

Region Trade Bank for Investment and Finance Private Shareholding

Key Rating Drivers

Region Trade Bank for Investment and Finance Private Shareholding's (RTB) IDRs are driven by its standalone strength, as indicated by its Viability Rating (VR). RTB's VR is constrained by a weak operating environment and reflects its limited franchise, unstable business model, volatile and concentrated customer deposit base and weak, although improving profitability. The VR also reflects its conservative risk appetite, and high capital and liquidity ratios. Its VR is below the implied 'b-' due to the following adjustment reason: business profile.

Weak Operating Environment: Fitch Ratings' assessment of the weak Iraqi operating environment considers the high dependence of the economy on the cyclical oil sector, the deep involvement of the state in supporting growth, weak governance and regulatory frameworks, and a fragile business environment. Fitch forecasts Iraq's real GDP to have increased by a high 9.5% in 2022 (2021: 2.8%) due to buoyant oil revenues, which are supportive of the banking sector's financial metrics and the stable outlook on the operating environment in the country.

Limited Franchise; Unstable Business Model: RTB is a privately-owned bank headquartered in Erbil with minimal market shares in Iraq, no competitive advantages and limited distribution capabilities. The Iraqi banking sector is dominated by three state-owned banks.

Conservative Risk Appetite: RTB's loan book is minimal and loan growth is weak and unstable, given limited lending opportunities, the bank's low risk appetite and tightened underwriting standards. Liquid assets, including cash and balances at the Central Bank of Iraq (CBI), and interbank placements with foreign banks, were 72% of total assets at end-2022.

Asset Quality Sensitive to Sovereign: Cash and balances with the CBI (56% of total assets at end-2022), fixed assets (20%) and interbank placements with foreign banks (16%) underpin our assessment of RTB's asset quality. Off balance sheet was 42% of total on and off-balance sheet at end-2022, mainly to government entities, with very limited impairments.

Weak But Improving Profitability: Large, non-to-low-interest-earning liquid assets, non-earning fixed assets and volatile impairment charges weigh on RTB's profitability. Operating profit is below 2% of average total assets. Operating profit rose by 32% in 2022, with the support of strong expansion in trade finance, and we expect profitability to continue improving in 2023 given the high oil price environment and continuing asset growth.

High Capital Ratios: RTB's total capital adequacy ratio (CAR) decreased to 60% at end-2022, from 84% at end-2021, as off-balance sheet activities increased substantially. Nonetheless, the CAR remains far above the regulatory minimum of 28% (specific to the bank due to its high concentrations versus Iraq's 12%). The tangible leverage ratio is high (28% at end-2022). Capital ratios are likely to remain high given RTB's cash-oriented and volatile business model.

High Liquidity Mitigates Funding Volatility: RTB's loans-to-deposits ratio is very low (9.9% at end-2022). Excess liquidity, coming from equity or government-related deposits, is mainly kept as cash or placed with the CBI. Basel III high-quality liquid assets were a high 67% of total assets at end-2022 and covered more than 100% of customer deposits. Nevertheless, the bank's funding is highly sensitive to concentrated and volatile government deposits.

Banks

Universal Commercial Banks

Iraq

Ratings

Foreign Currency

Long-Term IDR	CCC+
Short-Term IDR	C

Viability Rating	ccc+
Government Support Rating	ns

Sovereign Risk (Iraq)

Long-Term Foreign-Currency IDR	B-
Country Ceiling	B-

Outlook

Sovereign Long-Term Foreign-Currency IDR	Stable
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Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

Related Research

[Fitch Affirms Iraq's Region Trade Bank at 'CCC+' \(May 2023\)](#)

[Iraq \(January 2023\)](#)

[Middle East Banks Outlook 2023 \(December 2022\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign rating could result in a downgrade of the bank's VR and Long-Term IDR. A deterioration in the domestic operating environment, weakening the bank's financial profile, would lead to a downgrade. Rapid expansion in lending in Iraq, weakening the bank's asset quality and materially absorbing its capital, would also be negative for the ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the bank's ratings would require an improvement of the operating environment, which would be contingent on a large diversification of the economy, and stronger governance and business climate in Iraq.

