



IIRA Reaffirms Fiduciary Ratings to Iraq Noor Islamic Bank while placing the ratings on a ‘Rating Watch’

Manama, April 02, 2024 – Islamic International Rating Agency (“IIRA”) maintained 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 while reaffirming the national scale ratings of BBB- (iq) / A3 (iq) (Triple B (iq) Minus / Single A Three (iq)). Meanwhile, the ratings are placed on ‘Ratings Watch’ pending the completion of its merger with Trans-Iraq Bank.

Since our previous review, there has been a significant change in the shareholding structure of the Bank. Having acquired further shareholding, Trans-Iraq Bank is now the leading shareholder with 27.9% (9.9% previously) share. In addition, Noor is a 7.3% shareholder in Trans-Iraq Bank. A merger of the two banks is underway, to form a larger Islamic banking entity, with a total paid-up capital of IQD425bn and compliant with Central Bank of Iraq’s directive of increasing the paid-up capital to at least IQD400bn by YE2024. The key focus of the Bank over the next few months will be the impending merger, as well as an expected audit by the international auditors, the outcome of which shall be shared by the Central Bank of Iraq, in order for the currently imposed restrictions on the Bank for USD dealings, to be lifted.

The Bank posted accelerated growth of 24.0% in total assets adjusted for deferred profits during 2022 supported by the CBI funding initiative, which had come to comprise 88.9% of total funding sources as of YE2023, and given the Bank’s under developed deposit franchise. In 9M’23, asset base depicted modest contraction of 1.5% mainly on account of a further decreasing deposit base. Increasing deployment towards financing and investments over the last two years, has caused liquidity reserves to decline, while remaining sufficient at an LCR and NSFR of 194% and 107% respectively as of September 2023.

As Noor posted significant growth in financing portfolio during the year 2022 and 2023 and regulatory capital declined due to losses, the capital adequacy ratio retreated to 182% in December 2022 and 138% in September 2023. In August 2023, CBI issued a circular requiring banks to increase paid-up capital to IQD400bn by no later than YE2024. Since the Bank is in process of merging with the Trans Iraq Bank, the Bank will reach the required capital levels, with total capital of IQD425bn after the completion of merger by H1’24.

Negative trends in profitability persisted during 2022 and 9M’23 as the Bank’s participation in foreign currency auctions was restricted since 2019 and CBI imposed fines on the bank. Accordingly, the Bank registered IQD1.7bn net loss in 2022 (2021: IQD1.5bn net loss) followed by IQD3.2bn net loss during the 9M’23 period. Going forward, unless the restriction on FCY auctions is lifted, similar trends in profitability are expected to be maintained, without taking the prospective merger into account.



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The Bank's fiduciary score is evaluated 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. Since our previous review, the number of board members remained stable at 7 whereas 3 new members including the new Chairman, and Vice Chairman were inducted following the change in shareholder structure of the Bank. Six of the Board members are independent and this reflects onto board committee formations as well. Enhancement of headcount of control functions is well noted. There was no major change on the Shari'a governance front.

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