FitchRatings

RATING ACTION COMMENTARY

Fitch Revises ICD's Outlook to Stable; Affirms at 'A+'

Fri 11 Aug, 2023 - 8:57 AM ET

Fitch Ratings - London - 11 Aug 2023: Fitch Ratings has revised the Outlook on Islamic Corporation for the Development of the Private Sector's (ICD) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'A+'.

Fitch has also affirmed the Short-Term IDR at 'F1+' and ICDPS Sukuk Limited's USD sukuk programme and ICD Eagle Limited's sukuk programme at 'A+'.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Balance Sheet De-Risking Continues: The revision of the Outlook primarily reflects Fitch's view that ICD has made strong progress in de-risking its operations in the past two years. Following a period of financial losses in 2017-2020, the bank recorded a profit (USD11.9 million) in 2022 for the second successive year. In Fitch's view, the marked reduction in the non-performing loans ratio to 9.3% of total loans as of end-2022 (2020: 25%) and in the share of equity participation to 28% of total banking exposure (2017: 41%), highlights improvement in the bank's risk management.

The agency expects the de-risking trend to continue over the medium term as ICD continues to re-focus its operations back towards its core mandate of lending (rather than more risky equity investments) and towards more highly-rated borrowers. Nevertheless, there are ongoing execution risk to the de-risking strategy and Fitch assigns an ESG Relevance Score of '5' for management strategy to reflect this risk.

Support Driven Ratings: ICD's ratings continue to be anchored on the extraordinary support Fitch expects the bank would receive from its key shareholders, Islamic Development Bank (IsDB; AAA/Stable) and Saudi Arabia (A+/Stable), which owned 42% and 26% of ICD's paid-in capital at end-2022, respectively. The support assessment is 'aa-', reflecting a weighted average rating of key shareholders of 'AA' (unchanged from last year, despite the sovereign upgrade of Saudi Arabia in April 2023), adjusted down by one notch to reflect a 'moderate' propensity to support.

ICD's ratings are also supported by its Standalone Credit Profile (SCP), which Fitch assesses at 'bbb+'. The SCP assessment reflects the lower of our solvency (a-) and liquidity (aa-) assessments, adjusted downward by one notch given the institution's 'high risk' business environment. In line with Fitch's Supranational Rating Criteria, our assessment of support (aa-) can only provide an uplift of up to three notches above the SCP (bbb+), which leads to a Long-Term IDR of 'A+'.

High Credit Risk Remains: Although improving, ICD's solvency is constrained by 'high' credit risk, principally reflecting the 'high' level of non-performing loans (NPL) relative to multilateral development bank peers. Fitch's estimate of ICD's NPL ratio, as defined by Stage 3 loans, declined to 9% at end-2022, from 19% at end-2021 and 25% a year earlier. The improvement in 2022 was largely driven by a reduction in the stock of NPLs following repayments and settlements of previous Stage 3 assets. Fitch continues to expect the NPL ratio to remain above the high-risk threshold of 6% by end-2025.

Moderate Equity Participation: Equity investments as a share of total banking exposures (TBE) remained high at 28% at end-2022 (2021: 32%) and represents a 'high' solvency risk, which has resulted in large losses in the past. Fitch expects ICD's equity participation to decline, given its focus on lending operations and its plan to provide equity capital on a selective basis to reduce the risk of further losses. Along with a growing loan book, this would translate into equity investments falling below 20% of TBE over the medium term, consistent with a 'moderate' risk assessment.

Other Solvency Risks Limited: Fitch's risk assessment also factors in 'low' concentration and market risks, and 'strong' risk management policies. Fitch's assessment of ICD's risk management is unchanged, but the agency notes a number of measures taken by the bank to enhance both the approval and monitoring process of its operations, to be more aligned with those of the IsDB. This includes the formation of a special operations division designed to closely monitor the most high-risk exposures (both debt and equity) on a routine basis.

