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## IIRA Reaffirms the ratings of Kurdistan International Islamic Bank for Investment and Development

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**Manama, January 12, 2026**— Islamic International Rating Agency (“IIRA”) has maintained the Kurdistan International Islamic Bank for Investment and Development’s (‘KIIB’ or ‘the Bank’) local and foreign currency ratings<sup>1</sup> at B-/B (Single B Minus / Single B) on the international scale, while reaffirming the national scale ratings at BBB+ (iq) / A2 (iq) (Triple BBB Plus (iq) / Single A Two (iq)). Meanwhile, the ratings are placed on ‘Rating Watch’, with neutral implications in terms of the direction of ratings, until regulatory constraints can be resolved.

KIIB has been one of the few Iraqi private banks which completed the cash capital increase to IQD400bn. Its ratings are underpinned by a conservative risk profile and strong capital and liquidity buffers. Going forward, the Bank is poised to emerge as one of the few private banks to grow in the Iraqi market following the completion of the reform process, on the back of its digital initiatives and new product development particularly for the retail segment.

After posting relatively weak economic activity during 2023 and 2024, Iraqi economy is forecasted to post only modest GDP growth of 0.5% in 2025 and is forecasted at 3.6% in 2026, on account of expectations of expanded oil production, as voluntary cuts are phased out gradually and oil exports from Kurdistan increase. With lower current account surplus and notably higher fiscal deficit in 2025, macroeconomic trends have weakened as oil prices were soft. Central Bank of Iraq has been taking steps to improve financial inclusion and ESG standards in the Country as manifested in the recent launch of the new ESG Code for the banking sector. While the reform process augurs well for the sector as a whole, challenges remain, with 42 banks having been restricted from USD dealings.

KIIB is amongst the 42 Iraqi banks, which were restricted from dealing in USD. In order to address the root causes of the USD restrictions imposed on many banks in Iraq, CBI has developed standards in cooperation with international entities, which require these banks to opt for the ‘Stay, Merge or Exit’ Pathways. The ‘Stay’ option is intended for banks that will remain in the market under their current license and legal identity. It is designed for entities with the financial strength, operational capacity, and governance maturity to meet the CBI full set of reform standards. To qualify under the ‘Stay’ pathway, the Banks must have at least IQD300bn paid-up capital and commit to complete it to IQD400bn by the end of 2027; show full compliance with CBI’s liquidity ratios by submitting full year 2025 liquidity compliance report; submit a complete and validated list of shareholders, with full disclosure of related parties; and pay USD2.4mn non-refundable reform contribution for the first year. The banks under the ‘Stay’ pathway will be subject

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<sup>1</sup> The assigned Foreign Currency ratings are restricted in terms of being not relevant to USD based transactions

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to a multi-phase evaluation process to confirm progressive compliance with the CBI's reform standards. The evaluation process will span five cycles starting from H1'26 until the end of year 2028.

KIIB has opted for this path, as it already has IQD 400bn capital; its next step will be to form a new Board of Directors as per CBI's standards and update its policies and procedures according to the recommendations of CBI's international partner. Following the changes implemented by the Bank, it will be audited by an international audit company to verify the extent to which it has met requirements.

KIIB's asset base has contracted in 2024 and 9M'25, reflecting the volatility stemming from the restrictions placed on the Bank in 2023. Even though the balance sheet of the Bank continued to be dominated by cash and cash equivalents constituting 83.4% of assets, there was a sharp increase in financing portfolio on account of couple of large-ticket financings, with the net financing portfolio surging to IQD74.7bn as of December 2024, and denoting 8.3% of total assets (2023: 0.2%). The largest financing booked during 2024 was allocated to a customer in trade sector and amounted to IQD60.3bn, corresponding to 77.7% of total financing exposures. Moreover, the largest 3 financings constituted 93.8% of the portfolio, representing significant concentration. After the resignation of the Board, the financing portfolio remained range-bound and declined by 0.5% Ytd<sup>2</sup> as of September 2025. However, the Bank has been developing new products for consumer financing, which are expected to provide push for growth from Q4'25 onwards.

