



IIRA Assigns Fiduciary Ratings to Iraq Noor Islamic Bank

Manama, February 02, 2022 – Islamic International Rating Agency (“IIRA”) has assigned local and foreign currency ratings to Iraq Noor Islamic Bank (“Noor” or “the Bank”) both at B-/B (Single B Minus / Single B) on the international scale with a ‘Stable’ outlook. This takes into consideration the sovereign risk profile of the Republic of Iraq (“Iraq” or “the Country”). Iraq has notable hydrocarbon dependence and the Country’s infrastructure development has been adversely affected in prior years, due to past conflicts. Following the steep contraction as also witnessed globally in 2020, Iraqi economy is estimated to post sharper than expected recovery in 2021, than previously anticipated, due to improvement in oil prices, a trend that is likely to sustain through 2022. With oil price currently ranging higher than the sovereign breakeven limit, the Country’s external account and public finances are also likely to ease substantially.

Domestic financial system suffers from low inclusion and weak public confidence, which is manifested in intense competition in the local deposits market. The banking sector slowdown in 2020 caused by adverse effects of social unrest and the pandemic necessitated temporary forbearance measures by the Central Bank of Iraq (“CBI”). In the ongoing year, financings off-take is likely to pick pace due to improved economic activity. Moreover, reforms being undertaken, will improve management and corporate governance practices. Credit segment concentration and high non-performance remain key challenges facing the sector.

IIRA has also assigned national scale ratings of BBB- (iq) / A3 (iq) (Triple B (iq) Minus / Single A Three (iq)) to the Bank, with a ‘Stable’ outlook. Since inception, the Bank has been in compliance with CBI’s IQD250bn minimum paid-up capital requirement, which has also been the predominant source of funding reflected in low leverage levels. Until at present the pace of Noor’s business has lagged the industry in relation to the significant overcapitalization, which may remain sufficient for growth for the medium-term. With broadly fragmented ownership, there exists no clear majority shareholder for reliable external support in future if necessary. While both financings and investments portfolios of the Bank are evolving, there remains wide room for improvement for further expansion of core banking assets to achieve optimal asset allocation.

Ratings weigh in the impact of negative regulatory intervention since late 2019, prohibiting the Bank’s participation in foreign currency auctions that has significantly constrained earnings generation. This also impedes deposit mobilization efforts and combined with prudential limits on financing vis-à-vis funding, presents challenges for financing growth. Resolution of regulatory constraints, or progress on the front of developing alternate, sustainable lines of core business, may warrant a favorable reassessment of the ratings. On the other hand, continued restrictions puts pressure on earnings generation ability and as such, shall be closely monitored by IIRA.

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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 control infrastructure may be strengthened in terms of resource allocation and enhanced sophistication to risk management function. Shari'a governance framework has been implemented under CBI's specialized guidelines.

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

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