



IIRA Assigns Ratings to Al-Mashreq Al-Arabi Islamic Bank for Investment with a Positive Outlook

Manama, March 14, 2022 – Islamic International Rating Agency (“IIRA”) has assigned local and foreign currency ratings to Al-Mashreq Al-Arabi Islamic Bank for Investment (“MB” or “the Bank”) both at B/B (Single B / Single B) on the international scale, with a ‘Stable’ outlook, and taking into consideration the sovereign risk assessment of the Republic of Iraq (“Iraq” or “the Country”). The sovereign ratings assessment gives due consideration to the Country’s significant reserves of natural resources, still moderate external indebtedness in relation to GDP, and coverage through foreign currency reserves on the one hand, and sizable infrastructure building requirements, and political and social strain due to unemployment, on the other. The economy has shown recovery and is estimated to post a real non-oil GDP growth of 12% during 2021, which is further supported by the oil economy, given increasing production in line with OPEC+ agreement.

Domestic economy remains under banked and adverse effects of the pandemic and public protests translated into banking sector slowdown in the previous two years, which necessitated temporary forbearance measures by the Central Bank of Iraq (“CBI”). Downside for the sector exists in the form of elevated credit segment concentration and high non-performance amidst prevailing macroeconomic situation. On a positive note, ongoing reforms in the banking sector may strengthen the system-wide governance and control infrastructure, with significant room available for growth in an improving economic and investment climate.

IIRA has also assigned national scale ratings of BBB (iq) / A3 (iq) (Triple B (iq) / Single A Three (iq)) to the Bank, with a ‘Positive’ outlook, given favorable performance indicators. Ratings may be upgraded once capital has been raised up to minimum regulatory requirements, expected within a year. Given a fairly short operating track history, the Bank is gradually developing its national footprint. Akin to local peers, the Bank’s asset allocation is sub-optimal, with earning assets comprising about 20% of aggregate balance sheet assets. While core banking assets that include financings and investments are noted to have grown on a timeline, there remains room for improvement in terms of expanding such assets that may be achieved with business scale. Despite delinquencies having increased in the financings book, overall asset quality indicators remain strong.

Despite intense domestic competition, the Bank has been able to attract deposits although the levels are noted to have slightly reduced during interim periods of 2021. Maximum prudential limits placed by CBI may constrain the Bank’s business potential. Despite this, Bank’s funding mix is favorable in terms of cost effective current accounts. The Bank posted net positive income during 2020 within 3 years of commencement of operations. However, the improvement in bottom-line was largely led by volatile earnings from foreign currency auction sales. Notwithstanding continued improvement in net fee and



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commission income, the Bank registered sharp decline in the volume of auction sales. Profitability is expected to remain weak with low core banking revenues. Underutilized capital is expected to remain sufficient for growth for the medium-term. Compliance with minimum capital requirement, albeit delayed, is likely to be ensured through subscription by existing shareholders.

IIRA has assessed the Bank's fiduciary score in the range of '61 – 65', 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 Board of Directors and the Board Committees. Dedicated departments for Risk Management, Internal Shari'a Audit, Compliance and Anti Money Laundering ensure focus on key operational risks. Adequate disclosures regarding committee composition and meetings may further enhance the governance structure. Shari'a governance framework is in line with stipulated regulations. SSB presents an annual Shari'a report at AGM, which is publicly available through the Bank's annual report. The Bank published Shari'a audit and compliance reports as part of the annual report. However, other disclosures are limited to SSB composition. As such, Shari'a-related disclosures leave room for improvement.

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

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