الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Assigns 'A' Band National Scale Ratings to Al Janoob Islamic Bank for Investment and Finance (PJSC), Republic of Iraq

Manama, January 18, 2023 – Islamic International Rating Agency ("IIRA") has assigned national scale ratings of A- (iq) / A2 (iq) (Single A Minus (iq) / Single A Two (iq)) with a 'Stable' outlook, to Al Janoob Islamic Bank for Investment and Finance ('Al Janoob' or 'the Bank'), reflecting the repayment capacity of the Bank in local currency terms in the national context. IIRA has also assigned local and foreign currency ratings of B/B (Single B / Single B) on the international scale, also with a 'Stable' outlook. International scale ratings take sovereign level risk of the Republic of Iraq ('Iraq' or 'the country') into consideration. As an energy centric economy, public accounts and external position have benefitted from the recent surge in oil prices, reflected also in the build-up of foreign currency reserves and a steadier USD/Iraqi Dinar peg. Significant infrastructure needs and the improving financial position is expected to continue to fuel economic growth in 2023. While the prognosis is positive, structural weaknesses, most notably the dependence on hydrocarbon - the long-term prospects of which are not as robust as in recent years - the general level of civic dissatisfaction, high unemployment and an unstable law and order situation results in still high risk levels, and hence, low sub-investment grade sovereign risk assessment. Domestic banking sector remains underdeveloped with low financial inclusion. Reinvigorated economic activity may support general business growth in the ongoing year, which along with the Central Bank of Iraq's ("CBI") credit support measures is expected to boost banking sector activity.

Al-Janoob is a recent entrant in the banking sector and its business trajectory has deviated notably from its peers in the Islamic banking domain. Its rapid growth is marked by development of a core funding base, inclusive of participation accounts, and noteworthy excursion into developing a banking business portfolio, rather than almost exclusively relying on foreign currency auctions, as is the case with most peer banks. Strategically, the bank aims to grow in the retail segment, which will serve to diversify core income streams, with favorable implications for the evolution of the Bank's long-term business risk profile.

Non-performance in the portfolio is moderate so far; however given that the banking portfolio is not yet seasoned and is set to grow as per strategic plan, and given also the still developing credit culture in the country, credit risk is deemed to be material. However, over the foreseeable horizon capital and liquidity buffers are expected to remain strong.

Given the results for 9M'22, a sharp improvement in profitability is expected for 2022. While the Bank's income sources are varied, and expected to become further diversified, as new business segments are cultivated, much of the recent escalation in earnings is driven by ancillary income stemming from dealing in dollar auctions. Plans to create additional credit loss reserves in a year with healthy profits is considered positive as it will create buffers against possible adverse movements in credit quality, as the bank explores new business opportunities.

IIRA has assessed Al Janoob's fiduciary score in the '71 – 75' range, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. Corporate governance practices instituted are above par, particularly in terms of transparency and disclosures, as well as the deployment of technological infrastructure to generate and manage information. The bank is among the few that produce a publicly available social sustainability report, with focus on the Bank's social contribution, although a framework for measuring and neutralizing climate change risks is yet to be instituted, and is currently not on the anvil. Risk controls are sufficient for the current scope of business but will need to be reinforced both in terms of head count dedicated to these functions and being equipped with sophisticated risk management tools, as the bank expands. Development on this front is ongoing and will be monitored. ESG risks have not had a material impact on credit ratings assigned.

Al Janoob has scored higher on the Shari'a governance front relative to peer banks, given chiefly the institution of participatory funding sources. Supervisory oversight is deemed sufficient at present.

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