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## IIRA Assigns Ratings to Trust International Islamic Bank

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**Manama, November 23, 2021** – Islamic International Rating Agency (“IIRA”) has assigned local and foreign currency ratings to Trust International Islamic Bank (“TIIB” or “the Bank”) both at B/B (Single B / Single B) on the international scale, with a ‘Stable’ outlook, and taking into consideration the sovereign risk assessment of the Republic of Iraq (“Iraq” or “the Country”). The sovereign ratings assessment gives due consideration to the Country’s significant reserves of natural resources, still moderate external indebtedness in relation to GDP, and coverage through foreign currency reserves on the one hand, and sizable infrastructure building requirements, and political and social strain due to unemployment, on the other. High hydrocarbon dependence caused significant contraction in the economy in 2020, accompanied by deficits on both, the fiscal and external account, marking a deviation from surpluses in prior years, and causing the currency to depreciate sharply in late 2020. With steady recovery in oil prices and waning effects of global recession, Iraqi economy is expected to rebound in 2021.

Domestic economy remains under banked and adverse effects of the pandemic and public protests translated into banking sector slowdown last year, which necessitated temporary forbearance measures by the Central Bank of Iraq (“CBI”). Downside for the sector exists in the form of elevated credit segment concentration and high non-performance amidst prevailing macroeconomic situation. On a positive note, ongoing reforms in the banking sector may strengthen the system-wide governance and control infrastructure, with significant room available for growth in an improving economic and investment climate.

IIRA has also assigned national scale ratings of BBB+ (iq) / A3 (iq) (Triple B plus (iq) / Single A Three (iq)) to the Bank, with a ‘Stable’ outlook. Given a fairly short operating track history, the Bank is gradually developing its national footprint. Similar to the industry trend, the balance sheet is dominated by cash reserves largely held with the CBI. The financings and investment portfolio is still at the evolving stage. The industry has limited financial investment avenues with the portfolio comprising of strategic investments in primarily non-banking entities. While growing rapidly by 1.5X during 2020, the financing portfolio reached IQD 42.4bn as at end 2020 (2019: IQD 17.0bn). Wholesale banking and construction sector emerged as priority sectors, with focus on commercial and medium sized enterprises, given also CBI’s incentivized financing for SMEs. So far, asset quality has remained strong with no material concerns as non-performance loans remained minimal, largely covered by provisions.

The Bank has also posted a strong net profit of IQD 5.1bn (2019: IQD 1.8bn). Almost half of the profitability came from foreign investment gains due to currency depreciation during the year. The Bank also booked higher operating expenses of IQD 2.9bn during 2020 (2019: IQD 1.9bn), as a function of network and human resource expansion. Profitability indicators have improved over time with a second profitable year since being licensed as a bank. As the funds profile develops and acquires mature cost characteristics, we may observe a narrowing of spreads; however, a strong initial capital profile and

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growth prospects point to improving profitability potential and hence steady internal capital generation. A high capital adequacy ratio of 175.5% as at end 2020 (2019: 302.9%), ensures that capital will be sufficient for growth for at least the next 5 years, barring amendments to regulatory capital requirements.

The Bank has developed a strong Corporate Governance structure, led by Board of Directors and the Board Committees. Dedicated departments for Risk Management, Internal Shari'a Audit, Compliance and Anti Money Laundering ensure focus on key operational risks. Shari'a governance framework is in line with stipulated regulations; however institution of dedicated Shari'a control departments and adequate disclosure may further enhance the Shari'a governance framework of the Bank.

For further information on this rating announcement, please contact IIRA at [iira@iirating.com](mailto:iira@iirating.com).

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