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Ratings

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Islamic Corp. for the Development of the Private Sector

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Islamic Corp. for the Development of the Private Sector

Stand-alone credit profile	a-	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	Strong	Adequate	**Moderate**	Weak	Very weak

Financial risk profile

Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

A-/Stable/--

Credit Highlights

Issuer Credit Rating
Foreign Currency
A-/Stable/--

Overview	
Enterprise risk profile	**Financial risk profile**
Institutional capacity constraints have limited fulfillment of the role and public policy mandate	**Profitability has strengthened but asset quality remains a concern**
--Islamic Corp. for the Development of the Private Sector (ICD)'s mandate of conducting all business in a Sharia-compliant manner gives it a unique and valuable role to member countries.	--Capitalization has weakened during the past 12 months with a risk-adjusted capital (RAC) ratio after multilateral lending institution (MLI) adjustments of 26.5%.
--Despite strong support from large shareholders, support from smaller shareholders remains uneven.	--Equity exposures have declined following efforts to improve risk management and clean up legacy portfolio assets.
--Management has had difficulty executing its strategy to increase purpose-related activities over recent years.	--ICD has a sound funding and liquidity profile, which provides flexibility to increase disbursements, if needed, even during stressed market conditions.

Over the past few years, ICD has encountered difficulty in growing its purpose-related assets. ICD's purpose-related assets as a percentage of total assets have steadily declined since 2016, largely the result of a revaluation of equity exposures. S&P Global Ratings believes institutional capacity constraints will ease and operational activities will expand. As of June 30, 2022, ICD's new management team had approved about US$400 million worth of projects (US$244 million at year-end 2021), highlighting its commitment to growing purpose-related exposures.

Profitability has improved but there remain concerns over asset quality. The RAC ratio after MLI adjustments fell to 26.5% on June 30, 2022, from 30.7% on June 30, 2021, after a drop in total adjusted capital. This mainly occurred because of a revaluation of liquid assets; we expect the change in value to reverse over time. ICD has been reporting net losses since 2017, which have weighed on its capital, but reported net income of US$9 million at year-end 2021. The nonperforming assets (NPA) ratio stood at 14.4% on June 30, 2022, which remains elevated in comparison with that of peers. However, they originate from more than five years ago and 90% are covered by provisions.

Shareholder support remains uneven. The three largest shareholders (the Islamic Development Bank [IsDB], Saudi Arabia, and the Saudi Public Investment Fund) fully subscribed and completed their capital payments for the second general capital increase. However, support from smaller shareholders remains uncertain and there are still delays in capital payments, although we note some member countries face unique circumstances.

Outlook

The stable outlook reflects our expectation that ICD will pursue its mandate by expanding its loan book and increasing off-balance-sheet activities while maintaining current levels of capitalization. In our view, this would likely require additional shareholder funds or a strengthening of ICD's earnings capacity.

Downside Scenario

We could lower the rating over the next two years if ICD's capital or liquidity positions deteriorates. In addition, we could take a negative rating action if ICD's purpose-related assets continue to stagnate or decline, suggesting management is unable to convert strategic decisions into practice.

Upside Scenario

We could raise the rating over the next two years if risk management improves; for example, if NPA levels decline, while ICD maintains strong capitalization levels. Furthermore, a positive rating action could follow if ICD creates a track record of meaningfully increasing purpose-related assets and other activities, especially if growth stems from high-quality projects that support its mandate.

Environmental, Social, And Governance

ICD's mandate is to promote private-sector development across member countries, complementing the work done by the IsDB. Thus, environmental and social policies at the IsDB could inform ICD's policies. ICD carries out all activities--including supporting financial institutions, financing investment projects, offering advisory services, and investing in and managing funds--in accordance with the principles of sharia. Although environmental and social policies are less embedded at ICD, a large part of its portfolio is onlending to banks, which is typically associated with low direct environmental and social risks. That said, indirect risks may exist. ICD is exposed to the mining and oil and gas sectors, which carry high environmental and social risks. We view ICD's governance and risk management framework as adequate. Governance indicators for many member countries are low.

Enterprise Risk Profile

Policy importance: Unique mandate but institutional capacity constraints have limited fulfilment of public policy role.

