:

10/31/2005	Number	Number Delinquent	Percent	Amounts in IQD	Amounts Delinquent in IQD	Percent
Loans	131	80	61%	2,254,506,310	1,032,535,317	46%
Facilities	1,550	1,034	67%	32,188,169,167	14,623,240,669	45%
Total	**1,681**	**1,114**	**66%**	**34,442,675,477**	**15,655,775,986**	**45%**

Database

The database contains 452 (41%) delinquent loans (over 90 days past due) out of a total of 1,114 for the Bank. This is because the Mosul Branch and the Basra Branch could not respond in time to the request for information. However, the data forms received from the three responding branches and head office were well done and complete, showing IQD 13,527,043,409 (86%) compared to Bank-wide total of delinquencies of IQD 15,655,775,986. This sample, then, provides an adequate basis for conclusions about the Bank's lending. Although some confusion seems present about the maturity date field, most other data is presumed to be accurate.

Again, it must be stated that the Bank's method of computing delinquencies is significantly different from the Assessment criteria. This caused many loans and facilities to be included in the Assessment that the Bank does not consider delinquent. The case can certainly be made that the actual maturity date of a loan is an important matter and should be important to both the borrower and Bank.

Of the delinquent loans loaded into the database, a total of 194 (43%) were made after the war, totaling IQD 9,043,976,933 (67%). This demonstrates a high level of delinquencies by any standard. It indicates that the methods used by the Bank to originate and maintain loans are not succeeding. Also, such numbers indicate that foreclosure actions will have to be filed on many loans, which will increase the Bank's administrative costs.

The following table demonstrates the impact on the financial condition of even a very conservative write-off of the delinquent loans at Industrial Bank. Possibly, if the Bank had tighter collection procedures, this situation could improve substantially. With the number of delinquencies, engaging the foreclosure process in order to get borrowers to respond will be cumbersome and inefficient.

Loan Classification	Percent Write-off	Amounts of Loans Total	Write-off
Pre-conflict *	100	4,483,066,476	4,483,066,476
Post-conflict *	25	9,043,976,933	2,260,994,233
Total		**13,527,043,409**	**6,744,060,709**

* Only includes loans entered into the database. Some IQD 2,128,732,577 in loans not included would also appear to be subject to write-off.

4.2.2.4 Operations, Automation, and Human Resources

Operations

Observations and findings for Industrial Bank mirror the other State-owned banks. With some minor exceptions, the areas researched were very similar in practice and deficiencies.

Banking products such as current accounts, savings accounts, time deposits, loans, etc. are being performed manually. Counter services are slow and inefficient. The same transactions are often rewritten as many as four and five times, doubling the process levels, time, and number of people utilized to finalize a transaction. All processes should be handled and finalized by only two people and, in the case of tellers, by only one person (up to an authorized pay out limit). Due to the slow customer service and the small customer base, the transactional activity is poor (see Annex E).

Forms used for processes either do not facilitate easy processing or would not be useful in an automated environment. They need redesigning in preparation for automation. Currently, forms are completed manually with carbon paper being used for generating duplicate copies.

Reporting and consolidation process is manual, and the work is frequently duplicated and delayed from the Mosul Branch and Basra Branch, due to distance and difficult communications. Current communications between main office and branches are by means of fax, messenger, or phone (when available) using a code or test key. This is time consuming and prone to errors.

Policies and Procedures that help ensure that all Bank staff performs duties in a controlled, standardized and efficient manner are not available to operating and counter staff. Although Audit currently provides pre-audit checks to transactions, especially payments and expenses, there is no operating procedure manual against which compliance can be measured and by which operating staff can be guided.

Job descriptions are not clear or transaction-specific, which is necessary in order to provide needed structure and standardization to routine transactions to avoid errors and delays. This need is greatest at the operating and counter levels of the organization. Individual reporting relationships are not well defined. There are far too many layers of management.

Internal auditors do not report directly to the Board of Directors, which is required in any financial institution to avoid any conflict of interest and to maintain independence.

Security

Working conditions at the Bank are presently fair. The head office has been renovated and now provides a good environment. Branches need renovating and modernization, and security measures need implementing throughout the Bank. Armed guards are positioned at the main entrance of the building, and access to the head office is difficult. Parking in the area is not possible.

Control of cash was observed as being poor and casual. Cash in the teller area was easily accessible and lacked control. The main office vault had reasonably good controls.

Records retention capability is negligible, and there is no formal program for destruction or retention of primary documents. No microfilm or other data storage system is in place. Closets, rooms, and warehouse areas are at risk of destruction by fire. Stacks of folders and papers are piled in the open and can be easily lost, stolen, burned, or destroyed inadvertently.

The Bank does not have a written and detailed disaster recovery program that describes, in detail, action to be taken in the event of a disaster.

Automation

Only very basic support is provided by IT to other banking units (i.e. Human Resources, Credit, Operations, Audit and Accounting). The departments do not have individual systems or programs. Isolated attempts reportedly were made to automate some functions. However, they were soon abandoned. Computers are very few in number. In some instances there is one to a department, loaded with simple MS Word and Excel applications. These are stand-alone, off-line processors where information is loaded on a disk and is manually transported from one site to another.

The Bank currently lacks the capability to perform central processing, and all transactions remain decentralized and manual. Industrial Bank staff advised that the Bank does not have an application that would give them the ability to view a customer's account in real-time. The need is not critical to Industrial Bank at this time, due to the size of its customer base and relative small transaction volumes. However, for the Bank to progress and grow, data need to be made available to users (departments) and to upper management, using a timely, accurate, and reliable system.

No "connectivity" exists between the branches and the home office other than telephone and fax. Thus, there exists no capability for a "Branch Bank" network. The branches utilize a method of duplicate General Ledger accounts, which involves duplication and delay.

The Bank's Operations staff also confirmed that no capacity exists for monitoring branch credit portfolios in order to capture, review, and analyze loan disbursements, collections, and delinquency. In other words, risk management is impossible because information is always out of date.

Human Resources

Personnel Files are maintained under key control and limited access is allowed. The Bank's Human Resource Department maintains a checklist of the documents held in the file, and copies are distributed to branches for their records.

Table of organization design, writing of job descriptions, standardization of written policies and procedures, and a wage and salary administration program, though present in various forms, are not well defined. As mentioned in Operations Section above, transaction-specific job descriptions are not clear in order to provide needed structure and standardization to routine transactions. This need is greatest at the operating and counter levels of the organization.

There is no formal training program at the Bank for staff in general. Specific professional courses are needed at a specialized bank such as this.

Terminations are rare, and the involvement of the MoF in the hiring and termination activities of Human Resources was reported to be an impediment to wage and salary administration and to hiring and firing actions.

Salary ranges at the Industrial Bank are very similar to those of other State-owned banks, again reflecting central Government control (see Annex F).

Management

A total of seven Department heads report directly to the General Manager. This span of control limits the General Manager's time to deal with more important issues (i.e. Profitability, Competition, Market Share and Increasing Expenses).

Management, though experienced in basic banking, needs to be retrained in general bank management principles. Middle management has had no formal training due to the past two decades of political and economic difficulties and badly needed updating and training in modern bank management skills.

General oversight of the Bank by the Board of Directors is limited in scope as Bank employees fill seven of nine Board positions, as can be noted from the following table:

INDUSTRIAL BANK BOARD OF DIRECTORS

	Member Name	**Position**	**Location**
1	Abdul Wahab Habib Hashim	General Manager	Industrial Bank
2	Salahuddin Al Hadithi	GM of Iraqi Fund for Foreign Dev.	MoF
3	Qays Kazim Al Khafaji	Head of Iraqi Fed. of Industries	Ministry of Industry
4	Jaffar Baqi Taqi	Expert	Industrial Bank
5	Hussein Ali Qasim	Deputy General Manager	Industrial Bank
6	Layla Bakir Adil	Expert (IT Dept.)	Industrial Bank
7	Ilham Ali Kazim	Senior Manager (Legal Dept)	Industrial Bank
8	Lu'ai Robert Salim	Senior Manager (Investment Dept)	Industrial Bank
9	Mohamed. Sabri Jasim	Senior Manager (Audit Dept)	Industrial Bank

FINDINGS

INDUSTRIAL BANK

4.2.3 FINDINGS – INDUSTRIAL BANK

4.2.3.1 Accounting and Reporting – Financial Condition

- The Bank is not conforming to any generally accepted accounting principles (GAAP), including those of the Republic of Iraq, which has adopted versions of several International Accounting Standards (IAS). Accordingly, the financial statements are lacking and deficient in data integrity.
- The Bank's financial ratios indicate above average performance. Also, the Bank has increased its capital to the required level. However, the Bank's non-performing loans represented 45% of its portfolio in October 2005. Assuming this percent applies to year-end 2004, the financial statements do not represent the true value of the loans and facilities. The amount of non-performing loans could significantly reduce or eliminate capital.
- During 2004, the Bank increased its loan portfolio by IQD 17.5 billion, its investment portfolio by IQD 12 billion, and its capital by IQD 7.2 billion. Cash, however, decreased by only IQD 3 billion. How the application and source of funds supported these increases and decreases was not ascertainable. The decrease in other liabilities of IQD 20 billion was primarily the result of an IQD 17 billion Interbranch Transaction involving the cash received from the Central Bank and no reimbursement made to the CBI. The Bank still recorded a liability of IQD 15 billion to CBI at the end of 2004 and stated that it paid CBI in 2005.
- The Bank stated it did not revalue its Investment portfolio, but recorded IQD 9 billion receipt of "free stock" it received from companies in which it held investments. This stock may have been received over past years, and only in 2004 valued and added to capital. This must be further investigated to determine when the stock was received and how it was valued.
- The viability of the Bank is dependent upon its ability to collect its delinquent loans. It has not provided adequate Reserves for Loan Losses. And there is a question as to whether the IQD 7 billion increase in capital was actually stock dividends received and properly valued.

4.2.3.2 Credit Management and Policies

- Technical skills are lacking. A dual approach is needed (1) to develop skills in credit initiation, credit analysis, and credit administration at working levels; and (2) to train in credit policies, portfolio management, and risk management for senior management.
- Management still makes its lending decisions on the basis of quality of collateral and guarantees offered.
- The Head Office Credit Department needs reorganization and automation.
- Loan classification showed that many loans considered as current are in fact past due, reflecting a deficiency in risk management, proper follow-up, and periodic reviews of the portfolio.
- The Bank classified its loans according to International Standards, under the recommendation of the Central Bank and the advisor.
- Classification has proved to be an excellent test and tool to show the real quality of the portfolio. Collateralization of loans and facilities is sufficient to cover potential cash flow shortfall, as long as proper action is taken on the delinquent loans.
- The Bank has become somewhat active in recovering past due loans, and the situation appears to be improving.

4.2.3.3 Bad and Doubtful Debts – Loan Recovery

- Although systems are similar to other State-owned banks, the employees of Industrial Bank demonstrate a better ability to perform their functions than any other State-owned bank.

- If it is determined that there is a need for the type of services Industrial Bank furnishes because of its smaller size and the apparent quality of its employees, this institution would be relatively easy to transform assuming a significant injection of capital is made.
- Collection of delinquent credits is fragmented with portions of debt distributed over more than one banking area. One area does not represent or include another in the process.
- Solutions are not strategic but are one-off and short-term.
- Although many individuals in the Bank were most cooperative, many employees did not seem motivated to do superior work and demonstrated a lack of interest in completing the tasks; information provided had many mistakes. Additionally, two key branches, Mosul and Basra, did not respond to requests for information.
- There is a prevailing attitude among borrowers that debts incurred under the prior regime do not require repayment. This was encouraged by the inactivity of bank collections and settlement departments following the recent conflict.
- Under current management policies, the Bank will not be able to resolve the problem of collecting delinquent debt efficiently.
- The Bank has not innovated in the handling of its delinquent loans. It uses set procedure, which has been in place over time. As a result, the borrowers of the Bank use this to full advantage in order to delay the payment of their loans and facilities.
- This way of handling delinquencies has resulted in a real impairment of the Bank's capital to the point that the Bank's solvency is threatened**.**

4.2.3.4 Operations, Automation, and Human Resources

- Industrial Bank needs to improve and increase its Operational Control by focusing and implementing:

  - Competent and diverse Board of Directors
  - Well-defined and clear Table of Organization
  - Clearly defined job descriptions
  - Detailed Policy and Procedures Manual
  - A viable Audit System
  - Accurate and Timely Reporting System
  - Management Training

- All transaction processing, accounting, management and statuary reporting is done manually with delays and duplications.
- Department staff members are underutilized. The transaction/staff ratio is very low.
- There is no permanent operations manual for standardized procedural guidance for staff.
- Cash controls and branch security procedures are weak.
- Lack of automation has led to the above-mentioned overstaffing, unreliable reporting, and poor customer service.
- Seven out of nine Board members are long-time Bank employees, and with no outside directors, there has been a lack of various skills, backgrounds, and views to bring about innovation.
- Senior management is in fact well experienced in banking operations but requires training to be brought up to date with modern concepts and systems.
- Middle management has had no formal training, due to the past twenty-five years of political and economic difficulties. Therefore, management requires training to upgrade skills.

