

Central Bank of Iraq

Instruction List

With reference to the BASEL international risk rating standards, to practice CAMEL policy in classifying the basic elements for banking activities and through the General Credit and Exchange Institution, , Central Bank of Iraq established an instruction list to be followed by the Iraqi Banks in order to limit risk and avoid loss.

Credit Portfolio

1. Policies and Procedures

- Board Directors (BD) is to write a credit policy clarifying all credit chances due to: Economical Activity,
Geographical location,
Type of loan (short, medium, long-term),
The due date,
The minimum payment, collateral required.....etc.
- Balancing between: credit risk rating,
anticipated profit and
loss loans with bad effect
- Set up the procedures and authorize executive managers to well apply the policy
- BD checks constantly the adequate implementation of the policies to determine and adjust the weak and negative points.
- Formation a credit auditing committee and an Internal control committee which is related directly to the BD.
Part of the BD responsibilities toward shareholders and creditors is to make sure that the loan in the portfolio complies to three basic goals.
- Disbursement of loans on the bases of security and repayment.
- Investment of the profits for the benefit of the shareholders and the depositors' security.
- The permitted loan serves the bank existing presence.

2. Bank Procedures before funding

- a. Borrower Cash flow Analysis: to show repayment capacity, the borrower must cover all the liabilities towards the bank from the cash flow which rate must be more than the loan amount. That is calculated in the attached application (concept paper of cash flow).

- b. Loan Application: the borrower fills the loan application form which presents:
- the balance sheet,
 - the current assets and liabilities,
 - income calculation for three years in a simple separate report,
 - figuring out the liquidity rate and profit rate to calculate the working capital.

Also the application form must be strengthened with reports and documents.

- c. Financial Capacity and Economical Activity: Items (a, b) apply to companies with balance sheets and individuals of high financial capacity(able to present a balance sheet). Otherwise, if the borrower can not present a balance sheet, banks are to rely on the basic conditions for loan granting depending on the five elements below:

financial capacity,
activity,
loan purpose,
suitable collateral and
financial situation

The above elements contain:

- Borrower: Past loan repayment, Credit report, information about the borrower from other clients.
- Loan Purpose: The activity, Industry and purpose of the loan.
- Repayment:
 - Repayment capacity measurement
 - Financial and liquidity analysis
 - Repayment sources
- Protection:
 - Suitable collateral for the amount of loan. If it is liquid (in rem) check the ability of fast liquidizing.
 - Financial analysis for the guarantor: Check the liquidity and ability of repayment.
 - Make sure of not using the same collateral to another bank for another loan.

- Plan and projection: Making a plan to show the bank strategy and the effective supervision on the loan for the bank protection (security).

3. Loan Documentation: (companies\ individuals)

- loan application
- Loan purpose
- An article of corporation (business license) with a list of owners
- Balance sheet
- Company income statement (last period of time)
- The client\ company's account turnover
- Sales and purchases statement for the last three months
- Cash flow statement-the Central Bank of Iraq form
- Personal documentation
- Client's financial projections statement for previous terms (before loan granting)
- Personal documentation for the Guarantor (if there is)
- Collateral (estate title-deed, estate title-deed validity, the original mortgage bond)
- Client's goodwill: site visits made by the credit committee signed by at least two members.
- Inquiring the Central Bank of Iraq about clients (companies and individuals) in case of extending or increasing the loan
- Borrower's industrial\ commercial store lease or title-deed if it is owned by the borrower.
- Number of repayments and their interest if it is medium or long-term loan.

4. Loan Classification:

There are five types of loan. Only the first two types are classified as current loans (working). The other three types are bad loans. Loans are classified monthly and to be as follows:

- Current Loans
- Past Dues (Less than 90 days)
- Substandard (90 – 179 days)
- Doubtful (180 – 359)
- Loss (360 days and over)

Note:

- Short Term loans (Less than 1 year)

- b. Monthly Interest Rate (paid in cash not registered in the borrowers account. If interest repayment failed for 3 months, the loan is classified Substandard.
- c. One year break after funding or after the last break. The borrower's account is to be (0) after repayment.

5. Allocation (Allotment):

In order to lessen the credit loss of ill\ no repayment, the bank must determine credit loss allocation percentage to be calculated monthly as follows:

- a. Current 2%
- b. Past Due 2.5% - 5%
- c. Substandard 20%
- d. Doubtful 50%
- e. Loss 100%

This percentage is to be registered as creditor in the credit loss allocation account and as debtor in the expense account; therefore it will be deducted from the profit and loss account.

With the exception of loans with collateral to be liquidized easily (long term deposits, saving deposits, gold pledge, securities pledge - able to be sold quickly for double the amount of loan).

Note: Interest Suspension (Stoppage):

In compliance with (c from 2) item 29 of the Iraqi banking law amended in 2004, arrears interest calculated from bad debts is to be booked as debtor in (interest dues) account, and booked as creditor in a special account (non-repayment). This interest does not consider any income unless it is paid in full. As for current debts (loans), if the arrears interest records (final income) this must be booked when transferring into a bad debt. If the interest is paid in less than 90 days, the record is considered good. In case of preparing the annual balance sheet on 31st Dec the interest must be booked; however in less than 90 days.

6. Open Account Credit: To selective people (Chairman Board Directors, Members, Staff, Big Shareholders)

The bank must give information about the open account credit to those selective people and must follow the instructions of the bank. There are certain rates from the capital money of the bank for that as follows

- 5% from the principal to individuals

25% from the principal to groups (companies, family business)

10% from the principal to individuals (relatives and business)

50% from the principal to groups (relatives and family business)

7. Credit Concentration

- The rate should be no more than 25% for the selective people and companies or business related to them
- Selective People loans should be given the same classification if they have the same collateral or guarantee and the allocation should be the same in case of no repayment.
- Allocation should not be more than 30% of the total amount of the current loan to the ten borrowers (highest amount).

8. Other classifications

That depends on:

- a. Collateral or Guarantee (no collateral, personal collateral, Real estate, security ...etc.)
- b. Activity (Industry, Agriculture, Trade, Services, Construction and Re-Construction, Transportation, Communication).
- c. Geographical Location
- d. Denomination less than 1 million ID, 1- less than 500 million, 500 million – less than 1 billion, 1 billion and more).
- e. Residence (local residents, non local residents).
- f. Personal (Loans to: Individuals, Enterprises or Companies, Government)