An upgrade of the bank's ratings would also require a meaningful improvement in the bank's franchise and business model.


Significant Changes from Last Review

Sovereign Rating Affirmed and on a Stable Outlook

In December 2022, Fitch affirmed Iraq's sovereign rating at 'B-/Stable to reflect its high commodity dependence, weak governance, high political risk and an undeveloped banking sector, balanced by high foreign-currency reserves (end-2022: about USD90 billion; 2023 (forecast): USD74 billion) and low interest costs on government debt. Buoyant oil prices improved many of Iraq's credit metrics in 2022 (including real GDP growth of 9.5% and budget surplus of 10.2% of GDP in 2022F), but the absence of structural, economic or fiscal reforms and persistence of political risk constrain the rating.

The budget surplus is forecast to shrink to 2.2% of GDP in 2023 due to a 10% increase in spending and more moderate oil revenue from a lower Brent crude price, which is averaging USD85/barrel (bbl), down from USD100/bbl in 2022, and a slightly lower oil production and exports in line with an OPEC+ cut in November 2022. A USD10/bbl change in the average oil price in 2023 relative to our forecast would affect the budget by about 4% of GDP, assuming unchanged spending, and an additional 250,000bbl/day of oil exports would boost revenue by 2.6% of GDP.

Ratings Navigator

Region Trade Bank for Investment and Finance Private Shareholding							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'ccc+' is below the 'b' category implied score for Iraq, due the following adjustment reasons: size and structure of economy (negative) and financial market development (negative).

The business profile score of 'ccc+' is below the 'b' category implied score, due to the following adjustment reasons: business profile (negative) and market position (negative).

The capitalisation and leverage score of 'b-' is below the 'bb' category implied score due to the following adjustment reasons: risk profile and business model (negative).

The funding and liquidity score of 'b-' is below the 'bb' category implied score due to the following adjustment reason: deposit structure (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Weak Operating Environment

Fitch's assessment of the Iraqi operating environment at 'ccc+' is largely constrained by a number of factors, including the high dependence of the economy on the oil sector, which is inherently cyclical. Oil proceeds account for about 85%-90% of fiscal revenue, and a USD10/bbl change in the average oil price in 2023, relative to our forecast, would affect the budget by about 4% of GDP, assuming unchanged spending, and an additional 250,000bbl/day of oil exports would boost revenue by 2.6% of GDP.

The second constraining factor is the high involvement of the state in supporting credit growth, projects and job creation; and, the third factor is the weak regulatory and governance framework and business environment.

Ongoing conflict, security deterioration and high political tensions have resulted in Iraq being one of the most unattractive business environments in the Middle East and North Africa. High levels of crime and security risks pose the greatest barrier to companies in the country. Social, economic and political instability will continue to put pressure on Iraqi banks' operating environment.

Underdeveloped and Highly Concentrated Banking Sector

The Iraqi banking sector is undeveloped, with low banking penetration rates (the credit-to-GDP ratio was only 13% at end-2022), in part due to a lack of confidence in the banking system. Domestic capital markets are very undeveloped, and banks do not have access to international capital markets. The domestic banking sector is highly concentrated. It comprises 79 banks (eight state-owned and 53 domestic private - split between 29 Islamic and 25 conventional - as well as 18 branches of foreign banks, including two Islamic).

The eight state-owned banks dominate the sector with more than 80% of total sector assets and deposits. There is a large lack of financial transparency at the two largest state-owned banks (Rafidain Bank and Al-Rasheed Bank; about 60% of banking sector assets).

A large number of private-sector banks were money-transfer and currency-exchange houses that were converted into banks after meeting the CBI's minimum paid-up capital requirement (IQD250 billion, or almost USD171.3 million). Some banks function largely as treasuries, putting excess liquidity into CBI placements with no real banking business models, amid a low banking penetration rate and a large number of private-sector banks with fragmented and negligible market shares.

