Central Bank of Iraq
Statistics & Research Department
Monetary & Financial Stability Division

Financial Soundness Indicators Report 2024

The First Issue 2024

Financial Soundness Indicators Report: A report containing indicators that measure the financial stability of the banking sector by assessing its ability to address potential risks, including credit, liquidity, market, and operational risks. These indicators serve as a supervisory and analytical tool to enhance transparency and efficiency in the financial system and are used by supervisory authorities and central banks to monitor financial developments and identify potential vulnerabilities in the banking system.

You can quote from the report in the following format:
Central Bank of Iraq/ Financial Soundness Indicators Report 2024, Issue No. One, Baghdad, 2025.

Contents

Introduction

Financial soundness indicators (FSIs) are fundamental pillars that regulatory and supervisory authorities rely on to assess the robustness and stability of the financial system, both at the level of individual financial institutions and the financial system as a whole. These indicators are gaining increasing importance amid global economic fluctuations and rising financial risks, as they enable policymakers to monitor financial performance and diagnose potential weaknesses early, allowing for appropriate corrective measures to be taken in a proper time.

This report will address the concept of financial soundness indicators, their importance in maintaining financial stability, and review the most prominent indicators used in the Iraqi financial system and those used according to international experiences, as well as the methodologies followed in measuring and interpreting their results.

1. Capital Adequacy Ratio (CAR)

This indicator compares a bank's regulatory capital to its risk-weighted assets, typically expressed as the Capital Adequacy Ratio (CAR). This ratio is calculated according to the standards set by the Basel Committee on Banking Supervision, which requires banks to maintain a minimum level of capital relative to the risks they are exposed to. The Central Bank of Iraq has set this minimum ratio at (12.5%).

As shown in Figure (1), the capital adequacy ratio for Iraqi banks reached (39.35%) in 2024, which is higher than the stipulated minimum of (12.5%).

When evaluating banks by ownership, the capital adequacy for state-owned banks was (23.54%) for 2024, while for private banks it reached (74.16%) for the same period. This indicates that both ratios are well above the minimum set by the Central Bank of Iraq.

Figure (1) Capital Adequacy
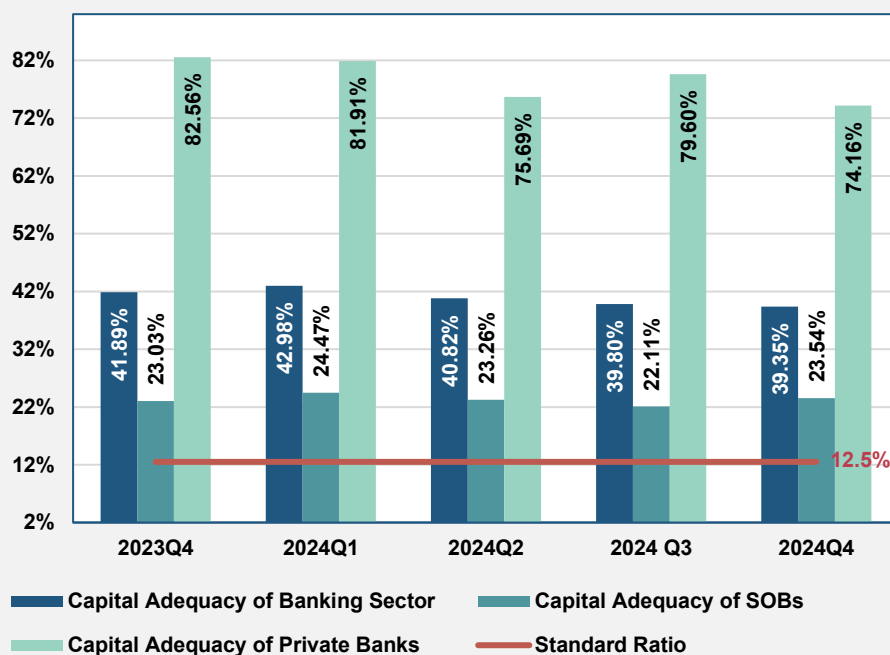
2. Asset Quality Indicators

These indicators are measures used to assess the quality of assets held by banks. They are crucial for assessing financial performance and the risks associated with the asset's banks possess. Below, we review some of these key indicators:

A. Ratio of Non-Performing Loans[1] to Total Assets[2]

This indicator presents a challenge for banks as it impacts their financial performance, and an excessive increase in this ratio limits banks' activity, consequently affecting their lending capacity. Figure (2) shows that this ratio increased slightly from (4.94%) in 2023 to (6.08%) in 2024. This increase does not pose a risk to the banking sector's loan portfolios due to its small magnitude, thus not affecting the continuity of their operations. Referring to bank ownership, it's noted that this indicator rose for SOBs from (4.91%) in 2023 to (6.11%) in 2024. For private banks, it increased minimally from (5.03%) in 2023 to (5.99%) in 2024.

---

[1] **Non-performing Loans**: It is the borrower's inability to repay for more than 3 months due to personal financial problems or economic circumstances.

[2] Assets: known as holdings.

