



IIRA Reaffirms Fiduciary Ratings to Iraq Noor Islamic Bank

Manama, October 04, 2022 – Islamic International Rating Agency (“IIRA”) has reaffirmed the local and foreign currency ratings on Iraq Noor Islamic Bank (“Noor” or “the Bank”) at B-/B (Single B Minus / Single B) on the international scale. International ratings assigned reflect the sovereign risk profile of the Republic of Iraq (“Iraq” or “the Country”). IIRA has also maintained national scale ratings of BBB- (iq) / A3 (iq) (Triple B (iq) Minus / Single A Three (iq)) assigned to Noor that reflect the repayment capacity of the Bank in local currency terms in the national context. Outlook on the ratings is ‘Stable’.

As anticipated, improvement in Iraq’s economy in recent periods and as expected in the short-term, is led by higher oil prices, with the Country’s notable hydrocarbon dependence. Spill-over effect of ongoing Russia-Ukraine conflict may be felt in rising inflation. Further, downside risk stems from internal political deadlock and social unrest, which has implications for the pace of reforms and policy continuity in the country. Domestic banking sector remains underdeveloped with low financial inclusion. Expected improvement in the pace of economic activity may support general business and banking sector growth in the ongoing year. Iraq’s exclusion from the list of non-compliant countries and grey list by the World Bank and EU, respectively, may also improve the local banking sector potential in the coming periods.

The assigned ratings weigh in the impact of still unresolved CBI intervention, which restricts the Bank’s participation in foreign currency auction window. As such earnings generation is restricted. While there may be some potential for booking higher banking income vis-à-vis prior periods due to gradual growth in business other than foreign currency auction sales, overall earning potential is uncertain given the absence of a clear long-term outlook on core banking business development. Asset allocation remains sub-optimal with higher utilization of funds in fixed assets noted over the recent periods. Further, the restrictions pose challenges for the Bank in deposit mobilization amidst intense competition in the domestic market. Noor’s financings have exceeded the regulatory cap in relation to deposits, which may pose regulatory risk and constrain growth potential. Further, the Bank’s non-banking strategic holdings indicate a fair degree of market risk and related activities may expose the Bank to project construction risk. The Bank continues to hold minority stake in these non-banking investments, thereby having managed regulatory risk on this account so far. Given the relatively low scale of financings, no concerns on the front of asset impairments are evident.

Akin to most Iraqi banks, Noor exhibits low leverage with assets primarily being funded by equity. Despite no clear majority shareholder for reliable external support in future if required, the Bank’s capital position is comfortable to support growth over the medium-term.

IIRA has assessed Noor’s fiduciary score 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. The Chairman of the Board

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has been nominated; however, it remains subject to election during the ongoing year in addition to the appointment of the remaining reserve members. While resource development has been seen in risk management, further sophistication in risk management tools would strengthen the Bank's controls. Enhanced resources are also required in other control functions. The Bank's Shari'a governance framework is aligned with regulatory requirements; however, improved disclosures may be advisable.

With CBI's push towards renewable energy financings allocation, IIRA expects a focused approach towards incorporating ESG related objectives in the Bank's operations. During last year, the Bank participated in an evaluation through the CBI ESG scorecard, while also having documented a mechanism for addressing governance of its own environmental and social issues. While efforts in terms of documenting the climate transition risk of customers is yet to be seen, IIRA believes that current practices do not constitute a risk to the Bank's creditworthiness, at present.

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

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