Business Profile

No Discernible Franchise; Unstable Business Model

RTB is a privately-owned bank headquartered in Erbil, the Kurdistan Region of Iraq, and falls under the CBI regulation. The bank is listed on the Iraq Stock Exchange and is equally owned by 10 Iraqi shareholders, mainly business people from the Kurdistan Region of Iraq. Like other Iraqi private banks, RTB has minimal market shares in Iraq (less than 1% of banking sector assets and deposits; negligible for loans), no competitive advantages and limited distribution capabilities given its small network of five branches. RTB operates only in Iraq.

The bank's business model is volatile and sensitive to the size of sovereign deposits and ultimately oil prices. RTB is mainly involved in trade finance transactions, whose business volumes jumped to 42% of total assets at end-2022 from 5% at end-2021. This was driven by high oil prices and the extension of trade finance lines to Iraq's national oil company, The State Organization for Marketing of Oil (SOMO), by about USD400 million. Cash lending is minimal (6% of total assets at end-2022), given limited lending opportunities.

Strategy and Execution Are Constrained by the Domestic Operating Environment

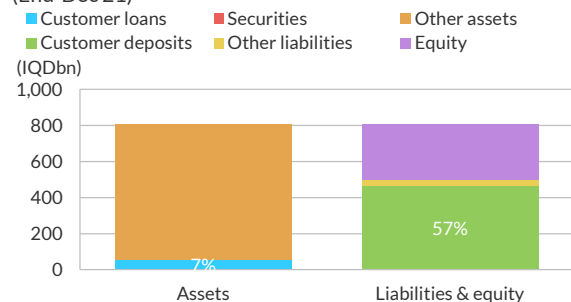
RTB's strategy is set by the board of directors, which comprises seven members, six of whom are non-executive (the Chief Executive is a board member) and five of whom are classified as independent (the Chairwoman is not independent). Board members hold only negligible shares in the bank. Fitch believes RTB's corporate governance is in line with the CBI requirements but views governance framework in Iraq as weak by international standards. This includes weak CBI enforceability, light financial reporting requirements, local external auditing and a lack of information on related-party lending.

RTB will continue to clean up its loan portfolio. Positively, the Stage 3 loans ratio continued to decline to 12% at end-2022 from 23% at end-2021, supported by write-offs and recoveries, and the bank targets to push the ratio down to 6% by end-2023. The bank does not expect large write-offs in 2023 given the focus on recoveries on legacy exposures that became impaired more than 10 years ago.

Growth momentum in off-balance sheet transactions is expected to remain strong on the back of high oil prices but should slow down compared with 2022 as oil prices are set to soften to USD85/bbl from USD99/bbl in 2022. RTB's management has adequate experience and knowledge to implement its strategy but execution will remain highly constrained by the domestic operating environment.

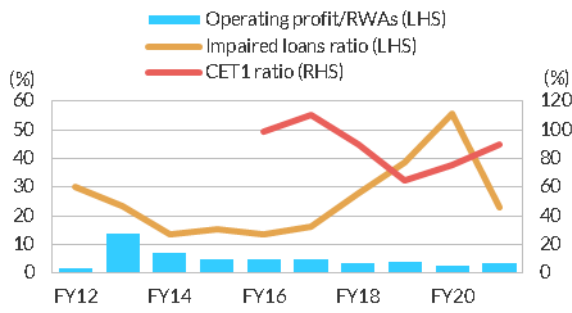
Balance Sheet

(End-Dec 21)



Source: Fitch Ratings, RTB

Performance Through the Cycle



Source: Fitch Ratings, RTB

Risk Profile

Conservative Risk Appetite

RTB's loan book is minimal and loan growth is weak and unstable given the limited lending opportunities and tightened underwriting standards. The bank has an increasing appetite for lending as a result of higher oil prices; it targets more than 10% loan growth in 2023, while focusing on the highest-credit-quality corporates.