Figure (2) Ratio of Non-Performing Loans to Total Assets
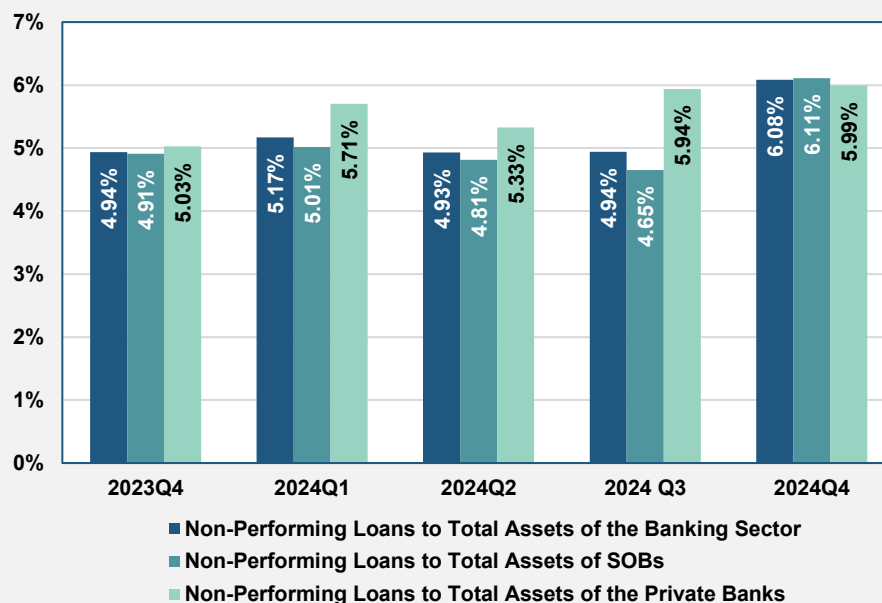
B. **Ratio of Non-Performing Loans to Total Cash Credit**

This ratio represents the proportion of loans both principal and interest that has not been repaid for several months, relative to total cash credit. As illustrated in Figure (3), this ratio increased to (16.89%) in 2024 from (14.66%) in 2023. This rise is attributed to an increase in non-performing loans, which constituted (6%) of total assets in 2024.

Regarding this indicator for SOBs, it is noted that it increased by (2.2%) reaching (15.66%) in 2024 after it was (12.05%) in 2023, while for private banks it increased by (1.59%) reaching (22.87%) in 2024 compared to (21.28%) in 2023.

Figure (3) Ratio of Non-Performing Laons to Cash Credit
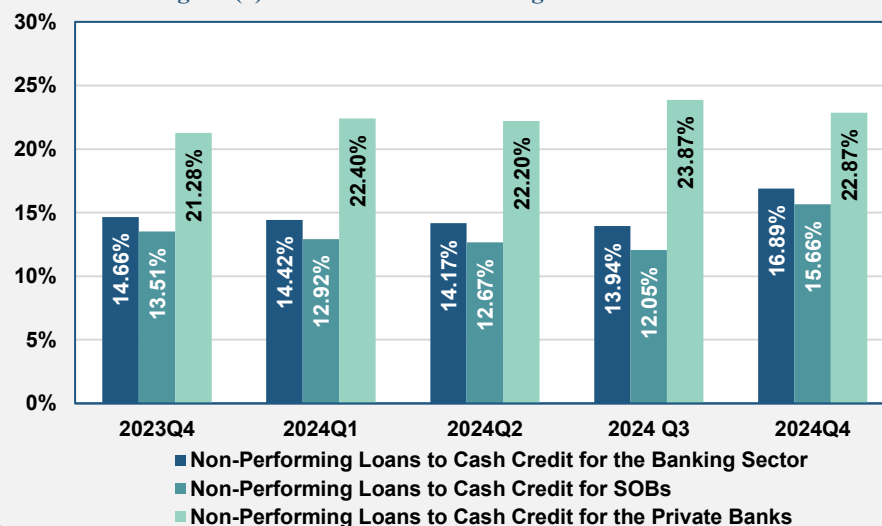
C. Coverage Ratio (Non-Performing Loans Provision to Total Non-Performing Loans)