ICD has a unique mandate carrying out all activities in accordance with the principles of Sharia. This includes supporting financial institutions, financing investment projects, offering advisory services, and investing in and managing funds. Established in 1999, ICD's purpose is to promote private-sector development across member countries, while. All of ICD's member countries are also members of the Organization of Islamic Cooperation (OIC). Although under the umbrella of the IsDB Group, ICD is a separate and distinct entity from the IsDB.

In our view, ICD's policy importance assessment is constrained by the slow pace of operational activities, declining portfolio size, and shorter track record compared with some of its peers. As of year-end 2021, purpose-related assets stood at US$1.13 billion (38% of total assets), down from US$1.60 billion (50% of total assets) at year-end 2016. During 2021, total project approvals slowed to US$244 million (US$307 million at year-end 2020), but disbursements were almost double that of the previous year at US$209 million (US$135 million at year-end 2020). These were primarily concentrated in term finance and line of finance, which contributed 50% and 44% of purpose-related assets, respectively. However, we understand that around US$400 million worth of projects had already been approved in 2022, while a further US$600 million are expected in 2023, signaling the early stages of a new expansionary strategy.

Operations are concentrated in the Middle East and North Africa (MENA), with a growing presence in Central Asia. In 2021, 60% of project approvals were allocated to the MENA region, with a growing proportion channelled to the Central Asia region, including Uzbekistan and Kazakhstan. Disbursements were concentrated in the financial services sector (62%), followed by transportation (19%), infrastructure and energy (14%), and industry and mining (5%). ICD continues to operate in member countries that are in fragile or conflict-affected situations.

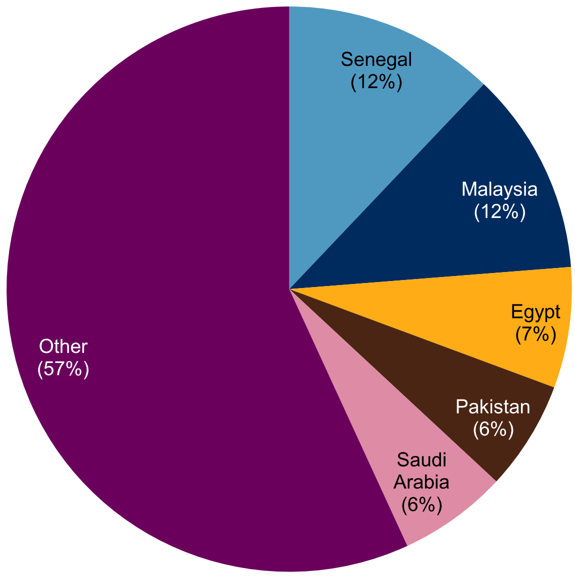
The quality of the portfolio has improved in line with management's strategy to reduce its share of equity participations. Over 2014-2021, ICD completed US$28 million equity exits and restructured US$39 million of nonperforming financing. Although ICD will continue to selectively invest in equity, there were no equity investments disbursed in 2020 and only a small equity disbursement of US$6 million in 2021.

In our view, shareholder support is weaker than for other higher-rated MLIs. Relations with member countries are handled through IsDB, the largest shareholder, with the exception of collecting capital payments, which is managed directly by ICD. In June 2015, a second capital increase--the first capital increase being the initial in 2010--was approved by the board. To date, members have subscribed to US$828 million of the US$1 billion (83%), which is a higher rate than the first capital increase of 65%. Some shareholders have not yet subscribed and other member states, including Saudi Arabia and Egypt, have oversubscribed. Currently, about 17% of capital subscriptions are overdue. We consider the delays negative, and they weigh on our assessment of ICD's policy importance. Positively, the two largest shareholders, the IsDB and Saudi Arabia, have finished paying their subscribed capital.

We view ICD's articles of agreement as equivalent to a treaty and the corporation is exempt from all taxation and custom duties.

Chart 1

MLI Five Largest Countries' Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees on Dec. 31, 2021