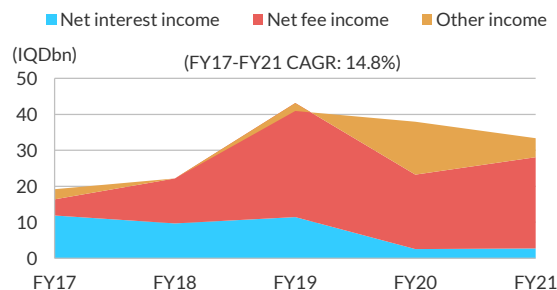
Trade finance transactions are also short-term; very low cash margins (less than 3%) in 2022 can be explained by the large size of transactions with SOMO that do not require cash margins as they are backed by letters of guarantee from the Ministry of Finance. Short-term interbank placements were 16% of total assets at end-2022 and were mainly with non-investment-grade banks in the United Arab Emirates, Turkiye and Jordan.

Structural interest-rate risk is small because the majority of RTB's assets and liabilities are non-interest-bearing. Foreign-currency (FC) risk is limited with small FC positions, mainly in US dollars, for very short periods. The bank had a long FC position representing less than 4% of equity at end-2022. The Iraqi dinar devaluation in December 2020 had a small impact on the bank. FC transactions are mainly to meet customers' and the government's needs. The CBI controls FC supply in Iraq through auctions, which results in some fluctuations in the exchange rate.

The bank generated IQD4.3 billion and IQD5.2 billion revenue through FC auctions in 2021 and 2022, respectively; these accounted for 12% and 9% of total operating income.

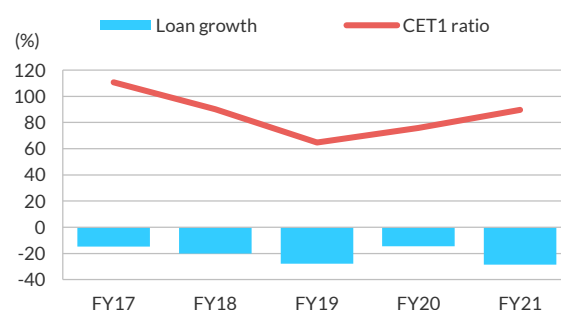
The bank's high fixed assets (20% of total assets at end-2022, mainly land and building for its future headquarters) could expose the bank to market risk in the event of a negative revaluation.

Revenue Breakdown



CAGR: compound annual growth rate
 Source: Fitch Ratings, RTB

Loan Growth



Source: Fitch Ratings, RTB

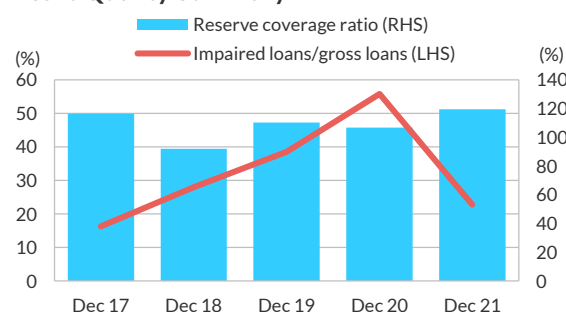
Financial Profile

Asset Quality

Cash and balances with CBI (56% of total assets at end-2022), fixed assets (20%) and interbank placements with foreign banks (16%) underpin our assessment of RTB's asset quality. These assets are highly volatile and are sensitive to and driven by sovereign deposits and local business opportunities. Loans (6%) are low and have a small impact on the assessment of asset quality. Off balance sheet transactions (about 70% of total assets at end-2022; negligible impairments) are highly volatile depending on business opportunities and made up, on average, 42% of total assets over the past six years.