- Functional Managers average 20+ years of narrow experience on the job, but require training to upgrade their technical banking knowledge and skills.
- A manual system of providing customer service is subject to human error, cumbersome, slow, and inefficient. Competition should drive this process towards automation.
- Reports and subsequent management decisions are untimely due to lack of connectivity of branches with headquarters.
- The apparent inability of the Bank to introduce various banking products and services is also due to lack of automation and telecommunications.
- Although automation of this retail bank can wait until the MoF finalizes its restructuring plan, should the Industrial Bank continue, automation of its accounting system and counter services to make it efficient and competitive will be a necessity.
- An updated and automated Human Resources unit needs to be defined and developed.
- Human Resources in Industrial Bank needs assistance and should be the only unit to administer such areas as table of organization design, recruitment, wage and salary, benefits, employee loans, pay-for-performance program, job counseling, training, transfers and terminations.
- The Bank is experiencing an impediment to the administration of Human Resources, apparently due to involvement of the MoF in hiring and terminating activities at the Bank.
- The Bank needs to plan, implement and monitor a Bank-wide downsizing plan.
- Industrial Bank staff members give a clear impression that they are anxious to introduce change and improve productivity.

ASSESSMENT

REAL ESTATE BANK

4.3 REAL ESTATE BANK

4.3.1 EXECUTIVE SUMMARY – REAL ESTATE BANK

Real Estate Bank, one of seven State-owned banks, has 16 branches with a total staff of 872, an estimated annual payroll of IQD 2.5 billion and 11,500 deposit accounts. The Bank traditionally specialized in commercial real estate loans and housing loans. The previous Government mandated most of these loans, which were granted to State employees and military personnel. Commercial loans have been extended since 1997 but were developed in greater number after the 2003 war and are now the core activity of the Bank. The Bank can lend to all sectors of the economy.

The Bank's financial statements reveal that this small, specialized lender is essentially insolvent. On an adjusted basis, the Bank has a negative capital of IQD 10 billion (USD 7 million), resulting from long outstanding inter-bank borrowings and Government loans that cannot be serviced or repaid. The Bank is illiquid as it has only IQD 2.9 billion (USD 2 million) in cash or near cash to cover deposit liabilities of IQD 20 billion (USD 13.7 million). Further, the Bank is not profitable as the total interest expense on borrowings will amount to over IQD 4 billion (USD 2.7 million) and is far in excess of the small profit reported for 2004 of IQD 473 million (USD 324,000). The yield on its earning assets is less than the interest rate paid on borrowed funds. Additionally, delinquent loans account for 50% of the total portfolio and further deprive the Bank of earnings.

The Bank's overall portfolio quality is poor, and most pre-war loans are past due or have been rescheduled. This is, primarily, the result of collateral based-lending rather than cash flow lending. Further, collection against delinquent or defaulted customers has never been pursued.

Although the lending process seems well established, the credit policies and procedures are far from international standards. The bank does not analyze loans, and the approval process restricts the Bank's ability to develop prudent lending decisions. Lending is done on the basis of collateral only, and detailed financial information is requested for large loans only. The Bank recently instituted new internal policies following recommendations of the Central Bank. Credit Department staff has written new credit policies, but these are not yet approved.

Delinquency collection procedures are traditional and are not written in a comprehensive form. There is no documentation to judge performance of handling delinquent loans. Branches have authority to renegotiate residential mortgage loans and to initiate foreclosure on collateral. However, since the war, no foreclosures have been initiated. There is no mechanism for reviewing the Bank's loan portfolio on a continuing basis to identify problem loans before they become delinquent. Also, the Bank does not require the ongoing collection of financial information on borrowers and guarantors. The Credit Department maintains full files on 427 delinquent Loans and Facilities (over 90 days past due), totaling IQD 1,489,425,000, while 13,101 out of a total 38,500 Housing loans are delinquent and amount to IQD 50 billion (50% of all housing loans).

The large percentage of loan delinquencies represents potential impairment to capital to such an extent that the Bank may no longer be viable. An aggressive collection effort and/or foreclosure and sale of collateral appear to be the only solutions to preserving the Bank, short of massive injections of capital from the shareholder.

The Bank's operations and management practices are similar to those of other State-owned banks in that all accounting is performed manually, reports are not completely reliable or timely, there is no single source or manual for operations procedures, and retail services are slow and inefficient. Other than a few stand alone desktop computers for certain applications, the Bank is not automated in any way. Transaction to employee and deposit to employee ratios are very low (inefficient). Senior management of the Bank is experienced in real estate lending but is hampered by lack of funding, lack of capital, and lack of training. The past few years of turmoil have nearly eliminated this specialized bank's market base. The Bank is not prepared for a rapid upturn in the market and potential increased demand for housing finance.

4.3.2 ASSESSMENT OF REAL ESTATE BANK

4.3.2.1 Accounting and Reporting – Financial Condition

This section was based upon a review of available financial reports prepared by the Real Estate Bank as of December 31, 2004.

The Real Estate Bank's accounting and reporting is still operating in a cramped office, as the original head office, damaged during the war, has not yet been renovated or reoccupied. All accounts are prepared and maintained manually, as there is no automated system capability.

The Bank does not follow standard or generally accepted accounting procedures and does not follow accrual accounting principles.

There are 20 staff members working in the Finance Department (central accounts), headed by the Senior Accounts Manager, who also acts as Deputy General Manager. However, the accounting expertise in the Bank at all levels is low.

Financial Ratios

Based upon calculations of data in Exhibits I and II under Annex I, financial ratios for 2004 are presented below:

Return on Average Assets	0.33%
Non-earning Assets to Total Assets	26%
Yield on Average Loans	6.1%
Yield on Investments	10.8%
Cost of Average Deposits	0.32%
Cost of Debt (Excludes Interest Free Loan)	7.01%
Efficiency Ratio	85.9%

The only adjustment made to the Bank's financial statements was to include IQD 14.6 billion as accrued interest payable for loans received from other State-owned banks and deducting the amount from retained earnings, resulting in negative capital of IQD 10.3 billion.

Currently, the Government provides the Bank with a long-term non-interest bearing loan in order to fund non-interest earning and subsidized loans to specific mandated borrowers. The amount of this loan as of December 31, 2004 and as of December 31, 2003 was IQD 44.8 billion (USD 31 million) and IQD 37.7 billion (USD 26 million), respectively. The December 31, 2004 loan comprised 34% of total assets. Total debt to the Government and to other State-owned banks was IQD 103 billion (USD 70 million), or 78% of total assets at year-end.

At year-end 2004, total loans outstanding were IQD 115 billion (USD 79 million), while the Bank's total deposits were only IQD 20 billion (USD 14 million), resulting in a loan to deposit ratio of approximately 480%. The ratio of loans to deposits and debt at year-end is 94%. That is, loans are nearly five times greater than deposits, the normal source of funding, and nearly the same as all deposits and borrowings together, indicating there are no surplus funds at all for other banking operations or administration.

Negative Capital

Accrued overdraft interest payable to Rafidain and to Rasheed Banks by the Real Estate Bank was included in the financial statements presented in Annex I Exhibit II, resulting in a negative capital of

IQD 10.4 billion (USD 7 million). To comply with increased capital requirements, an infusion of IQD 20 billion (USD 13.7 million) is needed.

Liquidity

Although total assets declined IQD 7.4 billion (USD 5 million) from year-end 2003, total loans increased IQD 15.7 billion (USD 10.7 million). To fund these loans, cash was reduced from year-end 2003 by IQD 17.6 billion (USD 12 million), and balances Due from Banks were reduced IQD 4.4 billion (USD 3 million), and investments, by IQD 0.4 billion (USD 275,000).

As of December 31, 2004, the Bank only has IQD 2.9 billion (USD 2 million) in Cash, Due from Banks and Investments and lacks liquidity to meet its deposit liabilities of IQD 20 billion (USD 13.7 million).

Financial Viability

The Bank is not financially viable, and given its current mode of operations and composition of assets and liabilities, will not be viable in the near future.

Even with an IQD 44.7 billion (USD 31 million) interest free Government loan, the Bank is not liquid, nor profitable. It has not recognized accrued interest payable of IQD 14.6 billion (USD 10 million) on inter-bank loans received from Rafidain and Rasheed Banks, which as of December 31, 2004 totaled IQD 58.2 billion (USD 40 million). Using the current interest rate charged of 7 percent, future annual interest expense will be IQD 4 billion (USD 2.7 million), which is significantly in excess of IQD 473 million (USD 324,000) in stated net profit for 2004.

The yield on average loans of the Bank was only 6.1 percent, which is less than the interest rate on the borrowed funds. As of October 2005, delinquent loans were 50 percent of total loans, or IQD 52 billion and represent additional future problems.

4.3.2.2 Credit Management and Policies

Credit Department Organization Overview

The Credit Department of Real Estate Bank is fairly small, with a very simple structure. There is only one unit with six employees under the Banking Department Supervisor who is assisted by one Manager who manages the Credit Unit.

Loans are originated in one of the 16 branches which are located throughout Iraq. The Najaf Branch is only authorized to issue loans; it may not perform other banking operations or services.

The branches have exclusive relationships with clients. They receive loan requests and gather all necessary documentation. After review, all original documents are sent to the head office for approval. Branches do not have any lending authority.

The lending function is fragmented, split among three different departments of the Bank. The Credit Department is in charge only of commercial loans, pre or post-war. Pre-war housing loans are managed by the Advances and Settlement Department, and staff loans by the Finance Department.

Products

Though the Bank was originally funded to finance real estate, it now lends to all the sectors of the economy, as described below in the *Commercial Loans Portfolio* section. The Bank's Credit Department offers a very limited number of credit products, such as term loans and facilities.

Term loans, secured by real estate, are made in IQD only. The Bank does not grant loans in USD. The terms of these loans range from one to five years and bear interest at 12% to 14%, depending on the maturity. Repayments are made in several semi-annual installments. Policies do not dictate a maximum amount for a single loan. Leverage ratios specified by the Central Bank limit the total lending capacity of the Bank and the amounts that can be lent to individual clients.

Facilities in IQD are overdrafts, discounted notes, letters of credit, or guarantees. Overdrafts have no maturity. Interest is a flat 12% on all facilities.

Process

The relationship with the clients is kept at the level of one of the 16 branches. The branch manager meets the client, who is required to furnish a certain amount of information and numerous legal and identification documents. The branch prepares a file, appraises the collateral, and registers the assets. The branch manager reviews the file and recommends the loan. The branch manager does not have lending authority. The loan requests with all the original documents are sent to the head office for approval. The Credit Department keeps the entire set of originals. The original legal documents are kept in the files, in metallic cabinets or shelves in the Credit Department, without any protection.

Loan processing is not subjected to formal credit analysis. The Bank relies entirely on its knowledge of the borrower and the fixed assets assigned. Only in the case of loans above IQD 10,000,000, which is the authorized limit of the Credit Committee, are financial documents and projections requested. The Credit Department of the head office never sees a client unless there are major problems in his loan request or the repayment. Once the loan is reviewed and file is checked, the head of the Credit Department prepares a recommendation and submits the request to the Credit Committee for approval.

Housing Loans

As mentioned earlier, the pre-war housing loans are not managed by the Credit Department but rather by a separate unit called "Advances and Settlement Section". Though the name "settlement" implies a department charged with collecting or resolving delinquent loans, very little action has been taken by this unit.

