IIRA Improves the Outlook for the Libyan Islamic Bank's National Scale Ratings

Manama, Mar 04, 2025 – Islamic International Rating Agency ("IIRA") has maintained the foreign currency and local currency ratings of Libyan Islamic Bank ('LIB' or 'the Bank') on the international scale as 'B/B' (Single B / Single B) while reaffirming the national scale ratings at 'BBB (lb) /A2 (lb)' (Triple B (lb) / Single A Two (lb). However, the outlook for the national scale ratings has been revised up to 'Positive' from 'Stable' reflecting the Bank's improving business momentum, reinforced capital buffers on account of both capital injection and strong internal capital generation, and enhancements to the control functions.

The Bank operates with 19 full branches and 3 smaller branches across Libya. As per its 3-year strategic plan, the branch network is expected to reach 30 with a wider geographical coverage. Following its strong growth, the Bank's market share in terms of assets increased to 3.9% as of December 2024 (2023: 2.3%). Medium-term strategic focus is on formation of a financial sector group, with establishment of subsidiaries in Real Estate Investment Trust, Takaful, and Fund Management. The Takaful subsidiary is expected to be operational by mid-2026.

The oil and gas sector has been the key pillar of the economy in Libya, contributing 60% of GDP and 94% of exports. GDP growth has been extremely volatile reflecting the shifts in oil output and prices. As per IMF forecasts, Libya is expected to register 15.6% real GDP growth in 2025 supported by an increase in oil production (2024: 1.9%) while the 2026 growth forecast stands at 4.2%. Meanwhile, continuing political infractions have prevented the adoption of a unified budget which has resulted in over-spending, following already elevated budget spending in 2024. This has led to large fiscal deficits, which compounded with persistent current account deficits, have driven the gap between the official and the parallel exchange rates.

Credits and investment denoted only 17.9% and 1.8% of total banking sector assets as of March 2025, whereby 58.8% was held as deposits with CBL. In April 2025, in an effort to control money supply, the CBL increased the required reserve ratio from 20% to 30%, which would further enhance the liquidity buffers of the sector. The growth and profitability of the sector will be negatively impacted from CBL's directive issued in April 2025, limiting the financing to 7% of total assets and reduction and elimination of some commissions charged by the banks. On the other hand, issuance of Mudarabah-based deposit certificates from September 2025 onwards, would assist banks to channel their excess liquidity and generate an income earning opportunity in a Shari'a compliant manner.

Total assets of LIB grew by 55.4% in 9M'25 following a 95.8% surge in 2024; however, financings Total assets of LIB grew by 66.5% in 2025 following a 95.8% surge in 2024; however, financings contracted 14.7% due to CBL's regulations limiting financings to 7% of balance sheet as well as macroeconomic challenges in the Country. Cash and cash equivalents comprised 91.7% of assets whereas the shares of financing and investment portfolios were limited to 2.6% and 2.4% respectively. Financing portfolio growth is expected to be pressured in the near term while investment in CBL's new deposit certificates, alongside new investment exposure would help growth of the investment portfolio.

The quantum of non-performing exposures has grown in 2024 to LYD111.8mn from LYD76.4mn, whereas there was a modest decline in specific provisioning coverage. However, net impairment in relation to total assets remained range-bound at 1.5% as at December 2025 (2024: 1.3%: 2023: 1.5%) and as yet contained, given also the relatively lower proportion of financings within total assets. Limited financing growth expected in the near-term as instructed by CBL's 7% threshold on financing to asset ratio, the Bank's conservative risk appetite, and around 120% collateralization underpin prospects for asset quality remaining strong.

Following a 111.8% surge in 2024, the funding base growth decelerated to 69.2% for the year 2025 mainly due to liquidity conditions in the country. Current account deposits grew by 85.0%, whereas cash margin deposits increased 17.3% during 2025. Local currency denominated accounts denoted 81.6% of deposits. In the near term, the launch of URIAH accounts, new client acquisition through introductory digital service offerings, as well as new schemes for salary accounts, are expected to underpin funding growth. Already strong liquidity buffers were further enhanced in 2025 partly due to increasing reserve requirements imposed by the Central Bank of Libya. Consequently, the coverage of funding base via liquid assets was robust at 101% as of December 2025 while Basel 3 liquidity indicators of LCR and NSFR stood high at 681% and 1145% respectively.

There was notable growth in the Bank's shareholders' equity in the recent periods as it surged by 63.4% during 2024 and further 32.0% in 2025, reaching LYD661mn. The substantial expansion of the equity base in 2025 was driven by both an LYD125mn capital injection from shareholders and strong internal capital generation, supported by improved profitability. The Capital Adequacy Ratio (CAR) declined to 24% at YE2024, down from 159.2% at YE2023, due to the full implementation of Basel III, which increased market-risk and operational-risk weighted assets. However, as of September 2025, CAR improved to 33.9%, reflecting continued strengthening of internal capital. Meanwhile, the Basel III leverage ratio stood at 3.9% in September 2025, remaining above the 3% regulatory threshold. IIRA believes that current capital buffers will be sufficient to support medium term growth, considering the significant internal capital generation, as well as contained pace of risk aggregation.

Despite the low share of earning assets within the asset mix, the Bank has delivered strong profitability, largely supported by non-margin income — most notably foreign currency trading revenues. In 2024, LIB's net profit after tax rose sharply to LYD111.8mn (2023: LYD13.3mn) as total revenues increased by 153%, driven by substantial foreign exchange trading gains and robust growth in fee and commission income, while operating costs grew at rapid, but relatively lower pace of 46.6%. As a result, the annualized return on assets improved to 2.0% (2023: 0.4%), significantly outperforming the Libyan banking sector average of 1.1%. For the year 2025, the net income growth registered 18.1% as total revenues grew by 36.5% driven primarily by the FCY trading gains whereas the cost growth was at 48.1% mainly due to the accelerating provision charges.

IIRA reaffirmed Libya Islamic Bank's fiduciary score in the range of '61-65', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are sufficiently protected. On a positive note, the sub-score for the Corporate Governance was revised up to '66-70' from '61-65' on account of improvement in board composition in terms diversity, restructuring of the risk management department, and enhancements to the Compliance Function. Since IIRA's prior review, there were 2 additions to LIB's board which currently comprises 8 members vis-a-vis CBL requirement of 9 to 11 members. As per management representation, the Board will be enhanced with 2 new members to have a total of 10 members soon. Fully independent board members underpin strong independent representation in board committees as well. Meanwhile, the Shari'a Supervisory Board was unchanged whereas the staff strength of the function was reduced to 5 from 7; considering the rapid expansion of asset size and operations, reinforcement of resources is deemed warranted.

Libyan Islamic Bank adheres to principles of social responsibility, having disbursed LY178k for donations and charitable purposes (2023: LYD25k). Moreover, in line with national targets to produce more than 20% of electricity from solar and wind projects, the Bank is extending financing to renewable energy projects. Even though, the Bank exited from its investment, its participation in the establishment in an oncology hospital in Libya was an important initiative on the ESG front. In addition, the Bank is planning to act as a window for the microfinance financing project, of another bank to test the market. No impact of ESG risks has been noted vis-à-vis the assigned credit ratings.

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