It is a ratio that measures the extent to which provisions cover potential credit losses against non-performing loans. It is noted from Figure (4) that this ratio increased from (54.21%) in 2023 to (61.01%) in 2024.
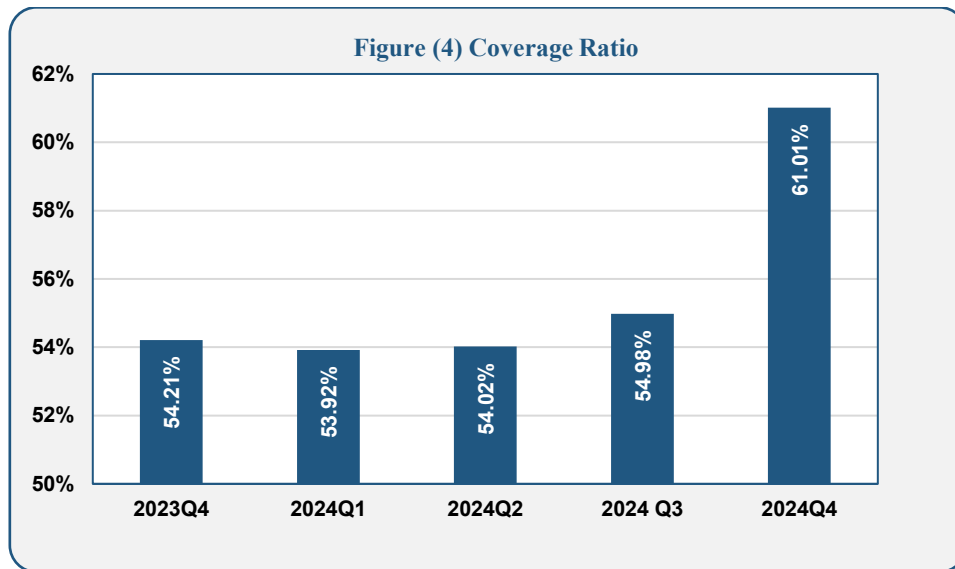
Figure (4) Coverage Ratio

3. Liquidity Indicators

These are financial metrics used to measure a bank's ability to meet its short-term obligations and customers' needs. These indicators are used to assess a bank's financial solvency in terms of liquidity to ensure its ability of continuous activity. They are important indicators that ensure the stability of the banking system. Below are some of these indicators:

A. Liquid Assets[3] to Total Assets

It is a measure of bank's flexibility to obtain liquidity (Cash) when needed. Figure (5) indicates that this ratio reached (39.10%) in 2024 after it was (47.56%) in 2023. This decrease in liquid assets is the result of utilizing them in investments with banks, as they increased at a growth rate of (93%).

As for banks ownership, it is noted that this ratio at SOBs reached (37.95%) in 2024 after it was (47.80%) in 2023, while at private banks it reached (42.84%) in 2024 after it was (46.67%) in 2023.

---

[3] Liquid Assets: Assets that can be converted into cash easily, quickly, and with minimal loss in value.

Figure (5) Liquid Assets to Total Assets

- Liquid Assets to the Banking Sector Assets
- Liquid Assets to Total Assets of SOBs
- Liquid Assets to Total Assets of the Private Banks
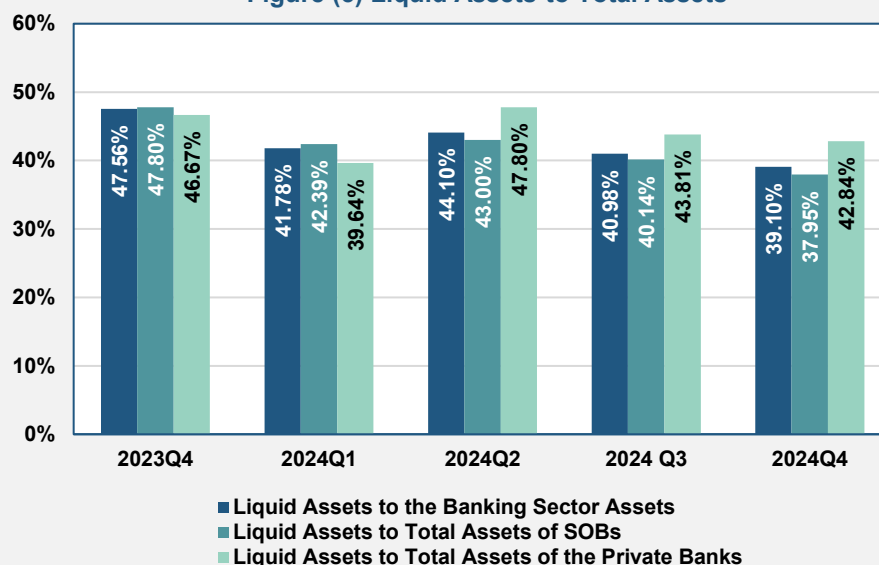
B.Ratio of Liquid Assets to Deposits

This indicator measures the banking sector's ability to meet depositors' withdrawal requests from their liquid assets. Figure (6) indicates that this ratio decreased from (61.14%) in 2023 to (51.78%) in 2024. Despite this decrease, the ratio is good, indicating that banks maintain enough liquid assets to meet depositors' withdrawals. When classifying this indicator according to the type of banks (SOBs, private banks), it turns out that this ratio decreased in both types. It decreased in SOBs from (56.28%) in 2023 to (45.78%) in 2024, as shown in figure (6). While it decreased in private banks from (91.10%) in 2023 to (83.20%) in 2024.