The total outstanding housing loan portfolio represents some IQD 107 billion out of IQD 114 billion originally lent. There are four different categories:

Government-mandated loans to individuals
Term: 25 years
Interest: 8%
Amount: IQD 6 million maximum

Loans to State employees approved by MoF
Term: 12 or 15 years
Interest: 8%
Amount: IQD 6 million maximum

Government-mandated loans to Kirkuk Region
Term: 30 years
Interest: 0%
Amount: IQD 3 million maximum

Government-mandated loans to the Basra Region
Term: 25 years
Interest: 7%
Amount: IQD 5 million

Due to the continuing uncertain market situation, most loans remain past due, though all these loans are fully collateralized by assets of the projects financed. The Real Estate Bank still expects to be compensated by the Government for past losses on projects.

The Bank's resources for funding these loans come from two very large and overdue lines of credit: an overdraft from Rasheed Bank and one from Rafidain Bank, which are both long outstanding. Interest is capitalized, causing the overdrafts to increase continually without any reductions.

Commercial Loans Portfolio

Commercial loans represent a fairly small proportion of the global pre-war and post-war outstanding loan portfolio of the Bank. The total long-term loan portfolio amounts to IQD 1.7 billion, and facilities in the form of overdrafts and discounted bills amount to IQD 341 million. The Bank does not extend loans in USD. There are no loans to the State sectors (See Annex J, *Real Estate Bank Credit Portfolio and Loan Ratings*).

Commercial loans are extended for many different purposes. The term "commercial loan" covers everything that is not related to staff loans or pre-war real estate loans to individuals. For instance, the five largest loans are as follows:

Construction of a hotel:	IQD 100,000,000
Medical equipment:	IQD 25,000,000
Commercial building:	IQD 20,000,000
Building a barn for livestock:	IQD 15,000,000
Livestock:	IQD 15,000,000

Though there is no set limit on the maximum amount for a single loan, at the present time the largest loans amount to IQD 100,000,000. Loans are fully collateralized by real estate or movable assets.

Advances to Employees

In addition to commercial loans, the Bank makes advances to its own employees at 5% (compared to 8% before the war) with a maximum amount ranging from IQD 1 to 5 million (compared to a maximum of IQD 500,000 before the war), depending on the employee's salary. Principal and interest repayments are deducted from salary. These advances are not overseen by the Credit Department, but by the Finance Department. The outstanding amount of advances to the Bank's employees before and after the war totals IQD 2,756,389,106 (Annex J).

Credit Approval/Credit Committee

The Credit Committee approves all loans and facilities. There are no lending delegations to the branches. The Credit Committee has five members:

- General Manager
- Deputy General Manager
- Head of the Credit Department
- Head of the Investment Department
- Accounting Manager

Lending decisions are made on the basis of the quality and the amount of the collateral offered as guarantee to the loan. Borrower's financial information is irrelevant, and cash flow is not considered. The Credit Committee can approve loans and facilities up to IQD 10,000,000. Above this amount, the request is submitted to the Board of Directors for approval.

Bad Loans

If Government-mandated loans are included, approximately 80% of the pre-war loans are past due, and as mentioned above, collection against customers has not been actively pursued.

Again, all housing loans are fully collateralized by real estate. The Bank's staff expects full repayment through future collections or foreclosures of collateral when the situation stabilizes. Although the loans may be well secured, due to the fact that they are mostly long term in nature (12 to 30 years) and to the Bank's reluctance to forcefully collect on delinquent loans, the loan portfolio can be considered illiquid. Additionally, due to the very delinquent nature of the portfolio, accruals of interest income are questionable and may represent potential major write-offs.

Commercial loans are, for the most part, considered as performing, though many of these pre-war loans have been rescheduled. The loan classification that is in process should provide a better and more up to date and realistic picture. Preliminary results of the classification, as of August 31, already indicate and confirm that most pre-war loans are delinquent.

Risk Management

Risk Rating
To date, term loans and facilities have not been classified according to international standards. A recent instruction from the Central Bank of Iraq has directed banks to perform ratings (classifications). The USAID Project advisor explained to the Bank how to proceed and assisted the Bank in its effort to implement this recommendation. A report as of October 31, 2005 has been provided in Annex J, attached hereto, and shows that only 57 loans out of 590 were rated (classified).

Risk Diversification
The Bank does not keep track of industry concentration and does not manage portfolio risks.

Loan Reviews and Follow-up
The Real Estate Bank does not perform periodic loan reviews. Occasionally the Audit Department reviews credit files at the branch level to check their integrity, collateral, and repayments. The effort and organization of these cursory reviews is not up to acceptable, international standard.

4.3.2.3 Bad and Doubtful Debts – Loan Recovery

Delinquent Loan Collection Procedures of Real Estate Bank

The Real Estate Bank has developed over time a method of administrating delinquent loans. Its model for structuring collection efforts is based roughly on the procedures used by Rafidain Bank. Since the Real Estate Bank's portfolio contains primarily residential mortgage loans, its collection efforts differ significantly from the large commercial bank. These procedures are by tradition and have never been put into a comprehensive written form. This means that there is no documentation to judge performance of handling delinquent loans, nor the ability to assign responsibility for specific actions. Also, the procedures are changeable without notice or review. Information collected for this Assessment was from various sources. Although an effort was made to collect as accurate data as possible, there are significant discrepancies depending on which source is used.

Mortgage/Commercial

The Real Estate Bank separates its lending operations into two areas. By far the largest is the Residential Mortgage Lending operation. However, because of the recent conflict and lack of continuing support of the Government, originations of loans have ceased. Commercial Lending continues on a limited basis. This is now also restricted by the lack of funding sources available to the Bank. This lack of funds available for lending is due in great part to the lack of collections of existing loans. Loan originations are performed in the branches. However, collection of delinquent loans is handled differently, depending on whether the loan is in the Residential or Commercial category, and is described below.

Branches

The branches of the Real Estate Bank are responsible for originating *loans* and *facilities*. Each debt is assigned to a lending specialist, who is supervised by the branch manager. Subsequently, if a loan becomes delinquent, the specialist assigned to the credit has the primary responsibility of collecting and resolving the debt. This responsibility remains with the branch. Purportedly, in some branches there is staff whose primary responsibility is to contact delinquent borrowers, and to persuade them to make payment on their debts. Collection activities at the branch level ceased during the recent hostilities, and branches have only recently restarted their collection efforts. There has also been an attitude among borrowers that debt incurred before the hostilities began would be forgiven by the new government.

These factors have led to a great increase in loan delinquencies. The Bank has attempted to allow easy restructures of debt when a borrower requests. However, there has been limited success to date in restructuring repayments. The branches are responsible for negotiating restructures of loans and facilities. Branches have the authority to renegotiate residential mortgage loans with the approval of the branch manager. Also, the branches have the authority to initiate foreclosure of collateral. However, since the recent conflict no foreclosures have been initiated. Branches maintain loan files on residential loans. On commercial credits, the branch can negotiate restructures of delinquent debt, but final approval is required by a committee made up of the Director General of the Bank, his Deputy, one bank Expert, and the Head of Commercial Credit.

Credit Department/Loan Department

The Real Estate Bank has a Credit Department for commercial types of credit, and Advances and Settlement Department for residential lending. The departments have similar responsibilities for the different types of lending. The Real Estate Loan Department issues lending rules and restrictions to the branches, and then follows up to make sure these mandates are followed. Loan files are maintained at the branches. Delinquent Residential Loans are not reported to the Central Bank or Rafidain Bank, as is required for centralizing reporting on delinquent commercial credits. Also, there is no check made with the Central Bank before a borrower is granted a residential loan. Currently, there is no new residential lending taking place. However, in case of loans previously approved, the Bank allows disbursement in order to complete their homes. This is based on the status of completion of the house, and on the availability of liquidity. The Bank will even allow a delinquent borrower to participate in this funding. The Bank will always apply its additional funding to bring the loan current before funding anything to the borrower. When asked why the Bank would extend additional credit to a delinquent borrower, it was stated that this would be enough to help the borrower complete the house. Since these delinquent borrowers have shown they are not willing to pay as agreed, this shows a lack of concern over repayment of debt to maintain the Bank's solvency.

The Credit Department maintains a complete file on every commercial (investment) debt. The function of a settlement department as seen in other banks is incorporated into the Credit Department of the Real Estate Bank. This is due to the small volume of commercial loans. All negotiations on delinquent commercial loans must be communicated and monitored by the head of the Department. This Department also orders foreclosures when appropriate. Since the recent conflict, one loan has been referred for foreclosure. The borrower responded to this event and approached the Bank to renegotiate the debt. Currently, the loan is being repaid according to the terms negotiated.

Loans are only segregated when they become past due. There is no mechanism for reviewing the loan portfolio on a continuing basis to identify problem loans before they become delinquent. Also, the Bank does not require the ongoing collection of financial information on borrowers and guarantors, which would make any review effective. Recently, an Advisor started a rating system for commercial loans based on the perceived quality of the credit. Currently, this is being attempted with very limited information at hand. This could be a first step in quantifying risks in the loan portfolio.

Since the end of the war, more employees from all departments of the bank have been active in contacting delinquent borrowers, trying to facilitate collection. This is the result of the alarming increase in delinquent loans. So far, these efforts have had very limited success.

The Advances and Settlements Department does not maintain records on delinquent loans. There are eight employees in this Department.

The Credit Department maintains full files on 427 delinquent loans and facilities (90 days or more), totaling IQD 1,489,425,000. There are six employees in this Department.

Legal/Litigation Department

If the efforts by Commercial Credit Department and the branch to collect the delinquent debt are unsuccessful and there is collateral, the loan is forwarded to the Legal Department (a department of the Legal Division). The Legal Department is responsible for initiating the litigation required to sell the collateral. During the recent conflict, the courts were not operating and no loans were referred for legal action. Now, the courts are operating and the Legal Department is available for initiating litigation with delinquent borrowers. Currently, the legal department has no pending foreclosures. The Legal Department employs four people.

Since the loans of the Real Estate Bank are primarily secured with the residences of their borrowers, it would be assumed the there is much litigation ongoing to collect delinquent debts. However, the Bank has been reluctant to pursue this remedy, due to a feeling that this might overly tax the borrower in a time of economic uncertainty. Additionally, the Bank staff expressed fear over the potential for a violent reaction from the borrower if the Bank attempts to foreclose.

Process

The attitude of the employees and management of the Real Estate Bank appears to be much more directed at the well being of the borrowers than at the financial condition of the Bank. This is evident by the lack of loans being handled by the Legal Department, and the way Real Estate Bank makes the additional funding on residential loans.

Delinquencies

The following table defines in part the delinquency situation at Real Estate Bank:

		Number	Number Delinquent	%	Amounts in IQD	Amounts Delinquent in IQD	%
Residential Loans *		38,500	13,101**	34%	** 101,213,081,000	** 50,229,988,367	50%
Commercial	**Loans**	590	277	47%	1,729,347,741	1,186,000,000	69%
	Facilities	223	150	67%	526,354,400	303,425,000	58%
Total		**39,313**	**13,528**	**34%**	**103,468,783,141**	**51,719,413,367**	**50%**

***** The number and amounts of delinquencies is for only 7 out of 16 branches (including the largest three branches (Main office, Mosul and Basra branches).

****** Includes the "Special Loans" directed by the previous regime for Kirkuk and Faw cities, carrying 0% to 6% interest rate, approximately 4,250 loans totaling IQD 14,350,000,000. Although the Bank does not track the delinquencies on these loans, it is assumed for this study that all of them are past due. This would be consistent with "Special Loans" originated at other Banks. No explanation was given as to why these loans are not monitored.

Database

No residential Loans were originated after the recent conflict. Therefore, for this assessment, the total past due figure from the table above is used for analysis (although it does not include all branches). Of 427 delinquent Commercial Credits, 116 were reported in the database. It did not appear that this sample fairly represented the total situation. Still, a conservative estimate can be made for determining delinquent loan write-offs.

Loan Classification	% Write-off	Amount of Loans Total	Write-off
Residential Loans	100%	50,229,988,367	50,229,988,367
Commercial	80%	1,489,425,000	1,191,540,000
Total	**99%**	**51,719,313,367**	**51,421,528,367**

This sample confirms the impression that the Bank's earning assets are impaired and are unlikely to be recovered or brought current, and that interest income accrued to date thereon will have to be written off. This, along with enormous overdraft obligations, if viewed realistically, represents potential impairment to capital to such an extent that the Bank will no longer be viable. An aggressive collection effort and/or foreclosure and sale of collateral are the only solutions to preserve the Bank, short of massive injections of capital from the shareholder.

