

Banking and Finance

Investment Overview of Iraq

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Key Stats and Figures

Banking system:

The current banking system in Iraq consists of 43 banks, in addition to the Central Bank.

Electronic funds transfer (EFT) capabilities:

The nine Iraq banks with full EFT capable banks have almost 200 branches throughout the country.

Iraqi Stock Exchange (ISX):

The ISX launched its electronic trading system in April 2009 and has 91 companies listed with the average trading volume approximately \$10M USD per week.



Photo credit: Tina Hager

Sector Overview

The financial services sector is being modernized through comprehensive reforms:

- Major revisions to the tax code.
- Transformation of the Central Bank of Iraq (CBI) into a decentralized institution beginning in 2004.
- Creation of strategic plan for long-term bank consolidation and rehabilitation.
- Introduction of a new currency (New Iraqi Dinar).
- New capital requirements for banks.
- Adoption of an anti-money laundering law (2004).
- Liberalization of domestic interest rates.

Forty-three commercial banks are licensed to operate in Iraq, including seven wholly state-owned banks and three branches of foreign banks.

As Iraq has stabilized, its financial system has grown in both size and focus. The restructuring of the two largest state-owned banks has moved forward and the private banking sector grown rapidly. This progress has been built on the foundation of the stability of the Iraqi Dinar (IQD) and rapidly improving inflation. Iraq's economy remains primarily cash-based. Most bank income has traditionally derived from fee-based services such as financial transfers. However the burgeoning private banks are increasing intermediation. The volume of commercial bank lending, both corporate and consumer, has doubled since January, 2008.

Iraq's capital markets are still developing, but are also growing quickly. The Iraqi Stock Exchange (ISX), founded in 2004, already compares well with other regional exchanges in terms of the number of listed companies. The establishment of the Securities Law (2009) and the Iraq Securities Commission (ISC) have helped ensure growing transparency and independence.

The bond market is also young, but beginning to emerge. The Council of Ministers recently approved the issue of the first

government paper since before 2003 to help finance infrastructure development.

The Role of Government and the Private Sector in Banking and Finance

Banks in Iraq

The Iraqi banking system includes seven state-owned banks; the three largest are Rafidain, Rasheed, and Trade Bank of Iraq (TBI). These three account for about 85% of banking sector assets in terms of book value. The TBI is a specially established state bank set up to facilitate imports for the Iraqi government. In 2008 the Ministry of Finance expanded trade finance opportunities for private banks by allowing letters of credits up to \$2M USD through TBI. In addition to state banks, there are 36 private banks, including eight Islamic banks.

Banks with Majority Foreign Ownership

Bank Name	Foreign Participation	E-Contact
Commercial Bank of Iraq	49% Ahli United Bank (Bahrain)	www.ahliunited.com
Bank of Baghdad	49% United Gulf Bank (Bahrain)	www.bankofbaghdad.org
National Bank of Iraq	49% Capital Bank (Jordan)	www.nbirq.com
Dar Es-Salam Bank	70% HSBC	www.desiraq.com
Credit Bank of Iraq	75% National Bank of Kuwait 10% Intl. Funding Commission	www.kubba-group.net/creditbank
Al-Mansour Bank	23.2% National Bank of Qatar	info@mansurbank.com

Most Iraqi banks have active Society for Worldwide Interbank Financial Telecommunication (SWIFT) connections and all banks are connected to the Iraq Payments System, operated by the CBI, and so are able to transact domestic payments. Nine banks have full electronic funds transfer (EFT) capability including SWIFT, domestic payments system, and core banking systems. The nine EFT-capable banks have almost 200 branches in country. They are now deploying ATMs and Point of Sale terminals nationwide.