Figure (6) Ratio of Liquid Assets to Deposits

- Liquid Assets to Total Deposits of the Banking Sector
- Liquid Assets to Total Deposits of SOBs
- Liquid Assets to Total Deposits of Private Banks
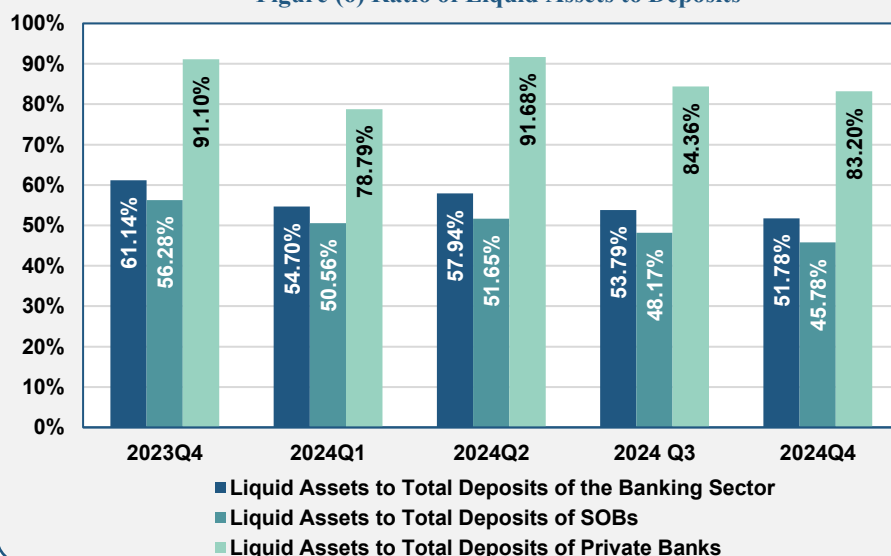
C.Ratio of Cash Credit to Total Deposits

It is an indicator that is used to identify the extent to which banks use their depositors' funds to grant credit. The Central Bank of Iraq has set a standard ratio as a maximum limit not exceeding (75%) for such ratio. Figure (7) indicates that this ratio increased slightly from (43.27%) in 2023 to (47.69%) in 2024, indicating that banks practice their banking activity by granting credit which do not pose a risk to depositors' funds because they have not exceeded the standard ratio.

When classifying this indicator according to the type of banks (SOBs, private banks), it is noted that it increased in SOBs from (42.81%) in 2023 to (47.08%) in 2024, while it increased for private banks from (46.11%) in 2023 to (50.89%) in 2024. Despite this increase, still both types did not exceed the upper limit of (75%).

Figure (7) Ratio of Cash Credit to Total Deposits
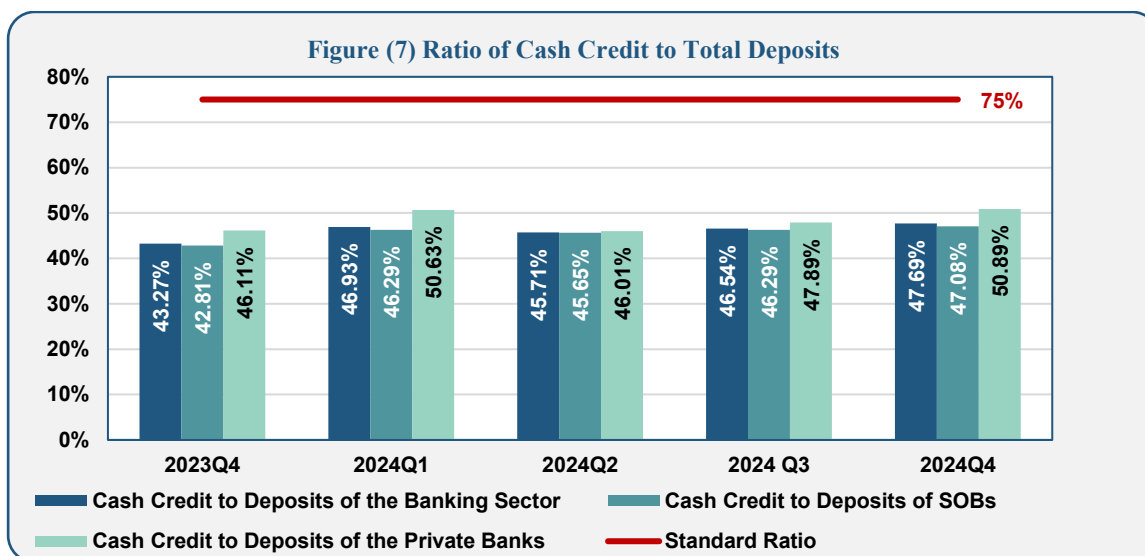
D. Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) is a supervisory indicator employed by central banks and regulatory authorities. It was endorsed by the Basel Committee on Banking Supervision as part of the Basel III framework to measure a bank's resilience to short-term liquidity stress. Essentially, the LCR measures a bank's capacity to cover all anticipated cash outflows over a (30) day period without needing external funding. The minimum required LCR is.(%100)

As shown in Figure (8), the LCR for the banking sector reached (121.16%) in 2024. This signifies that the banking sector is in a secure position, capable of covering (121%) of its expected cash outflows within a (30) day timeframe.

When banks are categorized into SOBs and private banks, the LCR for SOBs reached (108.06%) in 2024. For private banks, the ratio was notably higher at (197.9%) in 2024. Both categories comfortably exceeded the (100%) minimum threshold.