4.3.2.4 Operations, Automation, and Human Resources

Operations

Observations and findings for the Real Estate Bank mirror the other State-owned banks. With some minor exceptions, the areas researched were very similar in practice and in deficiencies.

Banking services and all loans are being performed manually. Counter services are slow and inefficient. The same transactions are rewritten as many as three or four times, doubling the process levels, time, and number of people utilized to finalize a transaction. Due to the slow customer service and to the small customer base, the transactional activity is poor (see Annex E).

The reporting and consolidation process is manual, and the work is frequently duplicated and delayed from governorate branches due to distance and difficult communications. Current communications between main office and branches are by means of fax, messenger, or phone (when available) using a code or test key. This is time consuming and prone to errors.

Policies and Procedures that help ensure that all Bank staff members perform duties in a controlled and standardized, efficient manner are not available to operating and counter staff. Although Audit currently provides pre-audit checks to transactions, especially payments and expenses, there is no operating procedure manual against which compliance can be measured and by which operating staff can be guided.

Job descriptions are not clear or transaction-specific, which is necessary in order to provide needed structure and standardization for routine transactions to avoid errors and delays. This need is greatest at the operating and counter levels of the organization. Individual reporting relationships are not well defined.

Internal auditing is weak and, though it does not organizationally report directly to the Board of Directors, it reports to the General Manager who at the same time is the Chairman of the Board.

Security
Working conditions at the Bank are poor and very crowded as head office staff still occupies one of the Baghdad branches. The Head Office was destroyed during the recent conflict and has not yet been renovated. Branches need renovating and modernization, and security measure need implementing throughout the Bank. Armed guards are positioned at the main entrance of the building, and access to the head office is difficult.

The Real Estate Bank does not have large retail cash transactions, though control of cash in the teller area was accessible and lacked control.

Records retention capability is negligible, and there is no formal program for destruction or retention of primary documents. No microfilm or other data storage system is in place, and there are no fireproof cabinets. Closets, rooms, and warehouse areas are at risk of destruction by fire. Stacks of folders and papers are piled in the open and can be easily lost, stolen, or burned.

The Bank does not have a written disaster recovery program that describes, in detail, action to be taken in the event of a disaster.

Automation

Only very basic support is provided by IT to banking units (i.e. Human Resources, Credit, Operations, Audit and Accounting). The various departments do not have individual systems or programs. Computers are very few in number. In some instances, there is one to a department loaded with simple MS Word and Excel applications. These are stand-alone, off-line processors where information is loaded on a disk and carried from one site to another.

The Bank currently lacks the capability to perform central processing, and all transactions remain decentralized and manual. The Bank staff advised that there is no computer application that would give it the ability to view a customer's account in real-time. The need is not critical to Real Estate Bank at this time, due to the size of its customer base and relatively small transaction volumes.

No "connectivity" exists between the branches and the home office other than telephone and fax. Thus, there exists no capability for a "Branch Bank" network. The Bank's Operations staff also confirmed that no capacity exists for monitoring branch credit portfolios in order to capture, review, and analyze loan disbursements, collections, and delinquency. In other words, risk management is impossible because information is always out of date.

Human Resources

Personnel Files are maintained under key control, and limited access is allowed. The Bank's Human Resource Department maintains a checklist of the documents held in the file, and copies are distributed to branches for their records.

Table of organization design, writing of job descriptions, standardization of written policies and procedures, and a wage and salary administration program, though present in various forms, are not well defined. As mentioned in the Operations Section above, transaction-specific job descriptions are not clear in order to provide needed structure and standardization for routine transactions. This need is greatest at the operating and counter levels of the organization.

There is no formal training program at the Bank for staff in general. Specific professional courses are needed at a specialized bank such as this.

Terminations are rare and the involvement of the MoF in the hiring and termination activities of Human Resources was reported to be an impediment to wage and salary administration and to hiring and firing actions.

Salary ranges at the Real Estate Bank are very similar to other State-owned banks, again reflecting Central Government control (see Annex F).

Management

The General Manager was recently appointed and has little banking experience. The Senior Accounting Manager is, however, very experienced and handles much of the day-to-day banking routine. Management, though experienced in basic banking procedures, needs to be retrained in general bank management principles. Middle management has had no formal training, due to the past two decades of political and economic difficulties and badly need updating and training in modern bank management skills.

General oversight of the Bank by the Board of Directors is limited in scope as Bank employees fill five of seven Board positions, as can be noted from the following table:

REAL ESTATE BANK BOARD OF DIRECTORS

	Member Name	Position	Location
1	Farouq Mohamed	General Manager	Real Estate Bank
2	Abbas Fadhil Al Kharjan	Senior Accounting Manager	Real Estate Bank
3	Shafa'a Abdul Qadir	IT Manager	Real Estate Bank
4	Qahtan Al Ayoobi	Manager of Financial Department	Real Estate Bank
5	Zaydan Khalaf Al Ta'I	General Manager	Justice Ministry
6	Muwafaq Taha Izzideen	Expert	MoF
7	Rabab Hadi Yasin	Senior Manager of Audit Dept	Real Estate Bank

FINDINGS

REAL ESTATE BANK

4.3.3 FINDINGS – REAL ESTATE BANK

4.3.3.1 Accounting and Reporting – Financial Condition

- The Bank is not conforming to any generally accepted accounting principles (GAAP), including those of the Republic of Iraq, which has adopted versions of several International Accounting Standards. Accordingly, the financial statements are lacking and deficient in data integrity.
- The Bank does not follow the International Accounting Standard of accruing income and expenses in a standard method throughout the Bank. Thus, the Bank misstates results throughout the year.
- The Bank's accounting function is decentralized throughout its 16-branch network. Coordination among these areas is inadequate to allow reconciling data and accounts.
- There is a lack of analysis, comparison, verification, checking, and balancing of accounting transactions and records. Furthermore, the need for a Management Information System is largely unfulfilled. Essentially, the accounting function/system is nothing more than a manual "bookkeeping system".
- The Bank has a negative capital of IQD 10 billion (USD 7 million) and is effectively insolvent.
- The Bank is illiquid in that it has only IQD 2.9 billion (USD 2 million) in cash or near cash to cover deposit liabilities of IQD 20 billion (USD 13.7 million).
- The Bank is not profitable, as interest expense on borrowings far exceeds interest earned from its weak loan portfolio (50 % delinquent).

4.3.3.2 Credit Management and Policies

- Lending has come to a near standstill, due to a lack of funding sources and a lack of repayment.
- The management and credit staff of the Real Estate Bank were extremely cooperative and understanding during the review and open to answering all questions.
- The Bank has begun to perform the loans rating in a satisfactory manner. This should help in getting a better estimation of the performing loans portfolio.
- Lack of cooperation between IT and Credit has hindered risk management monitoring.
- Employees need training to develop needed skills for credit processing.
- New policies and procedures need to be implemented, and the lending decision process must shift collateral value to cash flow availability.
- The original legal documents are kept in the files, and on top of metallic shelves in the Credit Department room, without any protection.
- As all other banks, Real Estate can lend to all the sectors of the economy and is in direct competition with other small and large State-owned banks.
- The problem of pre-war housing loans has to be addressed, to clean the balance sheet of the Bank. Considering the high number of loans and the uncollectability of most, appropriate steps must be taken to force the beneficiaries into repaying them without an overload of time and expenses, or otherwise to write them off.

4.3.3.3 Bad and Doubtful Debts – Loan Recovery

- Past lending policies and collection practices have devastated the financial condition of the Real Estate Bank.
- The Bank does not have the ability to get accurate credit data (9 out of 16 branches could not report the required information).
- The Bank appears not to have any accurate monitoring method for delinquent residential loans.

- Delinquencies do not appear to be a high priority for the Bank or its staff, and loan collection efforts appear to be ineffective.
- The Bank's enormous overdraft obligations and large percentage of delinquencies represent potential impairment to capital to such an extent that the Bank will no longer be viable.
- An aggressive collection effort and/or foreclosure and sale of collateral are the only solutions to preserving the Bank, short of massive injections of capital from the shareholder.

4.3.3.4 Operations, Automation, and Human Resources

- Real Estate Bank needs to improve and increase Operational Control by focusing and implementing:
    - Competent and diverse Board of Directors
    - Well-defined and clear Table of Organization
    - Clearly defined job descriptions
    - Detailed Policy and Procedures Manual
    - A viable Audit System
    - Accurate and Timely Reporting System
    - Management Training
- All transaction processing, accounting, management and statuary reporting is done manually with delays and duplications.
- The Bank needs to plan, implement and monitor a Bank-wide downsizing plan. Department staff members are underutilized, and the transaction/staff ratio is very low.
- There is no permanent operations manual for standardized procedural guidance for staff.
- Cash controls and branch security procedures are weak.
- Senior management is experienced in banking operations but requires training to be brought up to date with modern concepts and systems.
- Middle management has had no formal training, due to the past twenty-five years of political and economic difficulties. Therefore, management requires training to upgrade skills.
- Functional Managers average 20+ years of narrow experience on the job, but require training to upgrade their technical banking knowledge and skills.
- Reports and subsequent management decisions are untimely, due to lack of connectivity of branches with headquarters.
- The apparent inability of the Bank to introduce various banking products and services is also due to lack of automation and telecommunications.
- Although automation of this retail bank can wait until the MoF finalizes its restructuring plan, should the Real Estate Bank continue, automation of its accounting system and counter services to make it efficient and competitive will be a necessity.
- An updated and automated Human Resources unit needs to be defined and developed. HR at Real Estate needs assistance and should be the only unit to administer such areas as: table of organization design, recruitment, wage and salary, benefits, employee loans, pay-for-performance program, job counseling, training, transfers and terminations.
- The Bank is experiencing an impediment to the administration of Human Resources due to involvement of the MoF in hiring and terminating activities at the Bank.
- Bank staff members give a clear impression that they are anxious to introduce change and to improve productivity.

ASSESSMENT

AGRICULTURE BANK

4.4 AGRICULTURE BANK

4.4.1 EXECUTIVE SUMMARY – AGRICULTURE BANK

Agriculture Bank was founded originally in 1936 as the Agricultural and Industrial Bank, which was then separated in 1940 into two separate banks. The Agriculture Bank has traditionally been a lender to private sector rural borrowers and cooperatives for farming, crop production, agri-business, food processing plants, and irrigation projects. Today, the Bank has 40 branches, 848 staff with an annual payroll of IQD 2.5 billion (USD 1.7 million), holding 51,000 deposit accounts, and total assets of IQD 219 billion (USD 189 million), making it Iraq's third largest State-owned bank.

Agriculture Bank has a decentralized accounting function similar to all State-owned banks and has difficulty in generating certain information. For example, only branches have the details regarding trade finance accounts, letters of guarantees, etc. Accruals are not generated for all accounts.

Total deposits amounting to IQD 169 billion (USD 116 million) served as funding sources for total loans and facilities outstanding of IQD 88 billion (USD 60 million), of which IQD 11.2 billion (USD 7.7 million) are considered delinquent.

The Bank has not written-off losses for looted cash and war damage sustained due to the recent military conflict. Also, the Bank has received non-interest loans from the Government in order to grant non-interest loans to farmers and others for digging wells. These loans are all past due, and the supporting loan documentation has been burned, lost or destroyed. After making adjustments, the Bank's Capital will be **a negative IQD 3.6 billion (USD 2.5 million),** leaving the Bank insolvent and in need of a major capital infusion.

The Bank is involved primarily in agricultural lending, though it can also lend to all other sectors. Commercial loans have increased during the past year. The Bank has a strategic network in rural regions and acts as an agent bank under a program of lending to some 5000 small farmers on behalf of the Ministry of Agriculture.

There is no real credit culture at the Bank. No credit analysis is performed on borrowers, and credit policies are a long series of directives from the Central Bank and the Ministries. Before the war, many loans were mandated/pre-approved by the Government. This is no longer the case, but little has been done to improve credit skills. Since August 2005, Agriculture Bank branch managers' lending limits have been cancelled. Loans and facilities are secured by collateral with a maximum loan to value ratio of 50%. Collateral is usually real estate or land. Before the war, loans to farmers could also be secured by movable farming equipment. Due to recent difficulties in registering equipment, only real estate is accepted.

