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Islamic Corp. for the Development of the Private Sector 'A-' Rating Affirmed; Outlook Stable

- We expect Islamic Corp. for the Development of the Private Sector (ICD)'s 2023 approvals will surpass 2022 levels of $525 million, highlighting the entity's renewed commitment to expanding its purpose-related exposures.
- ICD's nonperforming asset ratio has fallen to a 10-year low of 9.3% on the back of increased recoveries; however, this figure remains relatively elevated compared to peers.
- We affirmed our 'A-' rating on ICD with a stable outlook.

DUBAI (S&P Global Ratings) Nov. 30, 2023--, S&P Global Ratings today affirmed its 'A-' long-term issuer credit rating on the Islamic Corp. for the Development of the Private Sector (ICD). The outlook remains stable.

In 2022, ICD's total project disbursements increased to $310 million, from $208 million in 2021, while approvals almost doubled to $525 million. In our view, this signals the early stages of expansion, which we expect will continue in line with the new management's strategy to expand operational activities within the credit financing space. To that end, future growth is expected to originate from the entity's core mandate--lending to corporates and small and midsize enterprises via financial institutions--rather than via higher-risk equity investments.

Over the past decade, by contrast, ICD has encountered difficulty expanding its purpose-related assets. As of year-end 2022, the stock of gross purpose-related exposures stood at $1.2 billion, down from $1.6 billion at year-end 2016. This partially owes to the writing-down of large legacy equity exposures and discontinuing of new equity investments. Still, excluding equity, total purpose-related assets were relatively flat over 2017-2022. In our view, this indicates the bank's weakening ability to fulfill its role and public policy mandate relative to peers over that time.

Former risk management practices continue to 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 nonperforming assets (NPAs) compared with peers. However, most originate before 2014, while transactions signed after 2014 have generally been performing well, and 96% of NPAs are covered by provisions. The NPA ratio fell to a decade low 9.3% at year-end 2022, from 18.7% in 2021, on account of $12.2 million of restructurings and $50.4 million of recoveries of nonperforming financing last year.

ICD has a unique mandate and carries out all activities in accordance with the principles of Sharia. Established in 1999 under the Islamic Development Bank (IDB) Group, ICD's purpose is to promote private-sector development across member countries, while carrying out all activities--including supporting financial institutions, financing investment projects, offering advisory services, and investing in and managing funds--in a Sharia-compliant manner. All ICD's member countries are also members of the Organization of Islamic Cooperation (OIC), a leading inter-governmental organization for Muslim countries. We view ICD's articles of agreement as equivalent to a treaty and the corporation is exempt from all taxation and custom duties.

In our view, shareholder support is weaker than for other higher-rated multilateral lending institutions (MLIs). Relations with member countries are handled through ICD's largest shareholder, IDB, but ICD directly manages the collection of capital payments. In June 2015, a second capital increase--the first being the initial one in 2010--was approved by the board. To date, members have subscribed to $828 million of the $1 billion (83%), which is a higher rate than the 65% for the first capital increase. Some shareholders have yet to subscribe and other member states,

including Saudi Arabia and Egypt, have oversubscribed. Currently, about 16% of capital subscriptions have been partially paid or are overdue. Those delays weigh on our assessment of ICD's policy importance.
We view ICD's governance and risk management framework as adequate. The corporation's members are IDB, five public financial institutions, and 55 member countries, the same countries as for IDB, except for Oman and Guyana. IDB and Saudi Arabia (including shares held by Saudi's Ministry of Finance and Public Investment Fund) own just over 70% of the corporation. Although under the umbrella of IDB Group, ICD is a separate entity and IDB maintains its own private-sector portfolio. Governance indicators for member countries are, on average, low relative to higher-rated MLIs.

After a complete overhaul of risk management policies in 2014, ICD continues to improve its internal policies and procedures. The bank established a special operation division (SOD) in 2022 to consolidate its entire NPA portfolio. In first-quarter 2023, all ICD's asset management activities were discontinued, while all funds were transferred to the SOD for exit and/or liquidation. We expect ICD will continue making progress in de-risking its operations, particularly by reducing its equity exposure and targeting higher-rated borrowers. That said, the entity continues to operate in member countries that are in fragile or conflict-affected situations, weighing on the average credit quality of its portfolio.

We view ICD's financial profile as very strong based on its capital adequacy and liquidity levels. Our risk-adjusted capital (RAC) ratio for the corporation, after adjustments for MLIs, rebounded to 28.8% on June 30, 2023, from 26.5% on June 30, 2022, because of an increase in total adjusted capital. ICD's RAC ratio has been volatile historically due to the large equity portfolio, which was written down to about 12% of total assets at year-end 2022 from 30% at year-end 2017. Significant provisions and capital instalments received have also contributed to the volatile figure.

ICD maintains a very high level of liquidity. Liquid assets accounted for 60% of adjusted total assets and covered 98% of gross debt at year-end 2022. 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 2022, 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. As of June 30, 2023, ICD's liquidity ratio was 6.5x (5.0x on June 30, 2022) at the one-year horizon, including scheduled loan disbursements. We estimate that, if needed, the corporation could accelerate its scheduled disbursements. We also foresee no funding gaps for ICD over the next five years, excluding loan disbursements.

ICD's mandate creates a structural reliance on Islamic finance markets, reducing potential funding diversification. In 2016, ICD issued its inaugural $300 million sukuk. In 2020, it issued its second sukuk, a five-year $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 euros or Saudi riyals. Our issuer credit rating on ICD supports our rating on ICD's sukuk program, ICDPS Sukuk Ltd. (formerly Hilal Services Ltd.).

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

The stable outlook reflects our expectation that ICD will pursue its mandate by starting to expand its loan book while maintaining current levels of capitalization.

We could raise the rating if risk management improves, 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, especially if growth stems from high-quality projects that support its mandate.

We could take a negative rating action if ICD's purpose-related assets continue to stagnate or decline, suggesting management is unsuccessful in implementing its strategic decisions.

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 2023, Oct. 12, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023
- Islamic Corp. For The Development Of The Private Sector, Dec. 15, 2022
- ICDPS Sukuk Ltd.'s Trust Certificate Issuance Program Affirmed At 'A-' On Update Of Terms And Conditions, April 28, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Regulatory Disclosures For Each Credit Rating Including Ratings List Table

Disclosures include requirements relating to press releases or reports published in accordance with Article 10(1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirements are available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

- Key Elements Underlying The Credit Rating
- ESG Credit Factors
- Solicited Or Unsolicited Status
- Analysts Primarily Responsible For The Credit Rating
- Office Responsible For The Credit Rating
- Materials Used In The Credit Rating Process
- Criteria Applied
- Models Applied, Loss, And Cash Flow Analysis Performed
- Scenario Analysis
- Sensitivity Analysis
- Risk Warning, Understanding Credit Rating Categorizations, And Criteria
- Rated Entity Notification
- Ancillary And Additional Services
- Attributes And Limitations Of The Credit Rating
- Information Specific To Structured Finance And Securitization Instruments

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