



IIRA Maintains Ratings of Al Mustashar Islamic Bank

Manama, Apr 12, 2026 – Islamic International Rating Agency (“IIRA”) reaffirmed its local and foreign currency ratings of Al Mustashar Islamic Bank For Investment and Finance (“Al Mustashar” or “the Bank”) to B-/B (Single B Minus / Single B) from B/B (Single B / Single B) on the international scale while maintaining the national scale ratings at BBB (iq)/A3 (iq) (Triple B (iq) / Single A Three (iq)). Meanwhile, the ratings are placed on ‘Rating Watch’, with neutral implications in terms of the direction of the ratings until the Bank’s course of action vis-à-vis regulatory directives crystallizes.

The Bank has recently shown progress along a comprehensive reform and development path aimed at strengthening its financial position, improving the quality of its operational processes, and enhancing compliance and governance in line with international banking best practices. Aside from responding to regulatory requirements, the Bank has been adopting a proactive approach toward restructuring its business model and enhancing its sustainability which is expected to have positive impact on its financial indicators and enhancing the prospects for an improved credit rating in the periods ahead.

Following the restrictions imposed on USD dealings, Al Mustashar has been focusing on financing and investments to cover for the loss of income. Consequently, the asset mix shifted away from cash and cash equivalents towards financing and investment portfolio. In 2025, asset growth accelerated to 51.2% y-t-d reflective of a significant increase in deposits. More recently, and following the escalation in the portfolio, we have noted the increase in non-performance, calling for increased underwriting discipline and stringent process checks. Meanwhile, proportion of investments to regulatory capital is significantly above the 20% regulatory threshold set by CBI. The fact that these investments are predominantly in real estate sector is indicative of liquidity and concentration risks. On a positive note, the Bank has made progress in automating IFRS 9, by directly linking the calculation of expected credit losses with creditworthiness evaluation systems which will help improve the accuracy of estimates, enhance the efficiency of credit risk management, and provide more reliable financial information to support decision-making.

In 2025, growth in funding base accelerated to 80.3%, with 87.8% increase in core deposits. Corporate deposits constituted 98.2% of total core deposits (2024: 97.2%). The rapid growth in core deposits in recent periods was attributed mainly to the Bank’s focus on government deposits. Having reduced to 45.6% at YE2024 vis-a-vis 78.3% at YE23, the coverage of funding base via liquid assets slightly improved to 47.5% as of December 2025. Even though declining to 139% as of December 2025 (Dec’24: 179%), LCR remained comfortably above the 100% threshold whereas the NSFR declined to 99% from 111% and stood modestly below the threshold.

In tandem with the increase in risk weighted assets, the capital adequacy ratio (“CAR”) of the Bank has been trending down, reducing to 136% during 2024 (2023: 172%), and further to 133% as of December



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2025. Despite decrease over a timeline, current capital buffers would suffice the Bank in the face of potential risks, considering that it far exceeds minimum CAR requirement of the CBI (12%).

The Bank posted IQD21.2bn in net income in 2024 - up sharply from IQD4.4bn in 2023, with enhanced income from both financings and investments. The Bank's Return on Average Assets improved to 3.5% in 2024 from 0.9% in the prior year. In the year 2025, the Bank's net profit grew by 31.1% YoY to IQD27.9bn given the sizable revenues booked from real estate investments with RoAA remaining at 3.5%. Going forward, sizable investment in real estate is expected to support profitability, whereas provisioning and operating expenses may remain elevated.

The Bank's fiduciary score is evaluated to be in the range of '61 – 65', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected, although some gaps remain vis-à-vis, both local regulations and international best practices. The Bank's Board changed completely in October 2024. Led by Mr. Ammer Loay Tawfiq Ahmed, the Board comprises 5 independent members out of a total of 7. The composition of the Board and Committees is in line with local regulations, with the exception of having at least one female member. On the risk front, the much higher allocation to investments which remains well over 20% to capital threshold imposed by CBI is noted. Breach of regulations must be avoided. On a positive note, the Bank made attempts to strengthen overall governance framework, enhancing effectiveness of internal control systems and improving alignment with international standards and regulatory requirements by engaging KPMG and BDO. The outcomes of this exercise and improvement in control framework will be carefully monitored for prospective upgrade of the fiduciary ratings.

In 2024, CBI issued an ESG Corporate Governance Code, incorporating among others the formation of the Environmental, Social, Corporate Governance, and Sustainability Committee (ESGSC) at the Board level. This Committee is responsible for the bank's preparation of the ESG Guide in line with the Sustainable Finance Road Map (2023-2029) of CBI. ESG related matters have not impacted the assigned credit rating.

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