The total credit portfolio as of July 2005, including agricultural and commercial loans and facilities, amounts to IQD 25 billion (USD 17 million). There are 6,931 active files (Annex L). Approximately IQD 12 billion (IQD 8 million) was approved directly by the branches. As noted, since August, loans are now approved at head office.

Branches of Agriculture Bank are responsible for originating loans and facilities. Each credit is assigned to a lending specialist, supervised by the branch manager, and if the loan goes "bad" the specialist assigned has primary responsibility for collecting and resolving the debt. The head office Credit Department of 13 staff maintains records on 2,321 delinquent loans (90 days or more), totaling IQD 11.4 billion (USD 7.8 million). This means the average loan amount serviced is IQD 2,319,948 (USD 1,600), a very small, inefficient number and amount per employee.

Many "directed" loans totaling approximately IQD 53 billion (USD 36 million) were granted without reference to the Bank to facilitate drainage of marshlands and drilling of irrigation wells. These loans are all delinquent, but no efforts are being made to collect them as the Bank awaits Government compensation.

Branches are responsible for initiating and handling rescheduling and foreclosure actions against borrowers. If rescheduling a delinquent credit exceeds a branch manager's negotiation authority, it is referred to the Legal Department for further handling. The Legal Department employs eight people. All client applications for restructuring are channeled through the Credit Department. There is a separate section of the Credit Department that reviews client requests to postpone delinquent credit repayments.

Agriculture Bank's operations and management practices are similar to other State-owned banks in that all accounting is performed manually, though Agriculture Bank reports are more reliable and timely than other State banks. The Bank has several desktop computers for certain applications (obsolete systems software) throughout the offices and recently received 60 new PCs. These are not linked to a centralized, automated accounting system in any way. There is no single source or manual for operational procedures, and retail services are slow and inefficient. Transaction to employee and deposit to employee ratios are still very low (inefficient).

Senior management of this bank is experienced in agricultural banking but is otherwise hampered by lack of training, modern systems, and communications (40 branches). As a result of the increased demand for rural and commercial loans, the Agriculture Bank is the best prepared of State-owned banks to assist in the rapid improvement in agricultural production.

4.4.2 ASSESSMENT OF AGRICULTURE BANK

4.4.2.1 Accounting and Reporting – Financial Condition

Financial statements as of year-end 2004 were reviewed to obtain information and data, to be presented to the Government of Iraq to assist in the decision for restructuring or liquidating all or some portion of the State-owned banks. This work was based upon a review of available financial reports prepared by the Bank. The Bank does not follow standard or generally accepted accounting procedures and does not follow accrual accounting principles

The Bank's accounts are prepared and maintained manually, as there is no automated, linked system.

There are 18 staff members working in the central accounts sector, headed by a manager. Though personnel are cooperative, the accounting expertise in the Bank is low at all levels.

Financial Ratios

Our findings on the financial condition and future viability of the Agriculture Bank are presented below and are based on Exhibits I and II, attached hereto as Annex K:

Return on Average Assets	0.02%
Return on Average Capital	1.76%
Yield on Total Average Loans	4.65%
Yield on Average Loans less Farm/Wells Loans	12.7%
Yield on Investments	21.8%
Cost of Average Deposits	0.74%
Non-earning Assets as % of Total Assets	55.3 %
Non-earning Assets as a % of Total Assets after Deducting Non-interest Farm Loans	73 %
Efficiency Ratio	98.8%

Two major adjustments were made to the Bank's financial statements:

1) war damages of IQD 537,433, and
2) looted cash, counterfeit currency, and shortages of IQD 5,819,243.

Both were deducted from Other Assets and charged to Retained Earnings. This resulted in a **negative capital of IQD 3.6 billion** (USD2.5 million).

These ratios were calculated prior to recording the above adjustments in order to have a better understanding of the Bank's performance. However, discounted checks for collection from other branches of the Bank and other banks, in the amount of IQD 28,914,997 were reclassified from loans to other assets, and the above ratios reflect this.

Currently, the Government provides the Bank with short-and long-term non-interest bearing loans in order to fund non-interest loans to specific borrowers. The amount of these loans as of December 31, 2004 and 2003 were IQD 42.5 billion (USD 29 million) as no repayments were made, and this amount represents 18% of total Bank assets in 2004.

The Bank, as mandated by the Government, has made non-interest long-term loans to farmers in the Southern governorates of Basra, Missann, Dhigar, and in Taameem, Nanawa, and Diyala for the digging of wells, and for a national campaign for digging artesian wells in Taameem City. The total of these loans granted by the Bank, as of December 31, 2004 is IQD 53.9 billion (USD 37million).

The loans are all past due, with no repayments being made. According to Bank staff, all loan records have been burned or lost.

Earnings

The Bank has invested in numerous agricultural companies as well as in other small banks, earning the Bank a yield of 21.9%, which is excellent. Also, the yield on loans excluding non-interest bearing farm loans is 12.7%. Although yields are very high, the underlying loan and investment balances are very low: gross loans less the above mentioned farm loans at year-end 2004 are IQD 63.9 billion (USD 44 million), and total investments were only IQD 3.3 billion (USD 2 million). Consequently, non-earning assets, after deducting farm loans, represent 73% of adjusted assets, resulting in lower net income.

The Bank has excess Cash and amounts in Due from Banks, totaling IQD 85 billion (USD 58 million) as of year-end 2004. In 2005, much of this amount may be invested in overnight funds with the CBI, thereby increasing earnings.

The efficiency ratio of 98.8 percent indicates that general and administrative expenses alone absorb nearly all net operating income. By contrast, the efficiency ratio of the largest banks in the United States is 57 percent.

Earnings have been overstated, given the lack of a provision for loan losses in 2004, with reserves for losses of IQD 1.2 billion (USD 822,000). In 2003, the Bank charged off IQD 550 million (USD 377,000) and had loan reserves of IQD 1.2 billion (USD 822,000).

The total loan portfolio increased IQD 38.4 billion (USD 26 million) from year-end, 2003 to 2004, growth of nearly 50 percent. Experience indicates that with rapid loan growth, delinquencies will soon follow as credit underwriting may not be as thorough as required.

Past due loans were listed as IQD 12.6 billion (USD 8.6 million) as of year-end 2004, and in October 2005, they were IQD 11.2 billion (USD 7.7 million). Assuming a recovery rate of 50 percent of past due loans, another charge of IQD 6 billion (USD 4 million) will be necessary to accurately reflect the fair value of loans recorded in the financial statements.

Future Viability

To be viable, the Bank will need a significant infusion of capital, approximately IQD 20 billion (USD 13.7 million), in order to reduce the negative capital of IQD 3.6 billion (USD 2.5 million), to provide for approximately IQD 6 billion (USD 4 million) in pending loan losses, and to meet the required capital of IQD 10 billion (USD 6.9 million).

Non-earning assets will have to be reduced to a level of not more than 15-20 percent of total assets in order to increase net income.

The MoF will have to eliminate its loans to the Bank, and as an offset take the mandated Government loans granted by the Bank to cover the amounts due the MoF.

4.4.2.2 Credit Management and Policies

Credit Department Organization Overview

The Credit Department employed 14 employees, until mid-October, when three employees were transferred to other departments. There are two units – one unit deals exclusively with *commercial loans* and *facilities*, while the other is in charge of *agricultural loans*.

Until recently, the Bank and the lending decision process was fairly decentralized as branch managers were given limited approval authority. As many loans are small, an important part of the requests escaped the scrutiny of the head office Credit Department. In mid August it was decided to cancel branch managers' authorities. Since then, all loans have are sent to head office for approval. Additionally, the Credit Department relies on the Credit Information Unit of the Planning Department for evaluation of the collateral and the inter-bank credit information. This unit, which comprises three employees, for no apparent reason has not been integrated into the Credit Department. The Credit Department relies also on the Administrative Department for the final control of the files, before they are sent for approval.

All forty branches have the exclusive relationship with the clients. The Credit Department staff never meets them. It seems that Credit Department's responsibility was rather limited until recently, and the credit function fragmented, making the collection of information regarding the portfolio difficult.

Products

Lending products are limited, as in other State banks, except that this Bank is still very specialized in the agriculture sector. Sixty eight percent of the portfolio still consists of credits to farmers. *Loans* are distributed to both farmers and commercial enterprises, while *facilities* are for commercial lending only. All loans and facilities are denominated in IQD. There are no foreign currency loans.

Loans to farmers are for project development, farming equipment, land and building purchases, and inputs (seeds, fertilizers, chemicals, etc.). Commercial loans and facilities are mostly for traders. Facilities are in the form of overdrafts and discounted bills.

Loans and facilities are secured by collateral, with a maximum loan to value ration of 50%. Collateral usually consists of real estate or land. Before the war, loans to farmers could be secured by movable farming equipment, which was registered and notarized. At the present time, due to difficulties in registering equipment, only real estate is accepted.

Loans are granted for short term or long term. Agriculture loans for crops are usually granted according to crop production cycles and bear interest from 12% to 14%, according to the term. Interest on commercial loans varies from 14% to 16%, while facilities are all granted at a flat 12%. There is no set maximum for individual loans other than capital limitations.

Due to its agricultural focus, this Bank has many rescheduled loans. Farmers are always exposed to weather, disease, and other catastrophic problems. A bad crop means no revenue to repay a loan. Instead of foreclosing, the Bank reschedules the loans, waiting for better days.

Process

<u>At Branch Level:</u>

All forty branches have the exclusive relationship with the clients. Until recently, the branch manager had a lending authority up to IQD 3,000,000 (USD 2,000). This delegation was cancelled mid-August, 2005.

The branch receives requests from clients who are interviewed by the manager. A file is prepared, and verification of identity, business, and financial situation is completed. Collateral is requested and surveyed. Once the file is complete, original documents pertaining to collateral and credit evaluation go to the head office for review and approval. Clients' information documents stay at the branch.

Files are organized by alphabetical order and do not have a specific loan or client identification numbers.

Branches do not perform any real financial analysis. They rely solely, as in most banks, on collateral and guarantees. The usual loan to value of the collateral is 50 pecent.

At Head Office Level:

The Credit Department receives the file, and reviews and audits the content. It is then passed on to a unit of the Planning Department, which checks the value of the collateral and reviews the financial information. The files are given a serial number.

Once auditing of documents and valuation of the collateral are completed, the Manager of the Credit Department decides if the amount of the loan requested should be accepted or decreased. He then prepares his recommendations to the Credit Committee.

Internal policies are non-existent. The credit process follows directions from the Central Bank

After approval by the Credit Committee, the branch is informed and proceeds with disbursement of the loan. Clients have six months to draw on loans, and after this period, the loan is cancelled.

The branches follow up on repayments and collection of past due loans.

Loan Portfolio

The total credit portfolio, including agricultural and commercial loans and facilities, as of July 2005, amounts to IQD 24,989,915,837 (USD 17 million). There are 6,931 active files (Annex L).

Approximately IQD 12 billion was formerly approved directly by the branches. In addition, the Bank includes in the portfolio, drafts and bills being collected on behalf of its clients. The total amount represents IQD 7,381,343,771 (USD 5 million).

The loans granted under the small farmer loan program on behalf of the Ministry of Agriculture are not accounted for, as the Bank does not bear the credit risk, nor are Government-mandated past due development loans accounted for, though they are still on the Bank's books.

Credit Approval/Credit Committee

Until recently, the branch managers, the regional delegates, and the head of the Credit Department had limited lending authority. These delegations of lending authority have been cancelled, and only the General Manager and his Deputy have individual lending authorities for all loans and facilities. The General Manager can approve Agriculture loans up to IQD 15,000,000 (USD 10,000) if the loan is collateralized by real estate, and his Deputy can approve up to IQD 6,000,000 (USD 4,000). Annex L charts the various credit approval limits. Above these amounts, all requests are submitted to the Credit Committee for approval. The Credit committee consists of five members:

- General Manager
- Deputy General Manager
- Manager of Planning Department
- Manager of Credit Department
- Manager of Administration Department

The decision process relies entirely on the amount and value of collateral. The requested amounts can be reduced again if the collateral is not considered adequate. Approval is by simple majority, including the concurrence of the General Manager. The Credit Committee can approve loans and facilities up to IQD 30,000,000 (USD 20,000). Above this amount, they are submitted to the Board of Directors.

