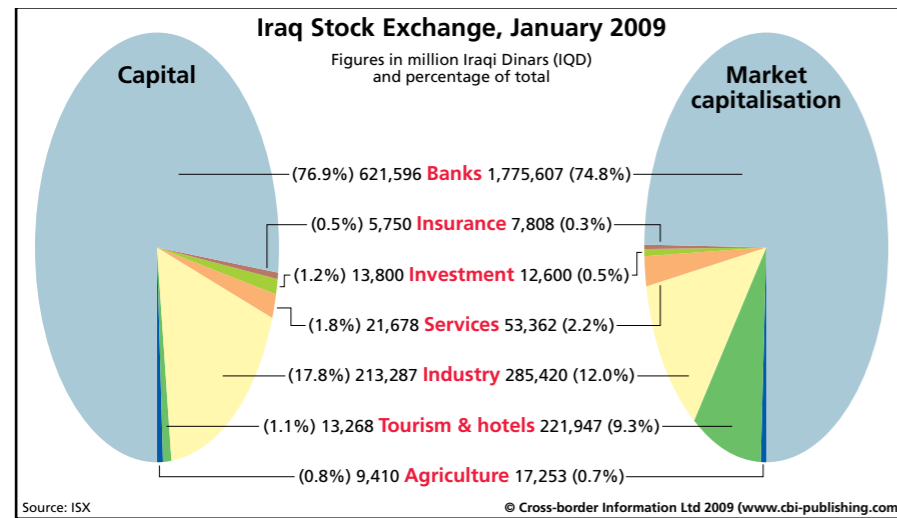


Iraq Stock Exchange – unique in several respects



The Iraq Stock Exchange (ISX) is already the region's best performing bourse. It increased in value by 64% in 2008. It is bucking global trends by presenting stocks with substantial upside potential. It looks set to become the region's most open market as well, and consequently the most attractive regional exchange to foreign investors.

"As the security environment has improved people, including foreigners and Iraqis, are coming back into the market. It seems the US surge has worked, so things are beginning to look a lot rosier," says Dr Buddy Soubra, investment

committee member for the Mesopotamia Equity Fund (MEF), launched by London-based investment bank MerchantBridge in February 2009.

While most of the region's bourses have been crashing, the ISX is soaring. In 2008, Saudi Arabia's and Dubai's exchanges fell by 56% and 72% respectively while the ISX rose by 69%. In the first quarter of 2009, the ISX grew by more than 200%.

The ISX's overall market capitalisation is around £1.36 billion. In March 2009 ISX capitalisation was about 41% more than it was the year before and

"Iraq is like a phoenix that is coming out of the ashes."
 MerchantBridge's Dr Buddy Soubra



71% higher than March 2007. More listings are anticipated. The government has said Iraq's three mobile phone operators – Asiacell, Zain and Korek Telecom – must float about 25 per cent of their capital on the ISX as a condition of their licences. They will list later this year or by early 2010 at the latest in a process that should substantially lift the exchange's market capitalisation.

To date, nearly 100 companies are listed, including major stocks such as North Bank and Baghdad Soft Drinks through to smaller stocks such Khakh Tour Amusements and Mosul Tourist Village.

Updating the bourse

In June 2004, a group of brokers established the private ISX. Since August 2007, foreigners have been allowed to trade directly on the exchange, although it remains dominated by a few wealthy Iraqis, many of whom live outside the country.

It will soon be one of the region's best equipped exchanges.

The whiteboards on which traders priced stocks with marker pens are disappearing. Five listed companies said they had signed agreements with the Iraqi Depository Centre (IDC)

to begin to transfer shareholder data from their shareholder registry to the depository system at the IDC. Other listed companies will be transferred in the near future. A new electronic trading system funded by a £4.7 million grant from international donors will soon be functioning.

Contacts: For general information about investment opportunities in Iraq or the investment process, please visit the Iraqi National Investment Commission website at www.investpromo.gov.iq or email at info@investpromo.gov.iq.

