الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms the Ratings of Iraqi Islamic Bank for Investment and Development

Manama, November 3, 2025 – Islamic International Rating Agency ("IIRA") has maintained the Iraqi Islamic Bank's ("IIB" or "the Bank") international scale ratings at 'B/B' (Single B / Single B). International scale ratings assigned reflect the sovereign risk profile of the Republic of Iraq ("Iraq" or "the Country"). Meanwhile, outlook on the national scale ratings of 'A- (iq) / A2 (iq)' (Single A Minus (iq) / Single A-Two (iq)). Outlook on the ratings is 'Stable'.

Weak economic activity persists with strong likelihood of continued slowdown. The government is pursuing banking reforms to better integrate the sector with the global financial community. In this regard, several steps such as the requirement of higher capital, foreign participation, digital payment systems and enhanced focus on sustainability have been taken. This will force consolidation in the sector and result in its strengthening; for the time being earning potential of banks and their ability to trickle growth down to the real sector, is limited.

IIB has demonstrated all-round growth, continuing in the early part of the current year. Recent growth is directed both towards retail and corporate banking across multiple sectors, with renewed focus also on Certificates of Deposits issued by the CBI. A concerning trend is the gradual rise in NPFs, and while new provisions have been taken, these do not provide substantial coverage. The Bank's sound and increasing capitalization provides significant loss absorption and as such mitigates concerns. Furthermore, the implementation of IFRS-9 indicates that provision reserves are sufficient and pointing to possible early resolution of non-performing accounts.

IIB maintains a strong liquidity position, with a high level of liquid assets relative to deposits and borrowings. Moreover, the Bank's deposit base has continued to grow, even as its pace has tapered off, even though fund sources remain still concentrated. While the Bank's deposit market access is clearly improving, it remains in need of further diversification.

IIB is well capitalized with internal generation of capital having largely kept pace, despite steady growth in risk assets. The Bank has attracted fresh capital from a foreign bank in the current year to meet the minimum capital requirement, to become one of the few banks in the Islamic banking segment having done so. As such capital adequacy indicators leave significant room for further growth.

IIB's profitability improved in 2024, and trended lower during the first half of the current year given the evolving regulatory landscape, which resulted in loss of return from currency auctions and generally diminished exchange gains. Moreover, having remained uninvested in CoDs during much of this period, assets generated suboptimal returns. We expect earnings generation to pick pace in the second half of the year with enhanced investment in CoDs and as earnings capacity remains sound, with minimal reliance on non-core sources. The bank is well prepared to adapt to a changing regulatory framework, although risk of asset losses looms, given increased stage 3 assets; moderation of return indicators is expected for the full year 2025 and 2026.

IIRA has assessed IIB's fiduciary score in the '71 – 75' range, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. Aligned with CBI requirements, the Bank subscribes to sound corporate governance practices and ensures Shari'a compliance in both operations and control procedures. Given the explicit emphasis on Shari'a-related controls, Shar'a non-compliance risk is appropriately included within the scope of the Bank's risk management framework. The quality of disclosures has improved since IIRA's last review, becoming more detailed and timely, and corporate governance practices have also been enhanced to comply with the most recent directives of the CBI, including Board composition and articulation of the Bank's commitment to ESG.

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