Bad Loans

Problem loans are handled by the branches, which have full authority to take all necessary legal actions including publishing bad loans in the local newspapers. Nevertheless, as mentioned before, past due loans, especially those to farmers, are usually rescheduled. In addition, the present environment and security problems are not conducive to foreclosures, and little action is being taken. In normal circumstances, action would be taken after six months.

According to the Bank, until 2002, only two to three percent of loans were bad. The situation deteriorated in 2003, to about 50%. It is now improving again. The total bad loan portfolio, not including pre-war mandated loans, amounts to IQD 11 billion (USD 7.5 million).

Risk Management

Apart from usual reporting to the Central Bank, there seems to be very little statistical data. Portfolio breakdown by category is not available.

Risk Rating
At the present time, loans and facilities are not rated according to International Standards, although recent instruction from the Central Bank of Iraq directed banks to perform such loan ratings. The Advisor explained to the Bank how to proceed and assisted the Bank in its effort to enforce this recommendation.

Risk Diversification
The Bank does not track industry concentration and does not manage this risk.

Loan Reviews and Follow-up
After the disbursement, the Bank does not monitor loan fund use, as this is left for the branches to control. The Bank does not carry out annual credit reviews or inspections of branch portfolios.

4.4.2.3 Bad and Doubtful Debts – Loan Recovery

Delinquent Loan Collection Procedures

The Agriculture Bank has developed over time a method of administrating delinquent loans. Its model for structuring its collection efforts is somewhat based on the procedures used by Rafidain Bank. These procedures are by tradition and have never been put into a comprehensive written format. This means that there is no documentation and no guidelines for handling delinquent loans, and no basis to assign responsibility for specific actions. Also, the procedures are changeable without notice or review.

Of special note are a number of loans that were made at the direction of the Ministry of Agriculture under the Old Regime, without the Bank's concurrence. Many of these loans – approximately IQD 46 billion (USD 32 million) – were granted to facilitate drainage of the marshlands in the Southeastern corner of Iraq. This was part of the Prior Regime's efforts to remove residents forcibly from the Iraqi Marshlands. Another set of loans of approximately IQD 4 billion (USD 2.7 million) was directed by the Ministry to the Bank to drill irrigation wells. These loans are all delinquent, but no efforts are being made to collect them. The Bank is attempting to persuade the Ministry of Agriculture to assume responsibility for these loans and to compensate the Bank, since the Ministry directed the Bank to make the loans.

There was also a problem with the gathering of accurate data. The Bank did not report the above "directed" loans in its loan portfolio, nor did it report delinquencies for this Assessment. Depending on the source of the data, there are significant differences in the numbers reported. This is due to issues of reporting accuracy, to some branches not responding to inquiries, and to the general lack of concern on the part of some respondents.

Branches

The branches of Agriculture Bank are responsible for originating loans and facilities. Each debt is assigned to a lending specialist, who is supervised by the Branch Manager. Subsequently, if a loan becomes delinquent, the specialist assigned to the credit has the primary responsibility of collecting and resolving the debt. This responsibility ultimately remains with the branch. Purportedly, in some branches, there are staff members whose primary responsibility is to contact delinquent borrowers to persuade them to make payments on their debt.

Collection activities at the branch level ceased during the war, and branches have only recently restarted their collection efforts. There has also been an attitude among borrowers that debt incurred before the war would be forgiven by the new Government. These factors have led to a situation where loan delinquencies have greatly increased. The Bank has attempted to allow easy restructures of debt when a borrower makes a request. However, to date there has been limited success in restructuring repayments.

The branches are responsible for negotiating restructures of loans and facilities. Branch managers have been given a de facto authorization to renegotiate loans up to the authority of the Director General of the Bank, IQD 15,000,000 (USD 10,000), a temporary measure due to the extent of the delinquent loan problem. This limit is authorized per restructuring of a loan or facility. If the borrower is unable to comply with this one restructuring, then the borrower must make application for a new restructure and an application must be submitted to the Bank's Credit Department where it is treated as a new credit request.

The branch manager also has the authority to refer a defaulted credit to the Land Registry for a foreclosure action. The new authorities given to the branch managers, while possibly streamlining certain processes, have also led to poor flow of information with other areas of the Bank. Information about loans and facilities, which were routinely forwarded to the Bank's Credit Department, has not in all cases been reported. Also, the security of the files maintained in branches in some cases has been compromised. Many files and documents are now missing from some branches.

Credit Department

The Credit Department is charged with maintaining files on all extensions of credit made by the Bank. They maintain credit files and assure documentation for the client is received and on file. The Credit Department does not maintain files on some loans, which were made under the delegation of the individual branch managers. All applications for restructures are channeled through the Credit Department. There is a section of the Credit Department responsible for reviewing all client requests to postpone repayment of delinquent credits.

Loans are only segregated when they become past due. There is no mechanism for reviewing the loan portfolio on a continuing basis to identify problem loans before they become delinquent. Also, the bank does not require the ongoing collection of financial information on borrowers and guarantors, needed to make any review effective. Recently, the project Credit Advisor started a rating system for loans based on the perceived quality of the credit. Though, at this initial stage, information at hand is very limited, this could be a first step in quantifying risk in the loan portfolio.

When a credit becomes delinquent, it is not reported to the Central Bank or to Rafidain Bank. If another bank inquires about a borrower, Agriculture Bank will respond if the borrower is delinquent. However, due to incomplete records, there is no assurance that this information can be accurately sourced. When a new loan application is processed, the Bank does, however, check with the Central Bank to attempt to ensure the borrower is not delinquent with another financial institution.

The Credit Department maintains the records on 2,321 delinquent loans (90 days or more), totaling IQD 11.4 billion (USD 7.8 million). There are 13 employees in the Credit Department, which means the average loan amount serviced is IQD 2,319,948. These figures do not include the previously mentioned marsh drainage or well loans, on which the Bank is seeking repayment from the Ministry of Agriculture.

Legal/Litigation Department

The branches of the Bank initiate and handle foreclosure actions against borrowers, and if rescheduling a delinquent credit exceeds a branch manager's authority to reschedule, it is referred to the Legal Department for further handling. Currently, the Bank is not involved in any other litigation with borrowers. The Legal Department employs eight people.

Since the loans of Agriculture Bank are primarily secured with borrowers' agricultural land, it can be assumed that much litigation is ongoing to collect delinquent debts. However, the Bank has been reluctant to pursue this remedy due to a feeling that this might overly tax the borrower in a time of economic uncertainty.

Delinquencies

The following table summarizes the delinquencies of Agriculture Bank:

Ag Table 1

Date 7/31/2005	Number	Number Delinquent *	Percent	Amount in IQD	Delinquent Amounts in IQD	Percent
Loans	2,933	780	27%	21,762,725,000 **	8,222,000,000	38%
Facilities	4,523	866	19%	9,393,362,000	2,100,344,000	22%
Overdraft	1,527	64	4%	4,224,809,000	121,344,000	3%
Discounted bills	2,995	802	27%	5,168,553,000	1,979,000,000	38%
Advances	1,832	253	14%	7,104,006,000	851,460,000	12%
Total	**9,288**	**1,899**	**20%**	**38,260,093,000**	**11,173,804,000**	**29%**

* For purposes of this report, delinquencies should be 30 days instead of the requested 90 days.

** Does not include approximately IQD 53 billion in delinquent loans, which were originally directed by the Ministry of Agriculture of the prior regime for draining the Southern marshlands, and drilling irrigation wells. No further repayment of these loans is anticipated. The Bank is trying to persuade the Ministry to assume these loans and the corresponding liability.

Database

Ag Table 2

Loan Classification	Percent Write-off	Amounts of Loans Total in IQD	Write-off
Pre-Conflict	100%	5,149,790,691	5,149,790,691
Pre-Conflict/Directed *			
Post-Conflict	80%	1,435,418,389	1,148,334,711
Total	**99%**	**6,585,209,080**	**6,298,125,402**

* There is an amount of IQD 53 billion in loans that were Government mandated for drilling irrigation wells and draining marshlands that are not included in table above, but which the Bank still reflects on its books, but does not report.

There are significant differences between the database information and the Delinquency Table above. Although some differences should be expected, there was not an adequate explanation for the total amount (approximately IQD 5,000,000,000). The database includes 29 of 42 branches.

Process

Agriculture Bank follows the basic delinquent loan collection procedures used by all the other State-owned banks, with little or no variation. As demonstrated by their delinquent loans table, it has been more effective in negotiating with its borrowers than have the other banks. This is believed to be due to Management's attention and firm approach to this problem. The Bank's management has demonstrated that during and immediately after the recent conflict, the Bank suffered an alarming rise in delinquencies. Since that time, it has continued to mitigate this problem. Unfortunately, the problem of the IQD 53 billion in loans directly mandated by the Prior Regime, for political purposes, threatens the solvency of the Bank. Also, there is an unexplained difference of approximately IQD 5 billion in the overall delinquencies reported and the data input into the Assessment database. Some of this can be explained by timing, definition of delinquent, and difference in the number of loans entered. This cannot explain adequately the large differences in amounts.

4.4.2.4 Operations, Automation, and Human Resources

Operations

Observations and findings for Agriculture Bank closely mirror the other State Owned Banks in practice, procedures, and deficiencies. This Bank, however, does operate in different market (rural) from the other banks, and its loan products are specialized for crop production loans, thus terms differ.

Like other State banks, however, Agriculture Bank's services, operations, and loan processing are performed completely manually. Counter services are slow and inefficient. The same transactions are rewritten several times. Due to the slow customer service and the small customer base, transactional activity is, like other banks, poor (see Annex C).

Reporting and consolidation process is manual, and the work is frequently duplicated and delayed from governorate branches due to distance and difficult communications. Current communications between main office and branches are by means of fax, messenger, or phone. However, it should be noted that this Bank is the best of the State banks at producing well organized, computer printed, and timely reports.

Policies and Procedures compliance to existing internal controls and policies is adequate, but it was noted that the internal controls and systems are not up to date, nor contained in a single bound manual, accessible to operating and counter staff. Although the Audit unit currently provides pre-audit checks to transactions, especially payments and expenses, there are no procedure manuals against which operating staff can be guided. Policies and procedures need to be modernized and documented.

Job descriptions are not clear or transaction-specific, which is necessary in order to provide needed structure and standardization to routine transactions to avoid errors and delays. This need is greatest at the Bank's operating and counter levels. Individual reporting relationships are not well defined.

Internal auditing is weak, and although it does not organizationally report directly to the Board of Directors, it reports to the General Manager who at the same time is the Chairman of the Board.

Security
Working conditions at the Bank's head office are fair and organized, though old and out of date. The same building has been occupied by the Agriculture Bank since 1936, and though it was damaged during the war, it has now been renovated and is fully reoccupied. Branches need renovating and modernization, and security measures need implementing throughout the Bank. Guards are located in the management corridors, and armed guards are positioned at the main entrance of the head office building. Access to the head office, though not difficult, is limited.

Records retention capability is negligible, and there is no formal program for destruction or retention of primary documents. No microfilm or other data storage system is in place. Closets, rooms, and warehouse areas are at risk of destruction by fire. There are no fireproof cabinets, even after the recent experiences.

The Bank does not have a written and detailed disaster recovery program that describes, in detail, action to be taken in the event of a disaster.

Automation

Basic support is provided by IT to banking units (i.e. Human Resources, Credit, Operations, Audit and Accounting). The various departments do not have individual systems or programs, although the IT department does have about 20 PCs, and in August, the Bank received 60 new PCs for distribution and installation in head office and branches. Until now, it is not known whether these have been installed, programmed, or linked to a CPU in any way. These are stand-alone, off-line processors in various departments, but data is manually loaded and transferred to other departments by diskette.

The Bank still lacks the capability to perform central processing, and all transactions remain decentralized and manual. The Bank staff advised that there is currently no computer application that would give them the ability to view a customer's account in real-time.

No "connectivity" exists between the branches and the home office, other than telephone and fax. Thus, there exists no capability for a "Branch Bank" network. The Bank's Operations staff also confirmed that no capacity exists for monitoring branch credit portfolios in order to capture, review, and analyze loan disbursements, collections, and delinquency. In other words, risk management is impossible because information is always out of date.