Figure (8) Liquidity Coverage Ratio (LCR)
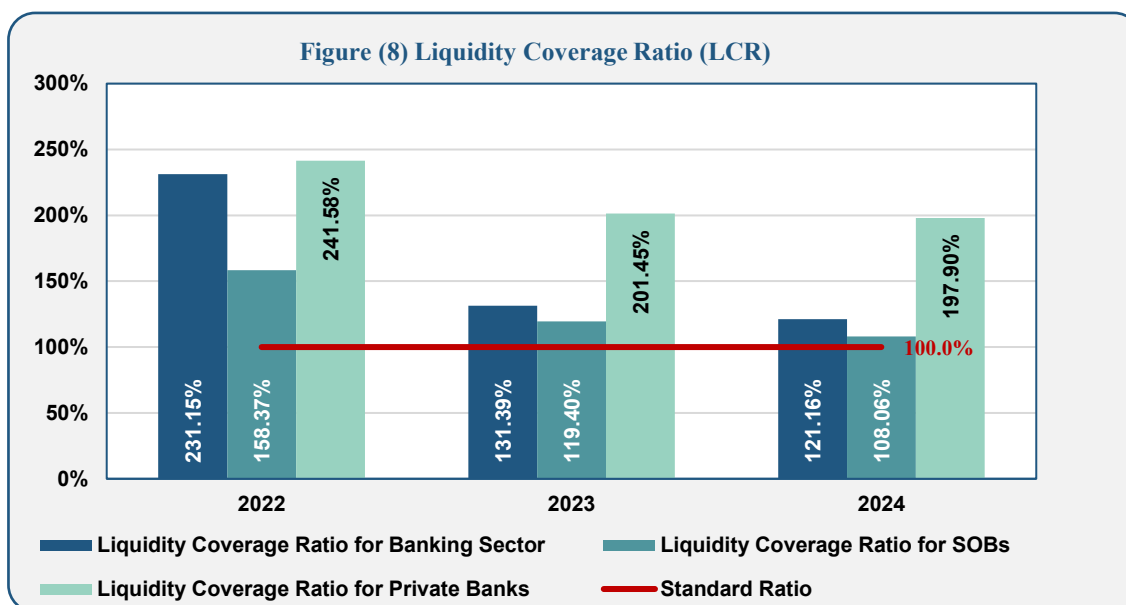
### E. Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio (NSFR) is a crucial regulatory metric implemented by central banks and supervisory authorities. Endorsed by the Basel Committee on Banking Supervision under the Basel III framework, its primary purpose is to ensure that banks possess sufficient stable funding sources to cover their long-term assets and non-liquid activities.

This ratio stood out from the liquidity coverage ratio in that it specifically aims to mitigate the risk of liquidity shortfalls over the medium to long term. It curbs excessive reliance on short-term funding to finance long-term assets. The regulatory minimum for the NSFR is (100%).

As illustrated in Figure (9), the banking sector's NSFR reached (130.52%) in 2024. This indicates that the banking sector holds stable funding with a (30.5%) safety margin beyond its long-term funding requirements.

When banks are categorizing into SOBs and private banks, the Net Stable Funding Ratio (NSFR) for SOBs reached (127.19%) in 2024. Meanwhile, private banks

recorded an NSFR of (140.87%) for the same year. Both categories comfortably exceeded the (100%) minimum threshold.
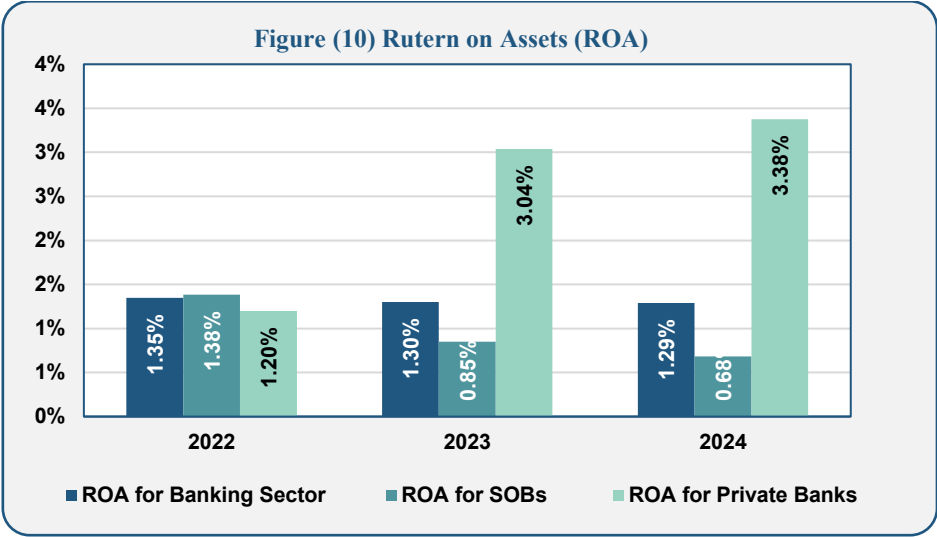

