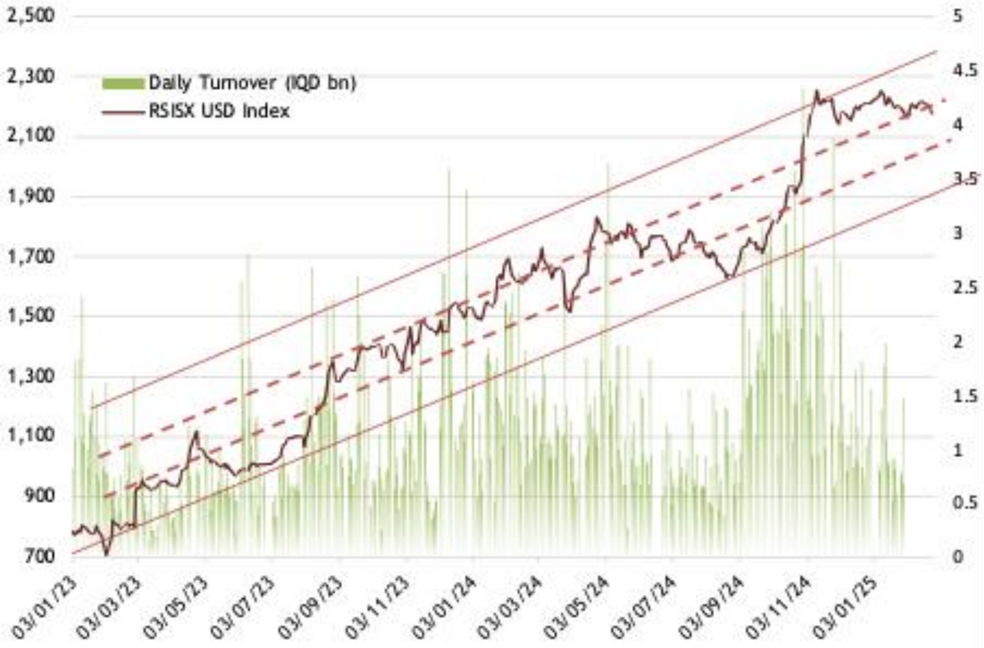
"Banks End a Second Year with a Bang"

Ahmed Tabaqchali, March 5th, 2025

The market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), continued with the process of consolidating its gains that started in December, following a blistering 35.9% rally since late August, and spent the month, just as the prior month, in a tight range of + 1.8% and -0.8% around its prior month's close, closing the month flat. It is down 1.4% for the first two months of 2025, up 44.8% in 2024, and up 97.2% in 2023.

While this consolidation could continue over the next few weeks, the market's technical picture continues to be positive, and the likely consolidation or pullback should be within its multi-month uptrend as much as the prior consolidations and pullbacks have done over the prior months. Trading volumes continue to support this thesis, as the average daily turnover for the month followed the patterns discussed last month in "Trading Volumes Support Market's Uptrend" (chart below, adjusted for block trades*).

Rabee Securities U.S. Dollar Equity Index vs Daily Turnover



(*Source: Iraq Stock Exchange, Rabee Securities, AFC Research, daily data as of February 27th*)

For the second year in a row, the top banks in the country reported outstanding net profit and equity growth in 2024, building upon a similarly outstanding growth in 2023 as reported last year in "Banks End the Year with a Bang".

Year-over-Year Comparisons

	Net Profit (IQD bn)					
	2022	2023	y-y %	2024	y-y %	2 year CAGR
Bank of Baghdad (BBOB)	53	156	193%	307	97%	140%
Commercial Bank of Iraq (BCOI)	12	15	29%	38	154%	81%
Mansour Bank (BMNS)	13	40	213%	99	151%	180%
National Bank of Iraq (BNOI)	28	190	590%	252	33%	203%

	Equity (IQD bn)						
	2022	2023	y-y %	2024	y-y %	2 year CAGR	ROAE 2024
Bank of Baghdad (BBOB)	350	474	35%	728	54%	44%	51%
Commercial Bank of Iraq (BCOI)	326	318	-3%	356	12%	4%	11%
Mansour Bank (BMNS)	283	312	10%	466	49%	28%	26%
National Bank of Iraq (BNOI)	328	500	52%	691	38%	45%	42%

(*Source: Rabee Securities, AFC Research, data as of Q4/2024*)
(*Note: Numbers rounded up for ease of display, while percentage changes are of actual numbers*)

As discussed in "What Next After Two Gangbuster Years?", the growth of bank net profit and equity growth in 2025 will be from a much higher base, and the acceleration should slow down from the heady rates of the past two years, leading to a new normal for the group. In this new normal, the future growth trajectories of the top banks will be from a much higher base and from a significantly improved financial position. Moreover, this new normal will be marked by an increased adoption of banking and formality, coupled with a move away from the dominance of cash and informality -developments that the investment thesis for the banking sector contends would come with growth in bank lending, resulting in an expansion of the money circulating in the economy and consequently to a meaningful increase in non-oil GDP (**). Over time, this should support the growth in top banks' net profits and ultimately feed into higher stock market valuations - driven by net-profit growth and by the increases in market multiples placed upon these net profits.

The equity market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), having surpassed its 2014 peak by 5.4% by the end of February, has the potential to rally further reflecting the powerful dynamics discussed here over the last few months. However, significant risks remain given Iraq's recent history of conflict, extreme leverage to volatile oil prices, as well as the risk that the widening of the current Middle East conflict will not be contained and evolve to destabilise the region –even though the temporary ceasefire in Gaza, Lebanon and the developments in Syria lowered the likelihood of a widening, yet risks remain that these will not hold or that other negative developments take place.

Notes:

(*) Daily market turnover is first adjusted by removing the block, pre-arranged trades conducted during the special session following the regular trading session; subsequently, it is adjusted further by removing high-volume trades during regular market hours that show a pattern consistent with those of pre-arranged trades. High-volume trades are defined as those that are significantly higher than a given stock's average daily turnover; and as such are subjective. Moreover, trading volumes, and trading turnovers are used interchangeably here, and defined as the values of trading turnovers in Iraqi Dinars (IQD).

(**) Banking and the banking investment thesis were reviewed in:

- "Banks and the Iraq investment thesis', February 2022
    - "The opportunity in retail banking" April 2022
    - "Banks and the predictability of earnings", November 2022
- "Banks to fuel the market's next phase". September 2023
- "Private sector loan growth to fuel Iraq's economic recovery", October 2023
- "Banks end the year with a bang", April 2024

- "An unfolding structural economic transformation", July 202

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