Though not critical to the Bank at this time, due to the size of its customer base, the large number of branches, and the relatively well organized head office management, the Agriculture Bank should implement an automated, centralized core banking system at an early date.

Human Resources

Personnel Files are maintained under key control, and limited access is allowed. The Bank's Human Resource Department maintains a checklist of the documents held in the file, and copies are distributed to branches for their records.

Table of organization design, writing of job descriptions, standardization of written policies and procedures, and a wage and salary administration program, though present in various forms, are not well defined. As mentioned in the Operations Section above, transaction-specific job descriptions are not clear in order to provide needed structure and standardization to routine transactions. This need is greatest at the operating and counter levels of the organization.

There is no formal training program at the Bank for staff in general. Specific professional courses are needed at a specialized bank such as this.

Terminations are rare, and the involvement of the MoF in the hiring and termination activities of Human Resources was reported to be an impediment to wage and salary administration and to hiring and firing actions.

Salary ranges at the Agriculture Bank are very similar to other State-owned banks, again reflecting Central Government control (see Annex F).

Management

A total of three Division heads report directly to the General Manager. This span of control does not appear to limit the General Manager's time to deal with more important issues (i.e. Profitability, Competition, Market Share and Increasing Expenses).

Management, though experienced in agri-banking procedures, needs to be retrained in general bank management principles. Middle management has had no formal training, due to the past two decades of political and economic difficulties and badly need updating and training in modern bank management skills.

General oversight of the Bank by the Board of Directors is limited in scope as Bank employees fill seven of nine Board positions.

AGRICULTURE BANK BOARD OF DIRECTORS

	Member Name	Position	Location
1	Mohamed Hadi Al Khafaji	General Manager	Agriculture Bank
2	Jabbar Waheed	General Manager of Legal Div.	MoF
3	Yousif Abdul Khaliq Jallaw	Expert	MoF
4	Mohamed Abdul Wahhab	Deputy General Manager	Agriculture Bank
5	Nazar Hamad Kazim	Manager of Planning and Operations	Agriculture Bank
6	George Jamil Jirjes	Manager of Financial Dept.	Agriculture Bank
7	Khalida Ismail Ibrahim	Manager of Audit Dept.	Agriculture Bank
8	Sameer Abdul Hadi	Manager of Planning Section	Agriculture Bank
9	Amel Jabbar Faris	Manager in the Credit Dept.	Agriculture Bank

In reviewing the Bank's Table of Organization, it was noted that some modifications, top to bottom, were advisable. Other than Department Heads, most sub-units appear to lack formal clarification as to where they are positioned in the Bank structure. Bank Operations' organizational design could better demonstrate the "chain of command" and clarify position responsibilities. However, until back office functions come on line with the impact of automation, any design structure would be only temporary. A "process flow and re-engineering" effort needs to be planned and implemented to make the Bank more efficient.

FINDINGS

AGRICULTURE BANK

4.4.3 FINDINGS – AGRICULTURE BANK

4.4.3.1 Accounting and Reporting – Financial Condition

- The Agriculture Bank does not conform to any generally accepted accounting principles (GAAP), including those of the Republic of Iraq, which has adopted versions of several International Accounting Standards (IAS). Accounts are not reliable, accurate, or transparent and do not present fair values.
- The Bank does not uniformly accrue income and expenses in standard method throughout the Bank, thus misstating the Bank's results throughout the year.
- The Bank's accounting function is wholly manual and decentralized throughout its 40-branch network, and reconciling data and accounts is difficult.
- The Bank has excess Cash and Due from Banks, totaling IQD 85 billion (USD 58 million) as of year-end 2004 and should consider investing this in overnight funds in the future.
- The Bank has a negative Capital of IQD 3.6 billion (USD 2.5 million) and is effectively insolvent.
- The Bank is marginally profitable, but to be viable the Bank will need a significant infusion of capital, approximately IQD 20 billion (USD 13.7 million).

4.4.3.2 Credit Management and Policies

- Pre-war statistics showed that agriculture contributed to 24% of the GDP of Iraq. It was an important component of the Iraqi economy and may soon regain that level. Agri-financing will become vital.
- The Bank has a key branch network in rural regions.
- This is probably the only one among the small State-owned banks that has a real economic purpose or reason to exist, but needs to be reorganized with a clear development strategy.
- The Management of the Bank is capable and cooperative.
- The Bank did not perform the loans rating in a satisfactory manner, due to fragmentation of data and reporting lines and misunderstanding by certain department heads. Satisfactory loan rating was necessary to establish a better estimation of the performing loans portfolio.
- New policies and procedures need to be implemented, and lending decision process must shift collateral value to cash flow availability, especially for small and agri-based lending.
- The Bank has been effective in commencing a repayment and rescheduling effort with all its clients.
- As in other banks, there is an urgent need for capacity building, including training, at all levels.

4.4.3.3 Bad and Doubtful Debts – Loan Recovery

- There exists an attitude among borrowers that debt incurred before the hostilities began would be forgiven by the new Government. This has led to a situation where loan delinquencies have greatly increased.
- Processing and negotiating delinquencies has been delegated to the branch manager level, with good effect.
- Of all the banks assessed, Agriculture Bank was able to input more complete data into the database provided, showing that Agriculture Bank Management allocated resources at its disposal as a priority, to cooperate with this sizeable Assessment task.
- Data gathered during the Assessment reveals significant discrepancies (IQD 5 billion) between loan amounts reported in Ag Table 1 Delinquencies and in Ag Table 2 Database.
- The Bank has been much more successful in negotiating delinquent loans and arranging successful repayment than have other State-owned banks.

- Credit processing is still weak, and information collection and reporting is too fragmented (among several different departments) for efficient processing and decision making.
- Although the Bank has dealt with delinquencies more effectively than have some other State-owned banks, the levels of delinquencies are still high and potentially impair capital adequacy.
- Outstandings of IQD 53 billion (USD are old ministry-directed marsh-draining and well-drilling loans, which the Bank is not pursuing for repayment or rescheduling, awaiting direction or compensation from the Government. The Bank still reflects these on its books, but does not report them.
- This IQD 53 billion outstanding in delinquent “Government-directed” loans may impair the potential financial viability of the Bank.
- In general, the Bank is very well managed, effectively serves an important economic sector, but badly needs system upgrading, automation, and management training. It is a good candidate for separate rehabilitation project consideration.

4.4.3.4 Operations, Automation, and Human Resources

- All transaction processing, accounting, management and statuary reporting is done manually with delays and duplications
- Department staff members are underutilized. The transaction/staff ratio is very low.
- There is no permanent operations manual for standardized procedural guidance for staff.
- Cash controls and branch security procedures are weak.
- Lack of automation has led to the above-mentioned overstaffing, unreliable reporting, and poor customer service.
- Seven out of nine Board members are long-time Bank employees, and with no outside directors, there has been a lack of various skills, backgrounds, and views to bring about innovation.
- Senior Management is in fact well experienced in banking operations but requires training to be brought up to date with modern concepts and systems.
- Middle Management has had no formal training, due to the past twenty-five years of political and economic difficulties. Therefore, management requires training to upgrade skills.
- Agriculture Bank management needs to focus on these points in order to achieve improvements:

    - Competent and diverse Board of Directors
    - Well-defined and clear Table of Organization
    - Clearly defined job descriptions
    - Detailed Policy and Procedures Manual
    - A viable Audit System
    - Accurate and Timely Reporting System
    - Management Training

- Lack of automation may be partially responsible for increased staff numbers in the Bank (by as much as 30%).
- Staff re-alignment or reduction needs to be considered to reduce operating expenses and increase income, through better utilization of human resources.
- All transactions, operations, and reporting are still carried out throughout the Bank. Service is cumbersome, slow, error-prone, and inefficient.
- The apparent inability of the Bank to introduce various banking products and services (ATM, credit and debit cards, online banking) is due to lack of automation and telecommunications.
- The Agriculture Bank does not warrant a large-scale automation program at this time. However, the Bank should plan for near future automation, once Ministry decisions are made on the fate of this Bank.

- The Human Resources area of the Bank needs assistance. Based on the staffing levels, there are too many employees performing numerous manual tasks and record keeping.
- Currently, an impediment to administration appears to be the involvement of the MoF in the hiring and termination activities of Human Resources at the Bank.
- An updated and automated Human Resources unit needs to be developed.
- A Bank-wide plan to manage a downsizing of staff needs to be well thought out, planned, implemented and monitored.
- The Agriculture staff appears to be anxious to introduce change and to improve productivity.
- The Board of Directors needs to be diversified.
- Management needs to be retrained in modern bank management principles.
- Middle management has had no formal training in the past two decades and badly needs updating and training in modern bank management skills.
- The Bank is reasonably well managed. It has made good improvements since the war, and plays a key role in Iraq's rural areas. This Bank, among all the State-owned banks, is a good candidate to be upgraded and modernized into an efficient and profitable financial institution.

ANNEXES

ANNEX A

Iraq Bank Financial Statements

ANNEX B

Iraq Bank Credit Portfolio and Loan Ratings

Annex B

IRAQ BANK

Credit Portfolio of Iraq Bank at end August 2005

Type of Credit	Number of Transactions	Amount Granted	Amount Outstanding
Domestic loans in USD	2	$35,000	$ 26,750
Domestic loans in IQD	1221	5,167,365,000	4,255,614,000
Facilities in IQD* Individuals ▪ Overdrafts[1] ▪ Discounted Bills ▪ Letters of Credit	 9 9 1	 61,900,000 69,000,000 20,000,000	 50,000,000 60,000,000 20,000,000
Personal Loans in IQD	1432	5,757,979,000	4,300,481,000
Occupational School Loans in IQD	115	164,000,000	104,499,000
Ministry of Finance Sponsored Loans in IQD	164,226	1,264,292,000	549,506,000
Personal Advances to Bank Staff in IQD	449	1,013,750,000	657,856,000
Total Loans and Advances in IQD Total Facilities in IQD Total Other in IQD	1672 19 165,773	6,233,615,000 150,900,000 6,048,271,000	4,953,595,000 110,000,000 4,954,486,000
Grand Total	**167,464**	**12,432,786,000**	**4,913,470,000**

[1] In fact there are only nine clients each with an overdraft and discounted bills. One also has an L/C.

Annex B

IRAQ BANK

Ratings of Loans in IQD as of August 31, 2005

Rating	Number of Loans Rated[2]		Original Amount		Outstanding Amount	
	Pre war	Post war	Pre war	Post war	Pre war	Post war
A	30	884 [3]	70,450,000	4,228,725,000	27,904,000	3,523,085,000
B	25	65	55,000,000	404,500,000	25,590,000	313,660,000
C	52	19	118,500,000	144,750,000	65,080,000	122,627,000
D	130	17	270,650,000	75,500,000	171,634,000	63,106,000
E	430	18	729,040,000	84,000,000	524,715,000	76,069,000
Total	**667**	**1003**	**1,243,640,000**	**4,937,475,000**	**814,923,000**	**4,098,547,000**
Grand Total	**1670**		**6,181,115,000**		**4,913,470,000**	

[2] Does not include facilities
[3] Includes advances to employees

IRAQ BANK

Ratings of Loans in IQD as of September 30, 2005

Rating	Number of Loans Rated[4]		Original Amount		Outstanding Amount	
	Pre war	Post war	Pre war	Post war	Pre war	Post war
A	31	960 [5]	72,450,000	4,626,725,000	27,804,572	3,737,891,300
B	25	64	55,000,000	402,000,000	23,906,450	299,274,393
C	51	19	116,500,000	144,750,000	61,737,210	111,393,135
D	130	17	270,650,000	75,500,000	170,559,095	63,105,709
E	430	18	729,040,000	84,000,000	513,044,791	76,069328
Total	**667**	**1078**	**1,243,640,000**	**5,332,975,000**	**797,052,118**	**4,287,733,865**

Grand Total	Number of Loans Rated	Original Amount	Outstanding Amount
Grand Total	**1745**	**6,576,615,000**	**5,084,785,983**

[4] Does not include facilities
[5] Includes advances to employees

ANNEX C

Loans Classification Report State-owned Banks

ANNEX C

Report on Loans Classification for
Iraq, Industrial, Real Estate and Agriculture Banks

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 loan 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. **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

2. **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.