Figure (9) Net Stable Funding Ratio (NSFR)
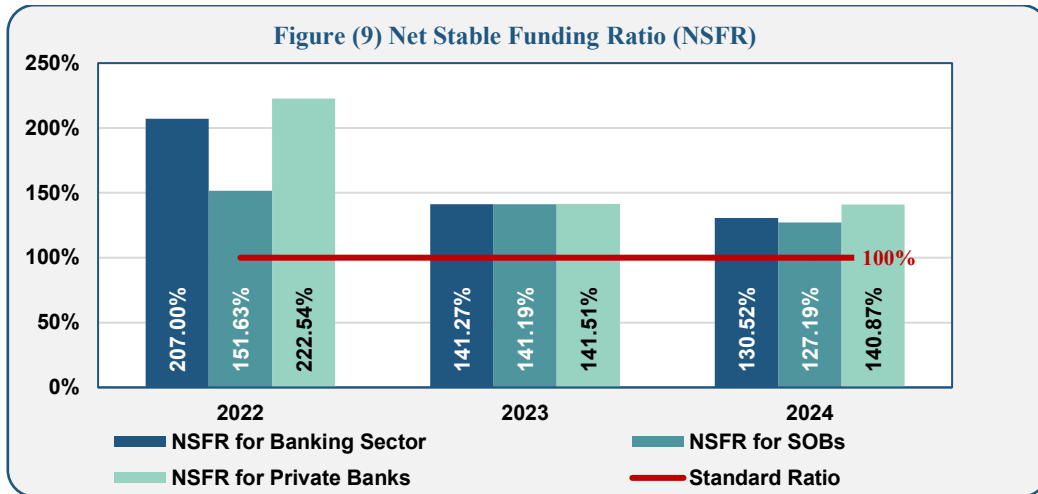
4. Profitability Indicators

Profitability indicators are financial indicators used to assess banks' ability to generate profits from their operations. They also serve as a determinant of the banking sector's efficiency in managing its resources and achieving financial objectives. Below are some of these key indicators:

A. Return on Assets (ROA)

ROA is an indicator of the banking sector's efficiency in generating profits from its owned assets, which can be converted into cash. It's calculated by dividing net income by average assets. This ratio experienced a slight decrease, reaching (1.29%) in 2024 compared to (1.30%) in 2023. This minor decline resulted from an increase in banks' assets at a growth rate of (3.34%), when compared to net income, which reached a growth rate of (2.35%). The significant portion of this asset increase is attributed to a rise in bank investments. Figure (10) shows the Return on Assets ratio.

When categorizing this ratio by bank type (SOBs & private banks), It is observed a slight decrease for SOBs from (0.85%) in 2023 to (0.68%) in 2024. While private banks witnessed an increase from (3.04%) in 2023 to (3.38%) in 2024.

Figure (10) Rutern on Assets (ROA)

Bars:
- 2022: ROA for Banking Sector 1.35%, ROA for SOBs 1.38%, ROA for Private Banks 1.20%
- 2023: ROA for Banking Sector 1.30%, ROA for SOBs 0.85%, ROA for Private Banks 3.04%
- 2024: ROA for Banking Sector 1.29%, ROA for SOBs 0.68, ROA for Private Banks 3.38%

Legend: ■ ROA for Banking Sector ■ ROA for SOBs ■ ROA for Private Banks
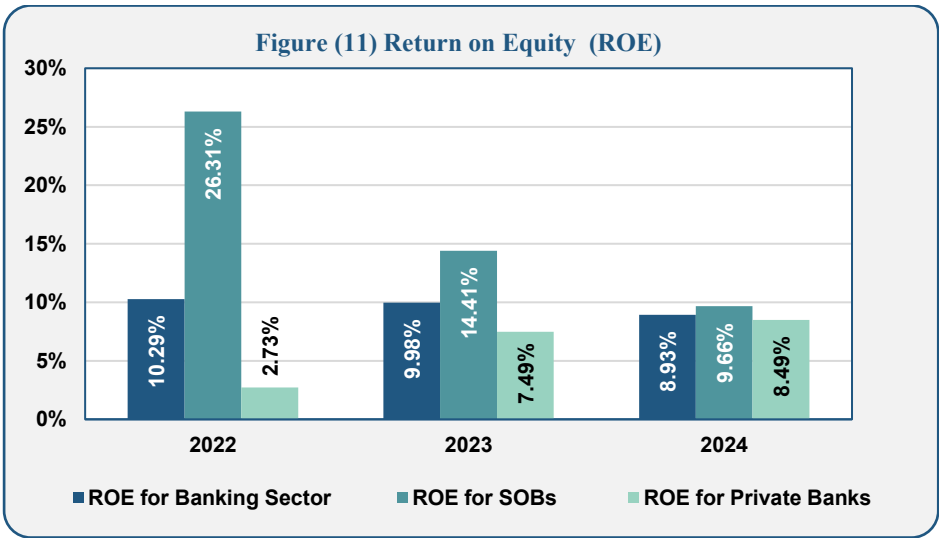
B.Return on Equity (ROE)

ROE serves as a key indicator of the banking sector's efficiency in generating profits from funds invested by shareholders. It's also valuable for comparing bank profitability over time or against competitors within the same sector. The ROE is calculated by dividing net income by average shareholders' equity.