Source: S&P Global Ratings.
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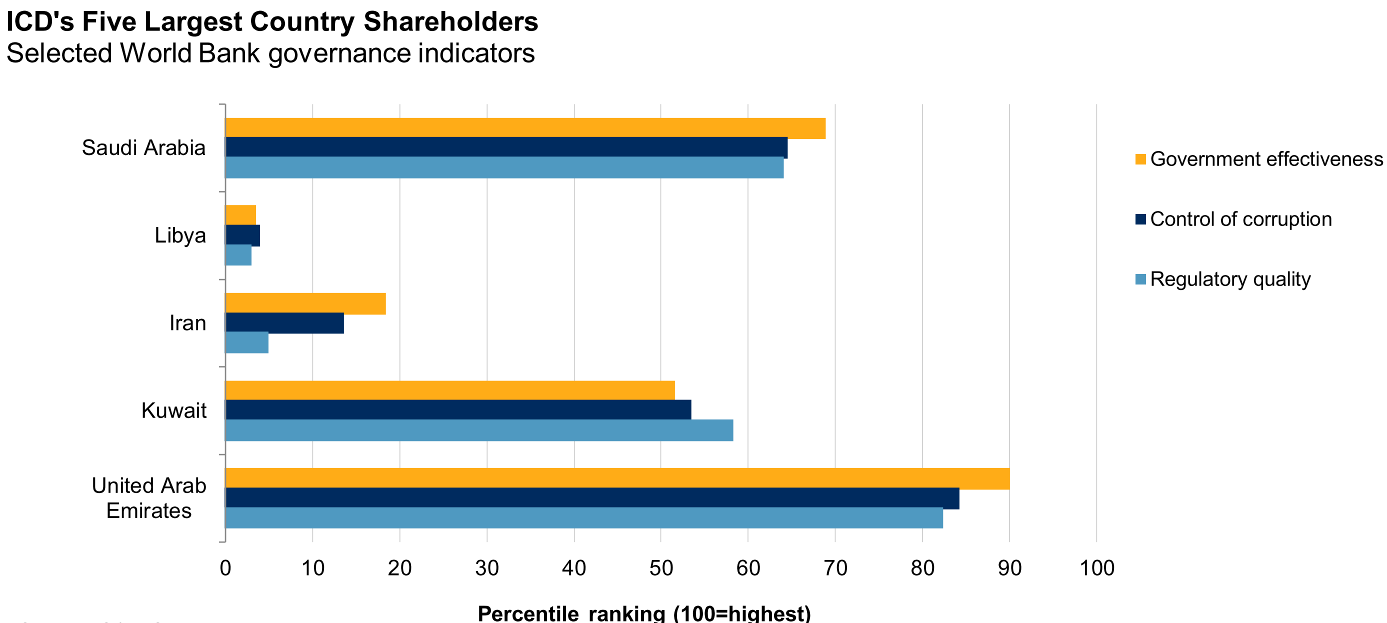
Governance and management expertise: Benefitting from affiliation with IsDB

We view ICD's governance and risk management framework as adequate. The corporation's members are the IsDB, five public financial institutions, and 55 member countries, the same countries as for the IsDB, except for Oman and Guyana. The IsDB and Saudi Arabia (including shares held by the Ministry of Finance and the Public Investment Fund) own just over 70% of the corporation. Although under the umbrella of the IsDB Group, ICD is a separate entity and the IsDB maintains its own private-sector portfolio. Governance indicators for member countries are, on average, low relative to higher-rated MLIs.

ICD has seen significant turnover of its management team, but we believe the strategy to expand core business will continue. A new management team joined ICD in 2018, with the goal of expanding operational activities. This team has improved operational capabilities and updated the organizational structure in 2019. However, the inward focus and the slowdown in business activity in 2020 due to COVID-19 held management back from reaching internal targets on growth of purpose-related assets and other off-balance-sheet catalytic activities. In 2022, another management team was introduced under a new interim CEO, current CEO of the International Islamic Trade Finance Corporation, a subsidiary of the IDB Group. We understand a permanent replacement is expected six months to one year from now, and that the new team remains committed to expanding approvals and disbursements, and advancing ICD's existing mandate.

After a complete update of risk management policies in 2014, ICD continues to improve internal policies and procedures. Four new sets of actions--enhancing portfolio monitoring, monitoring portfolio management, improving internal processes and controls, and strengthening partnerships with IsDB and other MDBs--were introduced in 2021 to enhance corporate governance and risk management practices.

Chart 2



Source: S&P Global Ratings.

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Financial Risk Profile

Capital adequacy: Strengthening profitability but asset quality remains a concern

A decrease in total adjusted capital had a negative impact on our RAC ratio, which declined to 26.5% on June 30, 2022, from 30.7% on June 30, 2021, after adjustments for MLIs. ICD's RAC ratio has been volatile historically due to the large equity portfolio, which has been written down over the past few years to about 13% of total assets on June 30, 2022 (from 30% at year-end 2017). Significant provisions and capital instalments received have also contributed to the volatile figure.