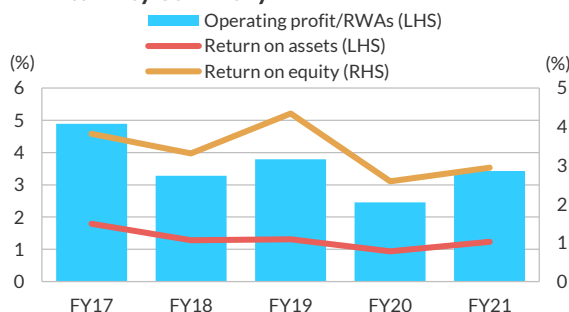
The bank's impaired loans ratio declined to 12% at end-2022 from 23% at end-2021, supported by write-offs and recoveries. RTB wrote off legacy impaired loans that became impaired in 2007. The bank expects the impaired loans ratio to fall to 6% by end-2023, supported by recoveries and write-offs. RTB has a high reserve coverage of impaired loans (124% at end-2022). Collateralisation (mainly cash margin and real estate) is also high.

Asset Quality Summary



Source: Fitch Ratings, RTB

Profitability Summary



Source: Fitch Ratings, RTB

Earnings and Profitability

RTB's profitability is weak due to large non-to-low-interest earning liquid assets, large non-earning fixed assets, a low-yielding loan portfolio (despite negligible funding costs) and high impairment charges. Non-interest income is the main contributor to operating income, comprising mainly fees and commissions on international transfers, the discounting of bills of exchange and trade finance transactions, as well as fees on credit cards. RTB's operating profit was up 32% in 2022, supported by a 60% expansion in total operating income on the back of a strong expansion in the bank's balance sheet.

Our core profitability metric, operating profit-to-risk-weighted assets (RWA), is low despite a low RWA density of 53% at end-2022. In spite of the strong pick-up in operating profit in 2022, our core metric declined to 2.6% in 2022 from 3.4% in 2021 as total RWA increased by more than 60%. This is because trade finance transactions with SOMO are 100% risk-weighted. Operating profit-to-average total assets of less than 2% over the past five years is low in an emerging markets context.

Loan impairment charges eroded 54% of pre-impairment operating profit in 2022 as the bank took a prudent approach on some exposures and potential fines from CBI. RTB's cost-to-income ratio (CIR) improved to 42% in 2022 from 65% in 2021 as revenues rose strongly. Without CBI fines, the CIR would stand at 27% in 2022. The bank expects the recovery in profitability to continue in 2023, supported by high oil prices and potential provisions release.

Capital and Leverage

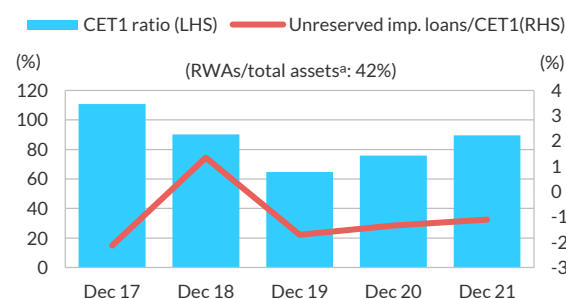
RTB's regulatory capital ratios have been falling as the bank's balance sheet expanded strongly but the ratios remain high. RTB's CAR of 60% at end-2022 displayed a large excess buffer over the regulatory minimum. The bank is required by the CBI to maintain a minimum CAR of 28%, instead of the usual 12% applied in Iraq, given high concentrations in deposits and loans. The CAR benefits from a low RWA density owing to a 0% risk-weight on cash in dinars (dollars: 10%), CBI placements, as well as low risk weights on cash-covered off-balance sheet transactions.

The tangible leverage ratio was high at 28% at end-2022 but decreased from 46.2% at end-2020 on the back of strong balance sheet growth as assets size almost doubled between 2020 and 2022.

