



IIRA Reaffirms Ratings assigned to Al-Mashreq Al-Arabi Islamic Bank for Investment

Manama, July 27, 2025 – Islamic International Rating Agency (“IIRA”) has reaffirmed the national scale ratings of Al-Mashreq Al-Arabi Islamic Bank for Investment (“MB” or “the Bank”) to BBB+(iq)/A2(iq) (Triple B plus (iq) / A-Two (iq)). The local and foreign currency ratings assigned to the Bank stand at B/B (Single B / Single B) on the international scale, and take into consideration the sovereign risk assessment of the Republic of Iraq (“Iraq” or “the Country”). Ratings have been placed on ‘Watch’ status, pending compliance with regulations regarding minimum capital.

Asset allocation of MB is dominated by surplus cash largely maintained with CBI. While the still limited scale of business leaves underwriting capabilities largely untested, there has been recent increase in non-performance, though still relatively moderate and well reserved through provisions. Nevertheless, emerging trends warrant vigilance and recovery infrastructure needs to be strengthened.

Deposits have been on a steadily increasing trend driven by mostly current accounts. With limited financing opportunities, surplus liquidity is evident and also reflected in above requirement Liquidity coverage ratio. NSFR indicators have fallen below threshold in Q1’25 and particularly point to improved maturity matching required for FCY liabilities. A shortfall from the new revised minimum capital requirement has impacted the Bank’s growth plans. On the other hand, capital adequacy ratio indicates surplus capital vis-à-vis risk assets. Negotiations are underway with a regional foreign Bank to acquire new stake in the Bank to allow Mashreq Al-Arabi to meet minimum regulatory capital requirements.

The Bank has earned steadily increasing revenues over the last few years, primarily driven by fee and commission income. While volatile sources of income including foreign currency auction-related revenues have generally not been the mainstay of the Bank’s revenues, core margin revenue remains low. As operational expenses increase in response to planned infrastructure growth and cost of risk increases in the heightened credit risk environment, as well as the likely diminution of earnings based off USD auctions, the Bank’s earnings may experience downward momentum in the current year.

IIRA has assessed the Bank’s fiduciary score in the range of ‘66 – 70’, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. The Bank has instituted a Corporate Governance framework, led by the Board of Directors and the Board Committees. Corporate governance disclosures need to be strengthened as does internal policy framework and the availability of technological resources to increase efficiency in control functions. Shari’a governance framework is in line with stipulated regulations. SSB presents an annual Shari’a report at annual general assembly meeting (“AGM”), which is publicly available in the Bank’s annual report. However, other disclosures are limited to SSB composition. As such, Shari’a-related disclosures also leave room for improvement. The bank’s sustainability focus will also benefit from enhancement, given the evolving focus of the Central Bank of Iraq. The Bank has instituted a Board level committee to provide

strategic guidance to the management for further scaling operations in line with the principles of sustainability. International alliances are being increasingly cultivated for enhanced business opportunities and may lead to an improved national business presence.

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