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Sector Brief Financial Services



Starting afresh

Opportunities abound in Iraq's finance sector. Competitive, modern banking systems were not considered necessary in the old economy. Now that Iraq is determined to become a liberal, market economy, all sorts of financial services will be in demand.

Corporate financial services are very limited. Personal banking and other financial services including cheque books, credit cards, savings products and mortgages are still only used by a small segment of the market located in Iraq's major cities.

Very few Iraqis take out insurance or invest in private pensions. Sophisticated financial services for business, such as factoring and leasing, are rare.



Now is the time to invest in ground-floor opportunities where the upside potential could be immense.

Trade Bank of Iraq

Major transactions in Iraq are routinely facilitated by letters of credit (l/cs), the vast bulk of which have been provided by the Trade Bank of Iraq (TBI), which since its establishment in July 2003 has been a major financial success story. By the end of 2008 the bank had written l/cs totalling more than £20 billion and in that year alone the bank issued some £7 billion of l/cs for the Iraqi public sector.

Many international commercial banks and forfaiters have already elected to buy exposure to the TBI's guarantees. This is a testament, not only to TBI's increasing clout and track record, and its annual increases in profits, but also to the increasing stability of Iraq's financial system.

The bank boasts a string of firsts, which international banks will be swift to emulate. It was the first Iraqi bank to receive lines of credit from international financial institutions and the first Iraqi bank to issue credit cards, install an ATM network and operate a fully automated banking system.

Surging demand for trade finance

Trade is expanding rapidly. In 2008, Iraq's crude oil exports increased by 13.5% from 2007 while oil revenues increased by 33.6%. Multiple projects are on the drawing board.

Demand for both trade and investment finance has grown swiftly:

- Lending by private banks expanded by over 50% in 2008, twice as fast as in 2007.
- From September 2007 through August 2008, the value of letters of credit (l/cs) funded by private banks more than tripled from £54 million to £176 million.
- The average daily flow of transfers to accounts outside Iraq more than doubled from £49 million in November 2007 to £105 million in October 2008.

Trade finance demand appears assured:

- The country exports approximately 1.7 million barrels of oil a day and earns 95 per cent of its income from oil production.
- It imports about £2 billion in oil products a year because of the lack of refineries and downstream processing facilities.
- Other transactions involve commodities, food and medical equipment.

Banking opportunities are emerging. Projects to have secured bank support include:

- The private sector power plant in Erbil.
- Baghdad Company for Soft Drinks, a mixed sector company for which the Trade Bank of Iraq is providing working capital financing.

International partnership opportunities

The Iraqi private banking sector is developing fast, and the Finance Ministry wants international banks to partner local banks.

“We are working hard to encourage international, Arab and Islamic banks to develop a real presence in Iraq, so they can participate in the reconstruction,” Finance Minister Bayan Jabr told delegates at the Iraq International Banking Conference in Baghdad earlier this year. He said it was absolutely necessary for foreign banks to partner Iraqi banks to help

provide loans for private and foreign investors. He said: **“Without this, I’m absolutely certain that we will not be able to develop our vital needs.”**

The Finance Ministry has already licensed several international banks to operate in Iraq. These include:

Standard Chartered
HSBC
Ziraat Bankasi (Turkey)
National Bank of Kuwait (NBK)

In 2004, NBK acquired a 75% stake in Credit Bank of Iraq, and according to

its 2008 report, aims to strengthen its 13-branch network as security improves. In 2005, HSBC completed its acquisition of 70% of Dar Es Salaam Investment Bank of Iraq.

Branches of Turkish, Iranian and Lebanese banks have opened in Iraq, including in Kurdistan. Three Lebanese banks – Intercontinental Bank, Bank of Beirut and Bank Byblos – are in Erbil while Bahrain’s Arab Banking Corporation, Turkish Agricultural Bank and Bank Melli Iran are in Baghdad.