Capital ratios are likely to remain high given RTB's cash-oriented business model, with limited lending and highly cash-covered off-balance sheet transactions. Fast balance sheet expansion as a result of strong deposit growth could lead to a quick erosion in the tangible leverage ratio. We believe the strong erosion in capital ratios in 2022 will not continue in 2023 as the strong expansion in off-balance sheet transactions was driven by large one-off deals with

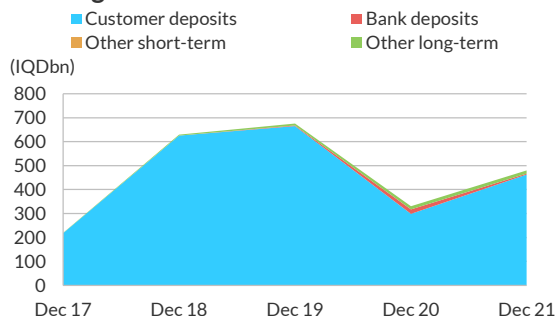
SOMO (almost 50% of on balance sheet assets) which may not repeat in 2023. RTB has not distributed dividends for five years but plans to pay some once return on equity exceeds 10% (3.1% in 2021), which is unlikely in the near term.

Capitalisation & Leverage Summary



^a Latest Source: Fitch Ratings, RTB

Funding Breakdown



Source: Fitch Ratings, RTB

Funding and Liquidity

RTB is funded by customer deposits (64% of total assets at end-2022) and equity (28%). The bank’s funding is highly sensitive to government deposits, which have proved volatile over the past five years; for example, the contribution of government deposits (mainly from the Kurdistan Regional Government) to the deposit base (excluding cash margins) ranged from 70% at end-2018 to 15% at end-2020. Corporate deposits are also high and volatile, partially linked to FC auctions.

Retail deposits are small, reflecting RTB’s small branch network and Iraqis’ lack of confidence in the banking sector, especially private banks. This results in high deposit concentration (the 20 largest deposits were 63% of total customer deposits at end-2022). Deposits are predominantly current accounts and are contractually and behaviourally short term.

RTB’s high liquidity mitigates risks arising from funding concentration and volatility. The excess liquidity, coming from equity or government-related deposits (as well as some large corporates), is mainly kept as cash in vaults or placed with the CBI. Basel III high-quality liquid assets (HQLAs) were a high 67% of total assets at end-2022 and covered more than 100% of customer deposits. The bank runs positive maturity gaps.

The Basel III liquidity coverage ratio stood at a healthy 172% at end-2022, while the Basel III Net Stable Funding Ratio (NSFR) dropped to 70% at end-2022 from 177% at end-2021 due to the bank’s large trade finance line to SOMO. We expect the bank’s NSFR to pick up to above 100% as this line is gradually repaid.

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(IQDm)	(IQDm)	(IQDm)	(IQDm)
	Unaudited	Unaudited	Unaudited	Audited - unqualified	Audited - qualified
Summary income statement					
Net interest and dividend income	2	2,759.9	2,547.6	11,402.8	9,714.6
Net fees and commissions	18	25,298.2	20,680.7	31,753.3	12,471.2
Other operating income	4	5,307.8	14,704.1	-2,239.0	20.9
Total operating income	23	33,365.9	37,932.4	40,917.1	22,206.7
Operating costs	16	23,682.8	18,531.9	13,743.9	8,930.3
Pre-impairment operating profit	7	9,683.1	19,400.5	27,173.2	13,276.4
Loan and other impairment charges	-1	-2,046.5	9,765.7	10,235.2	3,210.8
Operating profit	8	11,729.6	9,634.8	16,938.0	10,065.6
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	2	2,821.9	2,000.0	4,591.3	1,017.5
Net income	6	8,907.7	7,634.8	12,346.7	9,048.1
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	6	8,907.7	7,634.8	12,346.7	9,048.1
Summary balance sheet					
Assets					
Gross loans	52	75,067.8	105,078.4	122,790.1	170,260.0
- Of which impaired	12	17,120.9	58,682.7	47,414.2	47,631.2
Loan loss allowances	14	20,479.0	62,672.9	52,353.6	43,890.8
Net loans	38	54,588.8	42,405.5	70,436.5	126,369.2
Interbank	82	117,730.7	77,711.8	100,781.4	282,314.2
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	1	799.5	4,292.7	2,963.3	799.2
Total earning assets	120	173,119.0	124,410.0	174,181.2	409,482.6
Cash and due from banks	272	392,718.4	275,272.4	526,305.5	430,253.6
Other assets	167	241,201.4	244,836.2	276,526.5	73,881.4
Total assets	559	807,038.8	644,518.6	977,013.2	913,617.6
Liabilities					
Customer deposits	320	462,041.7	298,019.0	665,022.6	625,638.1
Interbank and other short-term funding	3	4,574.6	19,250.3	2,369.6	135.8
Other long-term funding	10	13,728.7	13,784.5	8,635.0	3,254.0
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	333	480,345.0	331,053.8	676,027.2	629,027.9
Other liabilities	13	19,364.3	15,043.0	10,199.1	6,641.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	213	307,329.5	298,421.8	290,786.9	277,947.9
Total liabilities and equity	559	807,038.8	644,518.6	977,013.2	913,617.6
Exchange rate		USD1 = IQD1443.12	USD1 = IQD1451.01	USD1 = IQD1182	USD1 = IQD1194