3. **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.

4. **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 number of 679 loans and an amount of 3.64 billions IQD. Other information obtained, concerning the total portfolio is not reliable enough to make proper assumptions. Nevertheless we suspect that a large part of the loans are past due or have been rescheduled.

ANNEX C

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

ANNEX C

IRAQ BANK

Ratings of Performing Loans in IQD as of September, 2005

Rating	Number of Loans		Original Amount (000)		Outstanding Amount (000)	
	Pre war	Post war	Pre war	Post war	Pre war	Post war
A	31	960	72,450	4,626,725	27,805	3,737,891
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

ANNEX C

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

ANNEX C

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	
C		
D		
E	82	
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

ANNEX C

AGRICULTURE 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	

ANNEX D

Assessment Questionnaire Summary

Annex D

BANKING QUESTIONNAIRE SUMMARY - IRAQI STATE-OWNED BANKS

1. Do you have a table of organization for your department?

Comments:

Most of those that replied (88%) to this question felt that they had a clear understanding of their particular position in the Bank's Table of Organization.

2. Do you have written a Policy and Procedure Manual? (need figures)

Comments:

Again, most of those surveyed (92%), believed they had sufficient manuals to perform their duties. Most agreed that the manuals need updating.

3. Are Job Descriptions written for each position? (need figures)

Comments:

A large number of respondents (92%) felt that job descriptions were well written for themselves, however, those of their subordinates need to be established.

4. Are duties centralized or de-centralized? (need figures)

Comments:

The large majority of those responding (88%) reported that duties are centralized. This centralization could be a result of the lack of Automation. Without Automation, functions are better performed, controlled and managed in a centralized environment

5. Is there any automation support provided by I.T.?

Comments:

In answering this question, the Banks' response was 70% felt IT provided support. Some qualified the question by answering, "limited".

6. Does Audit perform regular audits of the department?

Comments:

A high response of 88% was received from those surveyed that agreed that regular audits are performed. This Audit process ensures that the Policies and Procedures are being followed, even if they need revision.

7. Are Audits addressed in a timely manner? (i.e. within 30 days)

Comments:

Again, almost a majority of those responding (92%) believe Audits are taken seriously. This represents an excellent compliance attitude.

8. What is the average tenure of the management team?

Comments:

The responding manager has an average of 20+ years of experience on the job. This establishes a mature staff to build around and skill levels should be high. However, one must be alert to the fact that those that have 20+ years of experience might be set in their ways and will not readily accept change.

9. What is the name and purpose of reports regularly produced?

Comments:

General reports are produced at all levels for numerous reasons. However, their usefulness and accuracy need to be individually analyzed.

10. If you could make one change, what would that be?

Comments:

This question was answered with **Automation** as the most requested change in the daily activities of the bank. With Automation, staff is able to perform tasks more easily and efficiently while providing superior customer service. A productive employee will have a more positive feeling towards their job and portray this attitude to the customer.

The second most important change requested is **Training**. Respondents see a great need for skills, customer relations and management training so that they may be brought up to date on banking techniques. They felt more emphasis needed to be placed on this discipline.

NOTE:

Of the 36 individuals, responding to 10 questions (for a total of 360 responses, a small hand-full chose not to answer certain questions. Yet ALL surveys were returned. The survey did not appear to be negatively received.

One Personnel Manager suggested that the survey be given to all employees.

ANNEX E

Transaction and Activity Statistics

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Annex E

Banking Operations – Transaction and Activity Statistics

	RAFIDAIN	RASHEED	AGRICULTURAL	INDUSTRIAL	REAL ESTATE	IRAQ
TRANSACTION PROCESSING (1-month sample)						
NUMBER OF BRANCHES	142	144	40	5	16	5
NUMBER OF DEPOSITS	188,918	125,534	9,968	1,911	2,261	1,388
NUMFBER OF WITHDRAWAL	337,946	547,610	10,487	1,958	2,171	419
NUMBER OF LOAN PAYMENTS	2,400	7,722	2,515	83	1,518	269
NUMBER OF ADMINISTRATIVE TRANSACTIONS	27,944	11,1169	989	144	207	84
TOTAL MONTHLY TRANSACTIOINS BY BANK	557,208	692,035	23,959	4,096	6,157	2,160
	IQD	IQD	IQD	IQD	IQD	IQD
BRANCH ACTIVITY (monthly)						
AVERAGE NUMBER OF TRANSACTIONS BY BRANCH	4,888	4,806	599	819	385	432
AVERAGE NUMBER OF TRANSACTIONS PER EMP.	105	133	34	37	9	16
AVG. TOTAL COST OF TRANSACTION PER EMPLOYEE	2,476	1,850	6,856	6,695	25,637	14,328
AVERAGE TOTAL COST OF TRANSACTION BY BRANCH	92,234	67,006	122,543	149,970	1,094,376	381,125

ANNEX F

Staffing and Salary Distribution

Annex F

Staffing and Salary Distribution

	(Two Largest State-owned Banks)		**(Four Specialty State-owned Banks)**			
	RAFIDAIN	RASHEED	**AGRICULTURAL**	**INDUSTRIAL**	**REAL ESTATE**	**IRAQ**
NUMBER BRANCHES	142	144	40	5	16	5
BRANCH STAFF	5,289	5,216	715	112	683	133
HOME OFFICE STAFF	1,255	1,283	133	169	189	114
TOTAL STAFF	6,544	6,499	848	281	872	247
	IQD	IQD	IQD	IQD	IQD	IQD
TOTAL BRANCH ANNUAL SALARY	16.6 BILLION	15.4 BILLION	2.0 BILLION	0.3 BILLION	1.9 BILLION	0.4 BILLION.
TOTAL HOME OFFICE ANNUAL SALARY	4.0BILLION	3.8 BILLION	0.5 BILLION	0.6 BILLION	0.6 BILLION	0.8 BILLION
TOTAL BANK ANNUAL SALARY	20.6 BILLION	19.2 BILLION	2.5 BILLION	0.9 BILLION	2.5 BILLION	1.1 BILLION
AVERAGE BRANCH EMPLOYEE MONTHLY SALARY	260,887	245,432	229,724	244,848	231,108	232,695
AVERAGE HOME OFFICE EMPLOYEE MONTHLY SALARY	271,033	248,885	312,333	281,107	249,688	566,274

ANNEX G

Industrial Bank Financial Statements

ANNEX H

Industrial Bank Credit Portfolio and Loan Ratings

Annex H

INDUSTRIAL BANK

Credit Portfolio as of End of July 2005

Type of loans	Number of Transactions	Amount Granted	Amount Outstanding
Domestic loans in USD	19	$ 2,500,000	$755,250
Domestic loans in IQD	55	1,900,000,000	1,260,000,000
Facilities in USD [1] Overdrafts - Individuals and Mixed sectors	20	$ 4,000,000	$ 4,000,000
Facilities in IQD Overdrafts - Individuals and Mixed sectors	1700	43,000,000,000	43,000,000,000
Personal Advances in IQD		7,000,000,000	7,000,000,000
Total Portfolio in USD **Total Portfolio in IQD**	39 1755	$ 6,500,000 51,900,000,000	$ 4,755,250 51,260,000,000

[1] 70% of Facilities in US$ are for mixed sector, companies in which the Bank has an equity participation.

Annex H

INDUSTRIAL BANK

LOANS RATINGS

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			689,750	
Grand Total	11		689,750	

ANNEX I

Real Estate Bank Financial Statements

ANNEX J

Real Estate Bank Credit Portfolio and Loan Ratings

Annex J

Real Estate Bank

COMMERCIAL LOANS BY BRANCHES [1]

Name of Branch	Branch Number	No. of Transactions	Original Amount	Repayments	Outstanding Amounts
MAIN	821	159	1,484,600,000	999,188,799	485,411,201
RASAFA	823	14	214,000,000	163,222,456	50,777,544
BABIL	831	69	455,000,000	325,766,332	129,233,668
KARBALA	827	8	200,400,000	125,782,000	74,618,000
KIRKUK	825	45	554,500,000	454,595,000	99,905,000
WASIT	826	43	415,900,000	376,042,900	39,857,100
AL- DIWANIYAH	830	53	476,750,000	256,290,000	220,460,000
SALAHADDIN	835	5	22,000,000	0	22,000,000
AL- AMARAH	833	30	86,000,000	3,446,561	82,553,439
DIYALA	828	35	221,600,000	167,250,000	5,4350,000
NINEVEH	825	37	282,750,000	89,040,000	193,710,000
DHI-QAR	832	18	224,150,000	140,157,211	83,992,789
AL-MUTHANNA	834	17	116,000,000	78,570,000	37,430,000
AL-BASRAH	822	38	255,000,000	149,534,000	105,466,000
AL-RAMADI	829	19	110,500,000	60,917,000	49,583,000
TOTAL		**590**	**5,119,150,000**	**3,389,802,259**	**1,729,347,741**

[1] Does not include facilities

Annex J

Real Estate Bank

CREDIT PORTFOLIO (as at end May 2005)

Type of Loans	No of Loans	Outstanding Amount
Commercial *Loans* in IQD	590	1,729,347,741
***Facilities* in IQD**		
Individuals		
- Overdrafts		258,921,436
- Discounted bills		65,207,700
- L /CS		17,600,000
State Sector		NA
- Overdrafts		
- L/CS		NA
- Other		
Total		**2,071,076,877**

Annex J

Real Estate Bank

ADVANCES TO EMPLOYEES (as at end August 2005)

No.	Name of Branch	Number of Loans	Original Amounts in IQD	Outstanding Balance in IQD
1	General Administration [1]	343	922,500,000	764,953,399
2	Main Branch	165	542, 127,105	449,105,173
3	Missan	44	114,000,000	90,783,373
4	Babil	47	314,491,975	171,111,960
5	Al-Samawa	28	67,500,000	54,350,282
6	Al-Rasafa	79	263,000,000	221,861,680
7	Thiqar	69	173,479,777	146,292,069
8	Saladin	29	73,000,000	62,215,006
9	Al-Basra	36	157,000,000	126,000,000
10	Kirkuk	37	166,000,000	145,927,399
11	Wasit	80	214,500,000	179,210,369
12	Qadysia	33	149,500,000	130,686,736
13	Al-Anbar	22	77,211,650	62,728,160
14	Dyala	78	193,388,000	151,163,500
	Total	**1090**	**3,427,698,507**	**2,756,389,106**

[1] Includes advances to employees of the foreign financial control department

Annex J

Real Estate Bank

NUMBER OF LOANS RATED (as at October 31, 2005) [1]

Rating	Number of Loans for Period		Outstanding Amounts of Loans for Period		Accumulated Total Number		Accumulated Total Amount	
	Pre war	Post war	Pre war	Post war	Pre war	Post war	Pre war	Post war
A		1		22,000,000		2		37,000,000
B						2		74,217,975
C	5	7	46,016,000	26,586,000	37	12	186,428,465	41,071,167
D					4		33,231,300	
E								
Total	**5**	**8**	**46,016,000**	**48,586,000**	**41**	**16**	**219,659,465**	**152,289,142**

1 Amounts are in IQD

ANNEX K

Agriculture Bank Financial Statements

ANNEX L

Agriculture Bank Credit Portfolio

ANNEX L

AGRICULTURE BANK

Authorized Credit Limits

Functional Position	Sector	Type of Loans/Facilities	With Real Estate Security in IQD	With Personal Guarantee in IQD
Deputy General Manager	Agricultural	Agricultural Loans	6,000,000	2,500,000
		Letters of Guarantee	6,000,000	3,000,000
	Other sectors	Overdrafts	2,500,000	1,500,000
		Discounted Bills	2,500,000	2,000,000
		Letters of Guarantee	4 – 8,000,000	3,000,000
General Manager	Agricultural	Agricultural Loans	15,000,000	5,000,000
		Letters of Guarantee	15,000,000	10,000,000
	Other sectors	Overdrafts	4,000,000	2,000,000
		Discounted Bills	6,000,000	3,000,000
		Letters of Guarantee	15,000,000	10,000,000
Board of Directors	ALL	Loans and Facilities over IQD 30,000,000		

NOTE: Amounts over the above individual credit limits but under IQD 30,000,000 are submitted to the Credit Committee