We expect profitability to strengthen on the back of increasing interest rates and lower equity revaluations and provisions. ICD stands to benefit from increasing interest rates given the majority of its portfolio is financed by shareholders' equity. In addition, we expect any downward equity revaluations to be modest and provisions to remain low. This will help underpin current capitalization levels amid our assumption of expanding purpose-related assets, in our view.

We believe ICD would benefit from preferential treatment in the event of convertibility or transfer risk in a member country.

Despite the extremely strong capital position, former risk management practices constrain our assessment of ICD's financial profile. This is largely informed by previous losses related to legacy equity write-offs and the current high level of NPAs. The NPA ratio stood at 14.4% on June 30, 2022, significantly above that of other private-sector-focused MLIs. ICD has been working on improving its risk management policies and there was a significant update to its practices in 2014. Most transactions signed after 2014 have been performing relatively well.

Table 1

Islamic Corp. for the Development of the Private Sector Risk-Adjusted Capital (RAC) Framework

(US$ mil.)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	572.3	437.3	76.4
Institutions	1,303.2	1,284.8	98.6
Corporate	662.3	1,032.5	155.9
Retail			
Securitization			
Other assets	54.2	128.7	237.5
Total credit risk	2,592.0	2,883.3	111.2
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	362.9	1,370.3	377.6
Trading book market risk			
Total market risk		1,370.3	
Operational risk			
Total operational risk		227.8	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		4,481.4	100.0
MLI adjustments			
Single name (on corporate exposures)		215.2	20.8
Sector (on corporate portfolio)		(51.4)	(4.1)
Geographic		(865.7)	(19.6)
Preferred creditor treatment (on sovereign exposures)		0.0	0.0
Preferential treatment (on FI and corporate exposures)		(337.8)	(14.6)
Single name (on sovereign exposures)		0.0	0.0
Total MLI adjustments		(1,039.7)	(23.2)
RWA after MLI adjustments		3,441.8	76.8

Table 1

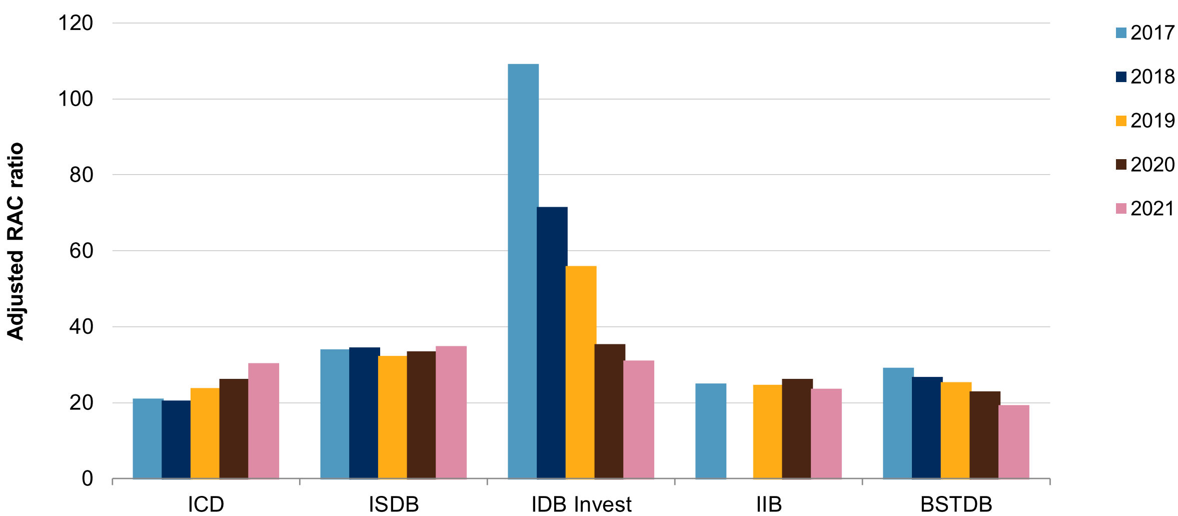
Islamic Corp. for the Development of the Private Sector Risk-Adjusted Capital (RAC) Framework (cont.)