Bank Name	E-Contact
Commercial Bank of Iraq	www.ahliunited.com
Bank of Baghdad	www.bankofbaghdad.org
Al Warka Investment Bank	www.warka-bank.com
Dar Es-Salam Bank	www.desiraq.com
Trade Bank of Iraq	www.tbiraq.com
Ashur International Bank	www.ashurbank.com
Credit Bank of Iraq	www.kubba-group.net/creditbank
Iraqi Middle East Investment Bank	www.imeib.com
Tigris and Euphrates Bank	www.dfdi-bank.com

Banking Services

Demand for banking services in Iraq is outstripping existing capacity. Potential for banking services is huge, with penetration at less than 5% of the population and most transactions still cash-based. As security has improved, the country has opened up to external trade and investment, raising the need for banking services, including finance. Banks in Iraq offer a traditional range of deposit accounts and lending products including debit and credit cards (relatively new), exchange and transfer facilities, and trade finance products, such as letters of credit.

Banks Offering Credit/Debit Cards

Bank	MasterCard	Visa
Bank of Baghdad	Yes	Yes
Commercial Bank of Iraq	Yes	No
Al Warka Investment Bank	Yes	No
Ashur International Bank	Yes	No
Trade Bank of Iraq	No	JP Morgan Visa

As Iraq has grown more secure, banks have risen to the challenge of proving trade and investment finance for the private sector:

- Over the last year, 32 private banks have significantly increased both capital availability and lending.
- Guarantees and letters of credit issued by private banks have more than doubled to \$887M USD since mid-2008.
- Private bank lending has grown by 52% since May 2008, to over \$575M USD.
- The Central Bank of Iraq has sold over \$2B USD each

month over the last year to banks for trade transactions. The \$2.9B USD sold in July, 2009 was a 14% increase over July, 2008.

- For both its private and public sector, Iraq imports approximately 40-50% of its consumable goods.

Capital Markets

Iraq's expanding capital markets will be a key driver to the development of the domestic infrastructure:

- Provide an avenue for firms to quickly, reliably, and efficiently raise capital from foreign and domestic investors.
- Liquid assets, such as tradable company shares, lower transaction costs and risks.
- Create vehicle for privatizing state-owned enterprises.
- Provide an attractive asset class for Iraqi investors, including insurance companies and pension funds.

The ISX was founded in 2004 as an independent, fully automated, and professionally-managed stock market. The ISX is the only licensed securities exchange in Iraq. Total market capitalization was around \$2.5B USD (6/09), with average weekly trading volume of about \$10M USD.

The new Securities Law (2009) has defined a transparent framework, and the integrity of the framework has been strengthened by the establishment of the ISC, an independent regulatory agency aligned with international standards.

The debt securities market is relatively underdeveloped in Iraq. Government debt securities are not widely traded, and the treasury bill maturity structure is limited. However the government recognizes the need to develop a government bond market to finance infrastructure needs as budget shortfalls loom. In 2009, the Council of Ministers approved the issue of the first government paper since before 2003 to help finance infrastructure development; two bonds for \$2.4B USD to finance the electric grid and \$600M USD to finance railways and water.

Iraq Securities Commission (ISC)

The ISC is an independent Iraqi government agency composed of five commissioners. It licenses securities exchanges, depositories, brokers, issuers, and investment advisors, promulgates rules and regulations to govern them, and oversees their activities. The ISC also regulates and oversees certain activities of publicly traded companies, such as financial reporting. The ISC reports directly to the Prime Minister, who appoints the commissioners. The Iraq Association of Securities Dealers (IASD), an independent non-profit organization, is a national trade group for securities dealers.

Automation of the Iraqi Stock Exchange

The ISX currently operates on a dual system with some 91 companies using the automation system and 15 on a manual

trading system. The automated system uses industry-standard trading software. Brokers place trades at workstations in the ISX or in their offices. Transactions clear instantaneously and typically settle overnight. Automation has increased liquidity, improved transparency, and positions the ISX to efficiently service foreign investments and to accommodate much larger volumes. The system also allows the ISX and ISC to closely monitor market activity. Satellite or fiber optic links will permit brokers to trade from other locations in Iraq, creating potential for a larger base of investors and promoting the commercial unification of the country. The ISX has a three-year contract to report real-time trading information, making market activity available to traders and investors globally.

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www.investpromo.gov.iq
info@investpromo.gov.iq