Source: Fitch Ratings, Fitch Solution, RTB

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.4	2.5	3.8	3.3
Net interest income/average earning assets	1.9	1.7	3.9	2.6
Non-interest expense/gross revenue	71.0	48.9	33.6	40.2
Net income/average equity	2.9	2.6	4.3	3.3
Asset quality				
Impaired loans ratio	22.8	55.9	38.6	28.0
Growth in gross loans	-28.6	-14.4	-27.9	-20.1
Loan loss allowances/impaired loans	119.6	106.8	110.4	92.2
Loan impairment charges/average gross loans	-2.3	8.2	6.6	0.5
Capitalisation				
Common equity Tier 1 ratio	89.7	75.8	64.7	90.2
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	89.7	75.8	64.7	90.0
Tangible common equity/tangible assets	38.0	46.2	29.7	30.3
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	-1.1	-1.3	-1.7	1.4
Net impaired loans/Fitch Core Capital	-1.1	-1.3	-1.7	1.4
Funding and liquidity				
Gross loans/customer deposits	16.3	35.3	18.5	27.2
Liquidity coverage ratio	251.1	222.2	233.6	200.0
Customer deposits/total non-equity funding	96.2	90.0	98.4	99.5
Net stable funding ratio	176.8	129.7	160.8	232.6

Source: Fitch Ratings, Fitch Solutions, RTB

Support Assessment

Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	b-
Actual jurisdiction D-SIB GSR	ccc+
Government Support Rating	ns

Government ability to support D-SIBs

Sovereign Rating	B-/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral

Government propensity to support D-SIBs

Resolution legislation	Neutral
Support stance	Neutral

Government propensity to support bank

Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
■ Higher influence ■ Moderate influence ■ Lower influence

Iraqi banks' domestic systemically important banks' (D-SIBs) Government Support Rating (GSR) of 'ccc+' reflects uncertainty about the government's propensity to support the banking sector and the lack of a record of support, including for large state-owned banks that may require replenishment of capital. The D-SIBs' GSR also reflects the sovereign's moderate financial flexibility and the concentrated structure of the banking system, with the three largest public sector banks accounting for more than 80% of sector assets, which constrains the sovereign's ability to support the banking system, if needed.

Fitch believes that the Iraqi authorities would have a low propensity to support RTB if needed, mainly due to the bank's limited systemic importance. Therefore, RTB's GSR is at 'No Support'.

Environmental, Social and Governance Considerations



Region Trade Bank for Investment and Finance Private Shareholding

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation		Overall ESG Scale			
Region Trade Bank for Investment and Finance Private Shareholding has 5 ESG potential rating drivers		key driver	0	issues	5
<ul style="list-style-type: none"> Region Trade Bank for Investment and Finance Private Shareholding has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver. 		driver	0	issues	4
		potential driver	5	issues	3
		not a rating driver	4	issues	2
			5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations' Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	5 Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	4 Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	3 Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	2 Irrelevant to the entity rating but relevant to the sector.
				1	1 Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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