Excellent Capitalisation: ICD's excellent capitalisation supports its 'a-' solvency assessment, with equity-to-assets and usable capital to risk-weighted assets (FRA) ratios at 38% and 41%, respectively, at end-2022. Fitch continues to expect lower capital contributions than the bank forecasts and low profitability to constrain ICD's capitalisation metrics, given the projected high growth (34% yoy on average) in the loan book. We expect both capitalisation ratios to decline but for the fall in the FRA ratio to be more pronounced as ICD reduces treasury assets for loans, which carry higher risk weights.

Liquidity Supports Short-Term Rating: At a Long-Term IDR of 'A+', the Short-Term IDR can be 'F1+' or 'F1' according to Fitch's Long-Term and Short-Term IDR correspondence table. The choice of the higher option, 'F1+', reflects that ICD's liquidity assessment is 'aa-', consistent with the higher of the two Short-Term IDR options.

ICD's liquidity assessment reflects the excellent coverage of short-term debt by liquid assets (above the 150% threshold) balanced against the relatively weak credit quality of the treasury portfolio (average rating of 'A' and only 7% of treasury assets rated in the 'AAA' to 'AA' categories at end-2022). This weakness partly reflects the limited availability of high credit quality Shariah-compliant investments and is mitigated by the high share of investment-grade assets (91%) in total treasury assets.

ICD's SPV Ratings Affirmed: Fitch has affirmed the issue ratings of both ICD Eagle Limited and ICDPS Sukuk Limited, which are the special purpose vehicles (SPV) through which ICD issues on the international capital markets. The ratings are driven by ICD's 'A+' Long-Term IDR. This reflects Fitch's view that default of these senior unsecured obligations would reflect the default of ICD, in accordance with Fitch's ratings definitions.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (Risks): Deterioration in the bank's risk profile, which could stem from a rise in NPLs, excessive loan growth to borrowers with low credit quality or from a marked increase in equity exposures.

- Business Environment: Failure to deliver on the bank's strategy to reduce risk in the balance sheet and achieve sustainable growth in banking exposures over the medium term. Increased operating environment risk would also pressure the bank's ratings.

- Solvency (Capitalisation): A marked decline in capitalisation metrics, including a FRA ratio sustained below 35%, stemming from higher-than-projected growth in financing assets, significant financial losses, and/or delays in capital contributions.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Solvency (Risks): Improvement in the bank's risk profile, stemming from a marked decline in the share of equity participations, sustainable reduction in NPLs below 6% and increased exposure to borrowers with stronger creditworthiness.

- Business Environment: Successful delivery of the bank's strategy to reduce risk in the balance sheet and achieve sustainable growth in banking exposures. Reduced operating environment risk could also ease pressure on the bank's ratings.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ICD's ratings are driven by the rating of IsDB and the sovereign rating of Saudi Arabia.

ESG CONSIDERATIONS

ICD has an ESG Relevance Score of '5' for Management Strategy (Operational Execution). Ongoing execution risks related to the bank's strategy and restructuring efforts following recent poor financial results in the period 2017-2020, weigh on our assessment of the bank's creditworthiness. This has a negative impact on the credit profile, and is highly relevant to the rating.

ICD has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

ICD has an ESG Relevance Score of '4' for Governance Structure. Saudi Arabia (26% of voting rights) as the largest shareholder (with IsDB) exerts a strong influence on the bank's board, management, and strategy. As an Islamic bank, the ICD needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audits. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ICD Eagle Limited				
senior unsecured	LT	A+	Affirmed	A+
Islamic Corporation for the Development of the Private Sector	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Negative
	ST IDR	F1+	Affirmed	F1+
ICDPS Sukuk Limited				
senior unsecured	LT	A+	Affirmed	A+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Nick Perry
Director
Primary Rating Analyst
+44 20 3530 2727
nick.perry@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Ralf Ehrhardt
Director
Secondary Rating Analyst
+49 69 768076 163
ralf.ehrhardt@fitchratings.com

Arnaud Louis
Senior Director
Committee Chairperson
+33 1 44 29 91 42
arnaud.louis@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 13 Jun 2022)

Supranationals Rating Criteria (pub. 11 Apr 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ICD Eagle Limited	UK Issued, EU Endorsed
ICDPS Sukuk Limited	UK Issued, EU Endorsed
Islamic Corporation for the Development of the Private Sector	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.