	Total adjusted capital	S&P Global Ratings RAC Ratio (%)
Capital ratio before adjustments	911.5	20.3
Capital ratio after adjustments	911.5	26.5

Data as of June 2022. MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

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Funding and liquidity:Conservative funding profile and very strong liquidity

Funding: Dominated by shareholders equity. ICD maintains a conservative funding profile with shareholders' equity as the primary funding source. We estimate that its funding profile has no gaps of up to two years, excluding loan disbursements.

ICD is an infrequent issuer on capital markets. In 2016, ICD issued its inaugural US$300 million sukuk. In 2020, ICD issued its second sukuk, a five-year US$600 million issuance. Additional funding comes from private sukuk placements and sharia-compliant bank borrowing. ICD predominately raises U.S. dollar funding to match operational requirements, but occasionally raises funds in euro or Saudi riyal. We note that ICD's mandate creates a structural reliance on Islamic finance markets, reducing potential funding diversification.

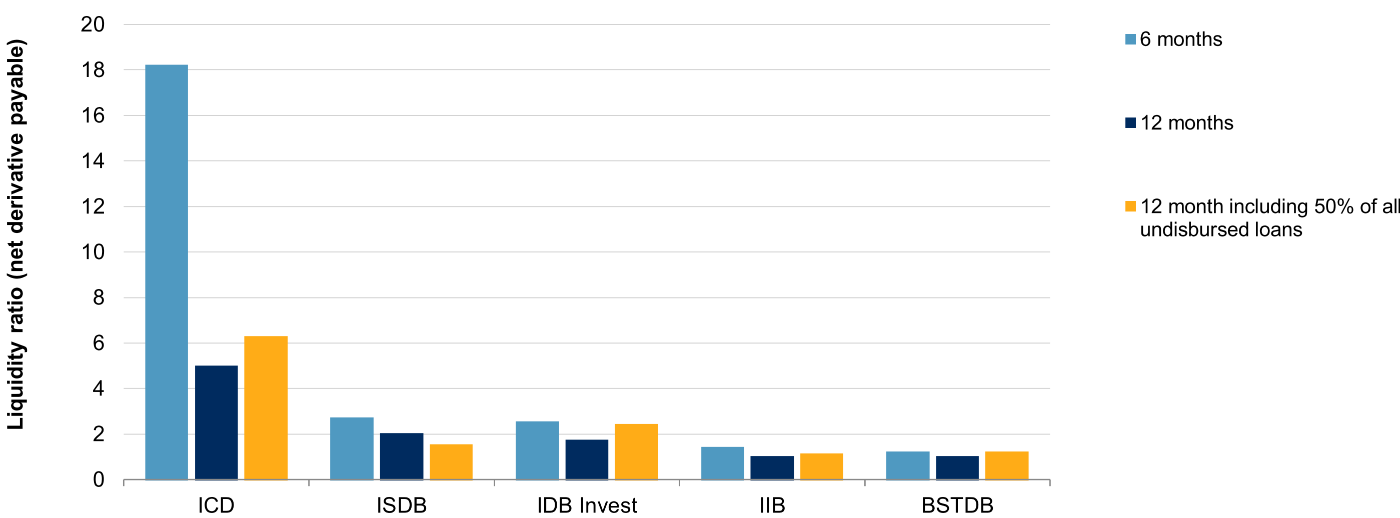
Our issuer credit rating on ICD supports our rating on ICD's sukuk program, ICDPS Sukuk Ltd. (formerly Hilal Services Ltd.).

Liquidity: Very strong coverage of liabilities The bank maintains a very high level of liquidity. Liquid assets accounted for 64% of adjusted total assets and 105% of gross debt at year-end 2021. That said, we expect this ratio will decline below 50% over the next few years, in line with our assumption of increasing disbursements. At year-end 2021, the treasury portfolio had an average credit rating of 'A-' and 93% of liquid assets were rated investment grade.

Under our liquidity stress scenario, at all horizons up to one year, ICD can fully cover its balance-sheet liabilities without market access. Using June 30, 2022 data, ICD's liquidity ratio was 5.0x (3.6x on June 30, 2021) at the one-year horizon, including scheduled loan disbursements. We estimate that, if needed, the corporation could accelerate its scheduled disbursements.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings.

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Extraordinary Shareholder Support

Our ratings on ICD do not incorporate any uplift for extraordinary shareholder support from callable capital, as ICD's articles of agreement do not include callable capital. In addition, we give no group support for ICD's membership of the IsDB group, because we believe IsDB would not provide extraordinary support beyond what should be expected from a shareholder.