The private banking sector

- Iraq has 33 private sector banks – excluding the foreign banks licensed to operate in Iraq – and seven state-owned banks. They are expanding beyond Baghdad and taking on more risk in their loan portfolios.
- Private banks considered well-capitalised in Iraq – with capital ranging between £36-60 million – are nevertheless considered very small operations, even by regional standards.
- Having been cut off from the international financial system for so many years, a large number of local banks operate little more than current account and deposit facilities.
- Many lack effective cross-border payment capabilities and are so small they can only support limited amounts of commercial trade business.
- Banks with SWIFT connections are limited to major cities.

Banks connected to the Swift system

Baghdad: Arab Banking Corporation; Ashur International Bank for Investment; Al-Bilad Islamic Bank for Investment and Finance; Al-Huda Bank; Bank of Baghdad; Babylon Bank Company; Basra International Bank for Investment; Commercial Bank of Iraq; Credit Bank of Iraq; Central Bank of Iraq; Dar Es Salaam Investment Bank; Dijlah and Furat Bank; Elaf Islamic Bank; Gulf Commercial Bank; Iraqi Middle East Investment Bank; Investment Bank of Iraq; Mansour Bank for Investment; Bank Melli Iran; National Bank of Iraq; North Bank; Rafidain Bank; Islamic Regional Cooperation Bank for Development and Investment; Trade Bank of Iraq; Turkiye Cumhuriyeti Ziraat Bankasi; Union Bank of Iraq; Warka Bank for Investment and Finance.

Erbil: Kurdistan International Bank; Emerald Bank; Byblos Bank Sal Erbil Branch.

Mosul: Mosul Bank.

Source: Swift

Private banks authorised to conduct international payments, remittances and letters of credit

Bank	National coverage
Al-Warka Investment Bank	More than 82 branches covering all Iraqi governorates
Babylon Bank	Eight branches: three in Baghdad, three in Najaf, one branch in each of Mosul and Nassria
Bank of Baghdad	Headquartered in Baghdad with a regional office in Erbil
Commercial Bank of Iraq	Eight branches in Baghdad and one in Basra
Credit Bank of Iraq	18 branches in Baghdad and other provinces
Dar Es Salaam Investment Bank branches	Seven branches in Baghdad and seven in other governorates
Gulf Commercial Bank	12 branches in Baghdad, Basra, Najaf, Kerbala, Diwaniya, Babylon and Erbil
Investment Bank of Iraq	19 branches
Iraqi Middle East Investment Bank	14 branches
National Bank of Iraq	Four branches

Availability of banking products

- Cashpoints or ATMs are new to Iraq. In March 2006, Iraq’s first ATM appeared at the TBI head office in Baghdad. In August 2008 TBI brought the first ATM machine to the city of Najaf. Warka Bank for Investment and Finance is rolling out its network of more than 85 ATMs across the country.
- Credit and debit cards have been in Iraq for just a few years. TBI was the first Iraqi bank to issue Visa cards in 2005. In November 2008 the Commercial Bank of Iraq

- became the first bank to receive a MasterCard International licence.
- Online banking was introduced in Iraq by the TBI and progressive private sector banks such as Warka Bank for Investment and Finance offer a limited online banking service.
- Trade finance products beyond l/cs issued by TBI and some private banks are few and far between. More exotic products are yet to be developed.

- Business banking is available in major cities, with services including l/cs, guarantees and transfers in Iraqi Dinars and foreign currency as well as current and savings accounts, short-term secured lending and overdrafts.
- Retail banking opportunities include servicing three-quarters of Iraqis who do not yet have a bank account. Reaching this huge customer base is a task for the private sector. The two state banks – Rafidain and Rasheed – have huge but very underdeveloped networks.

New banking sector framework

Iraq issued a new banking law in September 2003. The law brings Iraq’s legal framework for banking in line with international standards, and seeks to promote confidence in the banking system by establishing a safe, sound, competitive and accessible banking system. The Central Bank of Iraq Law was issued in March 2004. Among its objectives are achieving and sustaining domestic price stability, and promoting a competitive and stable financial system.

