IIRA Revises Ratings of Al Rajih Islamic Bank

Manama, April 29, 2024 – Islamic International Rating Agency ("IIRA") revised the local and foreign currency ratings of Al Rajih Islamic Bank For Investment and Finance ("Al Rajih" or "the Bank") to B-/B (Single B Minus / Single B) from B/B (Single B / Single B) on the international scale while maintaining its national scale ratings at BBB (iq) / A3 (iq) (Triple B (iq) / Single A Three (iq)). Meanwhile, the ratings are placed on 'Rating Watch' as the Bank is one of the 14 Iraqi banks which were restricted from dealing in USD in July 2023.

The restriction to deal in USD will likely impact the earning generation capacity of the Bank as FCY buying and selling revenues made up about 46% of operating revenue in 2022. Following significant recovery in 2022 with rising income from financings & investments as well as currency auction income, profitability trends reversed during 9M'23 with currency auction losses of IQD2.8bn (IQD4.7bn income in 9M'22) and increase in operating expenses. In the wake of the restriction, the Bank's main focus has been to expand the financing and investment exposures to make up for the aforementioned revenue losses, and focus on trade finance business in other currencies.

After posting moderate asset growth in 2022, the Bank's asset base contracted as of September 2023 due to decline in funding base. The Bank's asset allocation is significantly different from rated peers with notably higher financing exposures comprising around 63% of assets as of September 2023. The funding profile of the Bank has depicted volatility, also reflected in liquidity indicators.

The Bank did not increase its paid-up capital during 2023 as the banks restricted from dealings in USD were exempted from the CBI's directive regarding the capital increase, for the time being. Following an increase in risk weighted assets during 2022 and 9M'23, and as the regulatory capital did not post commensurate increase, total capital adequacy ratio retreated to 190.7% as of September 2023 vis-a-vis 242.8% in December 2021. Despite this decline, CAR is substantially above the regulatory minimum of 12% and is forecasted to remain in excess, vis-a-vis expected growth in the medium-term.

The Bank's fiduciary score is evaluated to be in the range of '61 – 65', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected, although some gaps remain vis-à-vis both local regulations and international best practices. Meanwhile, the sub-score for Shari'a Governance improved to '66-70'. Since IIRA's prior review, heightened focus on control functions, is reflected in improved headcount of risk management and Internal and Shari'a Audit functions. Meanwhile, with the induction of the new members during 2023, Shari'a Supervisory Board stands strengthened and comprises 5 members.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.

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