Holistic Approach

Table 2

MLI Selected Indicators

	2021	2020	2019	2018	2017
ENTERPRISE PROFILE					
Policy importance					

Table 2

MLI Selected Indicators (cont.)

	2021	2020	2019	2018	2017
Total purpose-related exposure (loans, equity, etc.) (mil. $)	1,132	1,144	1,333	1,564	1,593
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0.0	0.0	0.0	0.0	0.0
Private-sector loans/purpose-related exposures (%)	68.1	71.8	73.8	70.4	55.9
Gross loan growth (%)	(6.1)	(16.5)	(10.7)	22.7	4.1
Preferred creditor treatment ratio (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)		58.3	57.2	59.2	56.2
Concentration of top two shareholders (%)		75.9	74.3	74.2	72.7
Eligible callable capital (mil. curr)		N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	30.1	26.0	23.6	20.3	20.8
Net interest income/average net loans (%)	1	(2.0)	(11.2)	(20.4)	(3.6)
Net income/average shareholders' equity (%)	0.8	(1.6)	(10.7)	(31.5)	(10.3)
Impaired loans and advances/total loans (%)	18.7	15.9	14.7	13.1	13.5
Liquidity ratios					
Liquid assets/adjusted total assets (%)	63.9	67.0	46.7	49.9	43.2
Liquid assets/gross debt (%)	105.1	101.1	79.6	75.8	69.0
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	5.2	2.2	5.0	2.8	4.0
12 months (net derivate payables) (x)	4.4	1.7	2.5	2.5	3.3
12 months (net derivate payables) including 50% of all undisbursed loans (x)	5.7	1.9	3.1	2.7	3.4
Funding ratios					
Gross debt/adjusted total assets (%)	60.8	66.3	58.7	65.8	62.6
Short-term debt (by remaining maturity)/gross debt (%)	61.1	53.8	79.8	55.5	47.8
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	4.3	1.4	2.8	3.1	4.4
SUMMARY BALANCE SHEET					
Total assets (mil. $)	2,965	3,268	2,529	3,071	3,001
Total liabilities (mil. $)	1,886	2,272	1,562	2,067	1,938
Shareholders' equity (mil. $)	1,079	995	967	1,004	1,063

N.A.--Not available. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Table 3

MLI Peer Comparison

	Islamic Corp. for the Development of the Private Sector	Islamic Development bank	IDB Invest	International Investment Bank	Black Sea Trade and Development bank
Issuer credit ratings	A-/Stable/--	AAA/Stable/A-1+	AA+/Stable/A-1+	BBB+/Negative/A-2	A-/Positive/A-2

Table 3

MLI Peer Comparison (cont.)

	Islamic Corp. for the Development of the Private Sector	Islamic Development bank	IDB Invest	International Investment Bank	Black Sea Trade and Development bank
Total purpose-related exposure (mil.$)	1,132	18,278	5,720	1,405	2,704
Preferred creditor treatment ratio (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Risk adjusted capital ratio (%)	30.1	34.6	30.8	23.3	19.1
Liquidity ratio 12 months (net derivative payables; %)	4.4	2.0	1.7	1.0	1.0
Funding gap 12 months (net derivative payables; %)	4.3	3.7	3.3	0.8	2.6

Note: RAC and funding and liquidity data of end-December 2021. Source: S&P Global Ratings.

Rating Score Snapshot

Enterprise risk profile	Extremely strong	Very strong	Strong	Adequate	**Moderate**	Weak	Very weak
Policy importance	Very strong	Strong	Adequate	**Moderate**	Weak		
Governance and management	Strong	**Adequate**	Weak				
Financial risk profile	Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak
Capital adequacy	Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak
Funding and liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2022, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 11, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 11, 2022
- ICDPS Sukuk Ltd.'s Trust Certificate Issuance Program Affirmed At 'A-' On Update Of Terms And Conditions, April 28, 2022

Ratings Detail (As Of December 15, 2022)*		
Islamic Corp. for the Development of the Private Sector		
Issuer Credit Rating		
Foreign Currency		A-/Stable/--
Issuer Credit Ratings History		
26-Nov-2020	*Foreign Currency*	A-/Stable/--
22-Feb-2019		A/Negative/--
16-Nov-2018		A+/Negative/--
Related Entities		
ICDPS Sukuk Ltd.		

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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