The Finance Ministry and the central bank are participating in the restructuring of the country’s banking sector. Work on an anticipated World Bank funded emergency bank sector reform project is focused on the institutional and operational restructuring of state-owned banks; the financial restructuring of state-owned banks and strengthening of the regulatory and supervisory functions of the Central Bank of Iraq.

Major state-owned banks

Bank	Scope of operations
Rafidain Bank	In Iraq the bank has 147 branches. Overseas locations include London, Cairo, Beirut, Abu Dhabi, Bahrain, Sana’a and three branches in Jordan
Rasheed Bank	More than 160 branches across Iraq
Industrial Bank	Baghdad-based specialist bank providing loans for Iraq’s industrial sector
Agricultural Cooperative Bank	Baghdad-based specialist bank providing loans for Iraq’s agricultural sector
Real Estate Bank	Specialist bank providing government sponsored mortgages offering 50% credit on a house up to a maximum amount. It also provides finance for tourism projects.
Trade Bank of Iraq	Specialist bank in trade and investment finance, including letters of credit and guarantees for importers and exporters, and financing activities for infrastructure and other projects

Opening up the insurance sector

Iraq’s three state owned insurance companies – National Insurance Company, Iraqi Insurance Company and Iraqi Reinsurance Company – are facing fresh competition from new private sector insurers that are now permitted to operate in Iraq.

Private insurance companies were set up following a change in law in 1997, which allowed the establishment of private Iraqi companies. In 2005 international insurance providers were permitted to enter the market.

Limited foreign investment is finding its way into Iraq’s insurance sector – Saudi national Mansour Almalik took a 20% stake in the newly-established Al Khair Insurance Co while Kuwait Projects Company has a 66.65% stake in Gulf Insurance Company.

The Ministry of Finance licenses insurers to write both life and non-life insurance cover. Some companies such as Ahlia Insurance Company write both life and non-life business while others such as Shatt Al-Arab Insurance Company offer only non-life cover.

Estimated annual gross written premium in Iraq is estimated at just £3.3 million according to the president of specialist consultants Mestre Associates, Robert Pingeon.

The life market is described as “small” by former president of the US National Association of Insurance Commissioners Mike Pickens, who helped to develop Iraq’s insurance legislation ahead of the 2005 insurance law.

According to Pickens, Iraq had a fairly sophisticated insurance market in the 1990s, with several offerings, including commercial products and auto insurance.

Foreign investors or domestic investors can enter Iraq’s market as long as they comply with the requirements of the 2005 insurance law, which stipulates capital requirements for insurance companies. Foreign investors may also open branches.

The Insurance Business Regulation Act 2005 (IBR2005) has set a

completely new framework in a very underdeveloped sector. The act applies to all insurers, reinsurers, agents and intermediaries practicing insurance business in Iraq, whether they are publicly, privately, domestically or foreign owned.

Insurers can issue policies in any currency and invest reserves inside or outside of Iraq, provided the investment policy is prudent and appropriate for the insurer, bearing in mind its obligations to policy holders, owners and employees.

The insurance industry is overseen by the Iraqi Insurance Diwan – www.iraqinsurance.org – which was established and its powers set out under Insurance Business Regulation Act of 2005. It is an independent body and sets the overall policy and procedures for the regulation of the insurance industry. It sets the standards that organisations must meet, and can take action against organisations if they fail to meet these.

Capital Requirements for Insurance Companies

Type of insurer	Minimum guarantee fund
Insurer authorised to practise general insurance business.	£290,000 IRD 500 million
Insurer authorised to practise life insurance business.	£435,000 IRD 750 million
Insurer authorised to practise exclusively the business of reinsurance	£580,000 IRD 1 billion
Insurer authorised to practise general insurance businesses and life insurance	£435,000 IRD 750 million IRD =Iraqi dinar

Insurance Regulation Law, 2005

Under the insurance law, insurance agents are the responsibility of the insurer with whom they have an

agency contract in force. Insurers are responsible for ensuring that agents have sufficient competency to carry

out their role and that they comply with the requirements of the law.