This ratio experienced a decline, reaching (8.93%) in 2024 compared to (9.98%) in 2023. This decrease is attributed to a (14.37%) increase in banks' capital, in line with the Central Bank of Iraq's directive to raise capital from IQD (250) billion to IQD (400) billion. Figure (11) illustrates the Return on Equity ratio.

Regarding the ROE for SOBs, it decreased from (14.41%) in 2023 to (9.66%) in 2024. Conversely, private banks witnessed an increase in their ROE from (7.49%) in 2023 to (8.49%) in 2024.

Figure (11) Return on Equity (ROE)

Bars:
- 2022: ROE for Banking Sector 10.29%, ROE for SOBs 26.31%, ROE for Private Banks 2.73%
- 2023: ROE for Banking Sector 9.98%, ROE for SOBs 14.41%, ROE for Private Banks 7.49%
- 2024: ROE for Banking Sector 8.93%, ROE for SOBs 9.66%, ROE for Private Banks 8.49%

Legend: ■ ROE for Banking Sector ■ ROE for SOBs ■ ROE for Private Banks

## C. Interest Spread to Total Income

The interest spread is considered one of the most important factors that measures the operational efficiency of banks through its dependence on generating revenues from their primary function as intermediaries between savers and investors.

This ratio increased from (48.11%) in 2023 to (48.79%) in 2024, as shown in Figure (12). This rise is a result of a (29.43%) growth in the net interest spread, indicating an increase in the banking sector's interest-generating activities.

Figure (12) Interest Spread to Total Income

- 2022: 45.83%
- 2023: 48.11%
- 2024: 48.79%
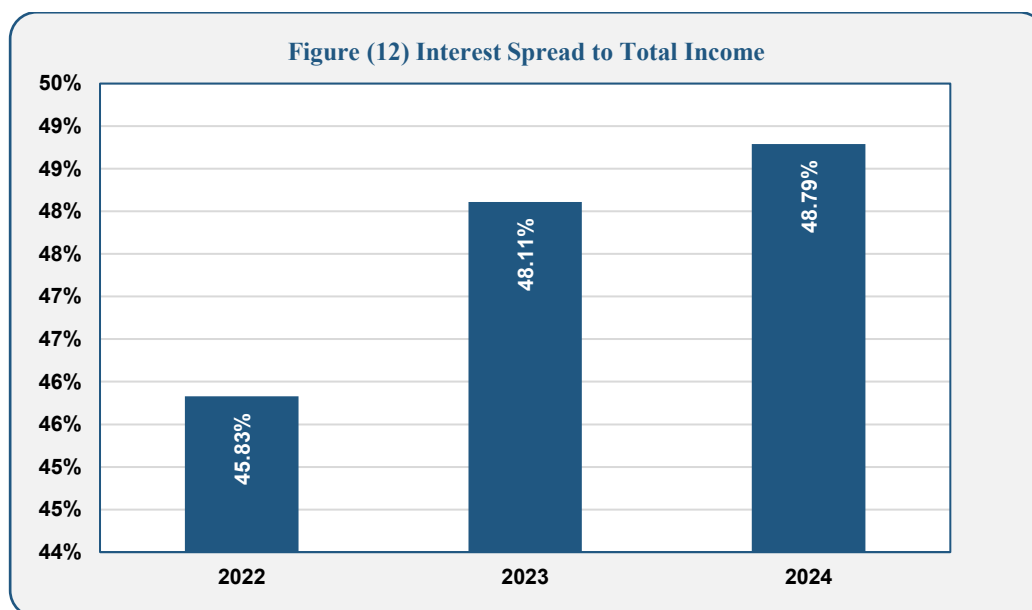
## D. Non-Interest Expenses to Total Income

This ratio represents the operating costs incurred by banks (excluding interest payments), such as salaries, rent, and other fixed expenses. It is calculated by dividing non-interest expenses by total income. This ratio increased from (51.91%) in 2023 to (60.47%) in 2024, as shown in Figure (13). This rise is due to other expenses necessary for the continuity of bank operations, such as rent, marketing, advertising, professional fees, and others.

Figure (13) Non-Interest Expenses to Total Income

- 2022: 39.86%
- 2023: 51.91%
- 2024: 60.47%
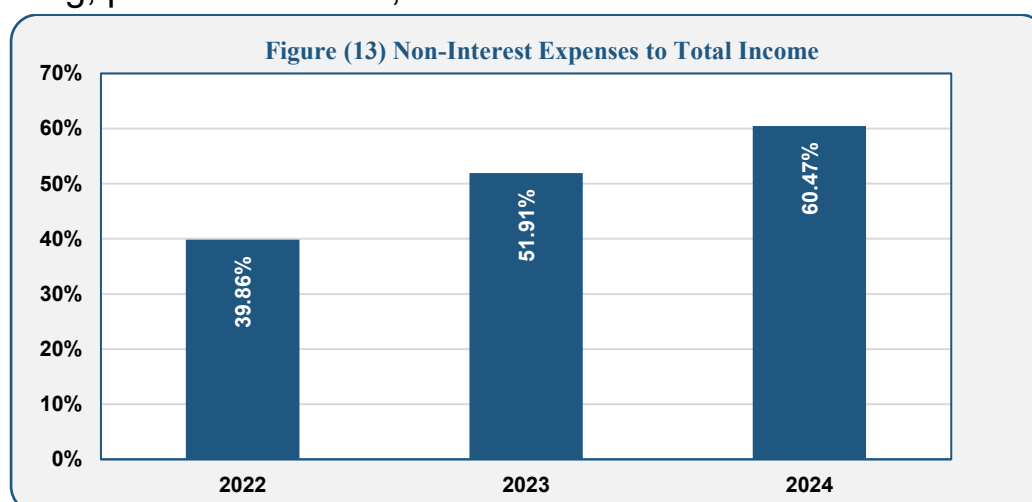
5. Risk Sensitivity Indicators

