

07 AUG 2024

Fitch Affirms ICD at 'A+'; Outlook Stable

Fitch Ratings - London - 07 Aug 2024: Fitch Ratings has affirmed Islamic Corporation for the Development of the Private Sector's (ICD) Long-Term Issuer Default Rating (IDR) at 'A+'. The Outlook is Stable.

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

Key Rating Drivers

Support-Driven Ratings: ICD's ratings are anchored on the extraordinary support it receives from its key shareholders, Islamic Development Bank (IsDB; AAA/Stable) and Saudi Arabia (A+/Stable), which owned 38% and 24% of ICD's paid-in capital at end-2023, respectively. The support assessment, which underpins the rating, is 'aa-', reflecting a weighted average rating of key shareholders of 'AA', adjusted down by one notch to reflect a 'moderate' propensity to support owing to capital payment arrears and the absence of callable capital.

'bbb+' SCP: ICD's ratings are also supported by its Standalone Credit Profile (SCP), which Fitch assesses at 'bbb+'. The SCP 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 the Long-Term IDR of 'A+'.

Strategy Transition Continues: ICD has continued to make progress in de-risking its operations in the past three years. Following a period of significant financial losses from 2017-2020, the bank

recorded a small profit (USD8 million) in 2023 for the third consecutive year. We expect 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 risks to the de-risking strategy.

High Credit Risk Remains: ICD's solvency is improving but remains constrained by 'high' credit risk, principally reflecting the 'high' level of non-performing loans (NPL). Fitch's estimate of ICD's NPL ratio, as defined by Stage 3 loans, declined to 7.5% at end-2023 (versus 25% in 2020). This improvement was a key rating driver when we revised the Outlook to Stable from Negative last year. The trend continued in 2023, which was driven by a reduction in the stock of NPLs following repayments and settlements of Stage 3 assets. Fitch continues to expect the NPL ratio to remain above the high-risk threshold of 6% by end-2026.

Moderate Equity Participations Forecast: Equity investments as a share of total banking exposures (TBE) remain 'high' at 24% at end-2023, despite falling from 41% in 2017. However, Fitch expects ICD's equity participations to decline, given its focus on lending operations. ICD is actively exiting a number of equity positions, with USD10 million of exits in 2023. Along with a growing loan book, Fitch expects the share of equity investments to fall below 20% of TBE over the medium term, consistent with a 'moderate' equity risk assessment.

Other Solvency Risks Limited: Fitch's risk assessment also factors in 'low' concentration and market risks, and 'strong' risk management policies. Our assessment of ICD's risk management is unchanged, but we continue to note a number of measures the bank has taken to enhance the approval and monitoring process of its operations, to be more aligned with those of the ISDB.

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 40%, respectively, at end-2023. 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- 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 (2.8x at end-2023), balanced against the relatively weak credit quality of the treasury portfolio (12% of treasury assets rated in the 'AAA' to 'AA' categories at end-2023). This weakness partly reflects the limited availability of high credit quality Shariah-compliant investments.

ICD's SPV Ratings Affirmed: Fitch has affirmed the issue ratings of 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 a default of ICD, in accordance with Fitch's ratings definitions.

ESG - Management Strategy: ICD has an ESG Relevance Score of '5' for Management Strategy (Operational Execution). Extremely poor financial results from 2017-2020 have led to various changes to the bank's business model and strategy. Ongoing execution risks related to the bank's strategy and restructuring efforts significantly weigh on our view of the bank's creditworthiness. This has a negative impact on the credit profile, and is highly relevant to the rating.

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 leading to a deterioration in the average rating of loans 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 an FRA ratio sustained closer to the 25% 'strong' threshold, 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 closer to 10% of TBE, sustainable reduction in NPLs below 6% and increased exposure to borrowers with stronger creditworthiness leading to an improvement in the bank's average rating of loans.

-- **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.

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.

ESG Considerations

ICD has an ESG Relevance Score of '5' for Management Strategy (Operational Execution). Poor financial results have led to various changes to the bank's business model and strategy. Ongoing execution risks related to the bank's strategy and restructuring efforts significantly weigh on our view 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>.

Fitch Ratings Analysts

Nick Perry

Director

Primary Rating Analyst

+44 20 3530 2727

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Ralf Ehrhardt

Director

Secondary Rating Analyst

+49 69 768076 163

Jan Friederich

Managing Director
Committee Chairperson
+852 2263 9910

Media Contacts

Peter Fitzpatrick

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

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
ICD Eagle Limited				
• senior unsecured	LT	A+	Affirmed	A+
Islamic Corporation for the Development of the Private Sector	LT IDR	A+ ●	Affirmed	A+ ●
	ST IDR	F1+	Affirmed	F1+
ICDPS Sukuk Limited				

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured ^{LT}	A+	Affirmed	A+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	⊙	◆
STABLE	⊙	

Applicable Criteria

[Sukuk Rating Criteria \(pub.13 Jun 2022\)](#)

[Supranationals Rating Criteria \(pub.11 Apr 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

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

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also 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. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

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.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.