



IIRA Assigns Initial Ratings to Iraqi Islamic Bank for Investment and Development

Manama, February 12, 2024 – Islamic International Rating Agency (“IIRA”) has assigned local and foreign currency ratings to Iraqi Islamic Bank for Investment and Development (“IIB” or “the Bank”) 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 assigned national scale ratings of A-(iq)/A2 (iq) (Single A Minus (iq)/Single A-Two (iq)) to IIB that reflect the repayment capacity of the Bank in the national context. Outlook on the ratings is ‘Stable’.

The heavy dominance of oil production and receipts in output and external balances of Iraq, leads to volatility in economic performance indicators. Given the significant latent demand, the banking sector is likely to find opportunities for growth, despite below potential GDP growth expected for the Iraq economy in 2024. However, several of the challenges faced by the banking sector are being addressed as a matter of strategic priority of the policymakers; resultantly improvement in terms of governance practices, risk benchmarking, digitization and gradual overall modernization are expected.

IIB is the largest Islamic Bank in the country and is a seasoned institution, in terms of operating history. It has developed a core banking portfolio and is considered a leading franchise in the domestic trade business. Even though financing portfolio is still limited in relation to resources at the bank’s disposal, the Bank deviates favorably from local peers in terms of the scale of core financing portfolio. Income streams are also mostly derived from trade business managed and as such are considered sustainable in nature.

Historically the Bank has experienced non-performance, which has tapered lower, given a larger base and fewer new non-performing accounts in recent periods. Moreover, with significant provisions set aside, net non-performance is low and asset risk buffers are adequate on the whole. The implementation of IFRS 9 has assisted the Bank in setting aside prudent reserves against expected credit loss. There is strong potential for growth, with a higher than peer focus on retail finance.

The bank has held excess liquidity reserves on books given the relatively high growth in fund sources in relation to growth in business offtake; however, a wider access to fund sources including retail accounts will provide sustainability to the Bank’s liquidity profile. The Bank is well capitalized for the present scale of business and profit generation in the current year is likely to have kept leverage at a low but slightly higher than prior year-end level, at 5x by YE2023. Expected growth in business assets and sustained profits should lead to a maintained capitalization profile over the next 3 years.

Profitability is on track, with significant improvements in revenues driven by an uplift in core income. The limited reliance on volatile sources of income, a steadily developing business base, and contained cost of risk, all augur well for improving return indicators through the current year and 2024.

IIRA has assessed IIB’s fiduciary score in the range of ‘71 – 75’, denoting adequate fiduciary standards, wherein rights of various stakeholders are sufficiently protected. Aligned with the CBI requirements, the

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Islamic International Rating Agency

Bank subscribes to global standards of corporate governance and Shari'a compliance in operations. Explicit reference is made to Shari'a related controls, with the inclusion of Shari'a non-compliance risk as an area under the ambit of risk management.

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

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