الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA maintains Credit Ratings of Trust International Islamic Bank while improving the Bank's Corporate Governance Score

Manama, November 30, 2022 – Islamic International Rating Agency ("IIRA") has reaffirmed the local and foreign currency ratings on Trust International Islamic Bank ("TIIB" or "the Bank") both at B/B (Single B / 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) Plus/ Single A Three (iq)) assigned to the Bank 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. 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.

Since the beginning of 2020, the Bank's footprint has been expanding at an accelerated pace, with the network surging to 16 (15 branches and 1 office) from 8 as of Q1'20, number of ATMs grew to 22 from 3 and headcount rose to 291 from 179. The Bank has been investing notably on the Information Technology front whereby the target is to transform Trust into a digital bank by the end of year 2024. In addition, key pillars of the Bank's 2022-2024 strategy entails update of the systems among others.

Trust's consolidated asset base registered strong growth of 28.5% in the year 2021 driven by surge in current account deposits. However, aggregate assets depicted modest decline in H1'22 in tandem with contraction in funding base. In the absence of attractive financing opportunities from risk adjusted perspective total financing portfolio declined by 8.9% after a very strong growth registered in the prior year. Consequently, the share of the financing portfolio in proportion to assets retreated to 9.4% from 13.3%. The decline in financing portfolio was a result of withdrawal from musharaka financing which declined by 52% YoY whereas cash credits depicted increase owing partly to CBI initiative to support SMEs.

Gross non-performing financings have been trending up recently from its very low base, while the reduction in financing portfolio also contributed to increase in gross NPF ratio to 6.4% as of June 2022 vis-a-vis 0.7% at YE2020. In line with sector-wide trends, the Bank's financing portfolio is low in relation to assets, limiting risk exposures. Further, Trust's provisioning buffers remained strong which resulted in only modest net NPFs in relation to assets at 0.09% as of June 2022.

Excess liquidity is evidenced by respective LCR and NSFR of 302% and 346% as of June 2022. Capital position also remains strong at a Capital Adequacy Ratio of 270.5%, - significantly above regulatory requirements and denoting increase from our last review. Moreover, given that no notable credit off-take is on the anvil and underdeveloped deposit mobilization capacity, overcapitalization will persist in the medium to long-term. If losses continue through the year as expected, buffers may erode modestly.

Operating revenues contracted in 2021 due mainly to sharp decline in foreign currency exchange income, whereas operating costs rose reflective of accelerated expansion of the Bank's footprint. During H1'22, profitability was negatively impacted by significant provision charges mostly stemming from IQD14.9bn charge against FI exposures as per CBI directives. However, operating revenues were significantly improved vis-a-vis H1'21, owing to enhanced fee & commission income generated. We expect the pace of loss generation to slow with improved profitability in future periods, mostly on account of positive underlying trends whereby volatile income has diminished and relatively more stable income streams are beginning to emerge.

IIRA maintained the Bank's overall fiduciary score within '66-70' range while revising the sub-score for Corporate Governance up to '71-75'. Trust Bank's corporate governance practices are superior to peers with adequate independent representation in Board and Committees and independent control functions. On the transparency front, strong and detailed financial and non-financial disclosures are noted positively. Meanwhile, there was no change in the Bank's Shari'a governance framework, which is in line with local regulations; however, the institution of dedicated Shari'a control departments and adequate disclosures will better align the Bank with best practices.

IIRA reckons that the ESG practices does not constitute a major risk to Bank's ratings.

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