Net Open Foreign Currency Position to Capital

This ratio is used to ascertain the foreign exchange rate fluctuation risks that a bank's regulatory capital may face within the banking sector. It is calculated by dividing the net open foreign currency positions by regulatory capital. The Central Bank of Iraq has set an upper limit for this ratio at (20%). This ratio increased from (34.87%) in Q3 2024 to (49.21%) in Q4 2024, as shown in Figure (14). This increase is a result of a (51.65%) rise in the net open foreign currency position, accompanied by a (7.45%) increase in capital. This signifies a higher volume of foreign currency held by banks and an increase in their balances.

Figure (14) Net Open Foreign Currency Position to Capital
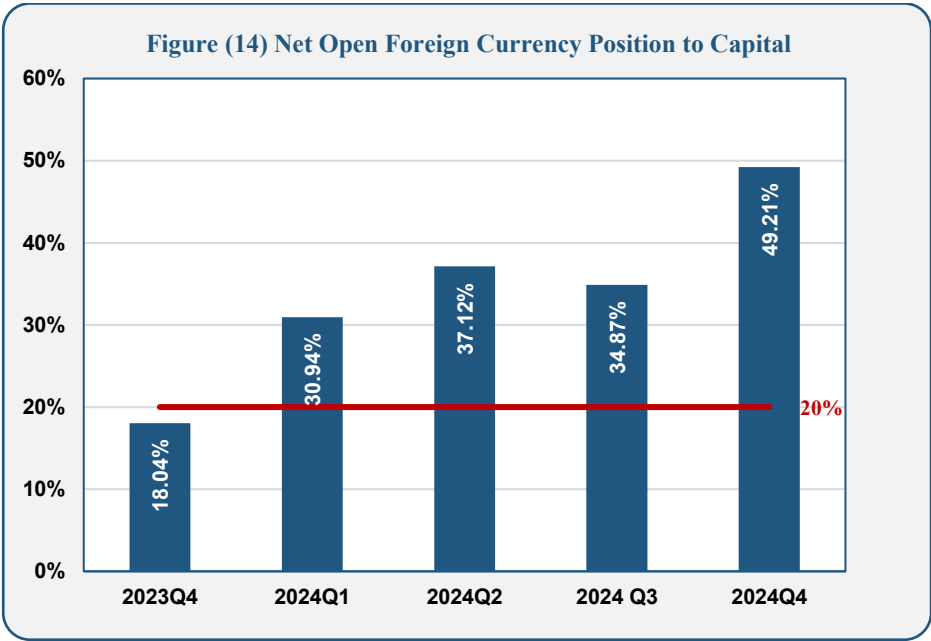
Conclusion

1. **Capital Adequacy Ratio:** This ratio reached (39.35%) in 2024, which is higher than the (12.5%) limit set by the Central Bank of Iraq.

2. **Asset Quality Indicators:** The ratio of non-performing loans (NPLs) to total assets slightly increased to (6.08%) in 2024. Furthermore, the ratio of non-performing loans (NPLs) to total cash credit rose to (16.54%) in 2024. Similarly, the coverage ratio also increased to (61.01%).

3. **Liquidity Indicators:** The ratio of liquid assets to total assets decreased to (39.10%) in 2024. Furthermore, the ratio of liquid assets to deposits also

decreased to (51.78%) for the same year. However, the ratio of cash credit to total deposits increased to (47.69%) for the same year, though it did not exceed the upper limit of (75%). As for the Liquidity Coverage Ratio (LCR), it decreased to (121.16%) in 2024, but it did not fall below the minimum limit of (100%). Regarding the Net Stable Funding Ratio (NSFR), it decreased to (130.52%) in 2024, also remaining above the minimum limit of (100%).

4. **Profitability Indicators:** The Return on Assets (ROA) ratio decreased to (1.29%), and similarly, the Return on Equity (ROE) ratio decreased to (8.93%) in 2024. In contrast, the ratio of Net Interest Spread to Total Income increased to (48.79%) in 2024. Likewise, the ratio of Non-Interest Expenses to Total Income also increased to (60.47%) for the same year.

5. **Risk Sensitivity Indicator:** The ratio of Net Open Foreign Currency Position to Capital increased to (49.21%). This demonstrates a high-risk sensitivity for banks in Iraq.