In 2024, 66.7% decline in funding base to IQD222.8bn, stemmed mainly from USD dealing restrictions imposed early in the year. Funding base decreased by a further 18.2% to IQD182.2bn as of September 2025. Customer and bank deposits form the predominant source of funding base to the tune of 91.9%, followed by cash margin accounts at 7.2%, while CBI funding remains minimal at 0.9%. LCR and NSFR at 478% and 350% respectively, as of Q3E'25 remained above the 100% threshold, whereas the regulatory liquidity ratio stood at 143% against a 30% limit all of which point to significant liquidity buffers.

Having declined by 3.7% during 2024, KIIB's total shareholders' equity declined further to IQD592.8bn as of September 2025 denoting 1.5% Ytd decline. The reduction during 9M'25 was despite the IQD58.7bn revaluation surplus booked on real estate revaluation, as the Bank had distributed IQD90bn as cash dividend to shareholders from the accumulated surplus from previous years. Along with 14.4% increase in total Risk Weighted Assets ("RWA") and 3.6% decrease in regulatory capital, total Capital Adequacy Ratio (CAR) retreated to 257.9% as of December 2024 (Dec'23: 305.9%). In the 9M'25 period, CAR edged down to 240%; although comfortably above the CBI's regulatory minimum of 12%. Capital buffers are deemed to be strong for the medium term, due to the size of existing buffers and the Bank's conservative risk stance given the ongoing USD dealing restrictions, likely preventing any significant growth in risk assets.

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<sup>2</sup> Year-to-date.

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KIIB posted net loss of IQD12.2bn in 2024 as opposed to IQD4.0bn net profit in 2023, as there was a significant decline to the tune of 66.4% in revenues, whereas the decline in cost base was relatively muted. Lower fee income weighed on revenue generation, however, the write-back of only IQD4.2bn provision charges for 2024 vis-a-vis IQD21bn write-back in prior year was the main source of deteriorating profitability during 2024. Adjusting for write-backs, pre-tax loss of KIIB would be almost flat year on year (IQD16.3bn loss for 2023 as against IQD16.4bn in 2024). In the 9M'25 period, the Bank registered net loss of IQD4.2bn, which is slightly higher (2.1%) than IQD4.1bn loss for 9M'24, with a 44.6% decline in operating income having been broadly balanced by lower expenses.

IIRA has maintained KIIB's fiduciary score in the '61 – 65' range, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected; however, the sub-score for the Corporate Governance is revised to the '54-60' range. The Bank's Board of Directors resigned in 3<sup>rd</sup> quarter of 2025 in a proactive step to become aligned with CBI's enhanced "fit and proper" criteria. The new Board is expected to be inducted soon. There were changes to the management of some control functions, whereby the induction of deputy managers was positively noted. However, certain heads of control function positions are vacant and may warrant staff strengthening particularly for risk management, for which the number of resources is below CBI's directives of 5 personnel.

There was no major change to the Bank's Shari'a governance practices whereby the Shari'a Supervisory Board remained stable. The Bank mainly utilizes Murabaha and Mudaraba for the financing products. In 2024, investment in Islamic deposit certificates of CBI were introduced. Recently approved Islamic card product is expected to be launched soon. On the liability side, the Bank mobilizes funds under participative terms, such as Mudaraba, in addition to current accounts, based on Qard.

CBI and Iraqi Government have launched a USD763mn financing programme, targeting to support renewable energy, and climate change risks. The Bank will be extending financing towards solar panels under this program and disbursed IQD3.2bn in 2024 in donations to various, social, humanitarian and charitable causes. The Bank reaffirms its commitment to support CBI's enhanced financial literacy and financial inclusion initiatives by hosting students from several universities and briefing them on banking services, the Bank's initiatives towards digital transformation, and the importance of financial inclusion. In addition, the Bank contributed to community initiatives launched by CBI, to protect the environment.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com).