الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Maintains Credit Ratings of the International Islamic Trade Finance Corporation

Manama, December 29, 2021 – Islamic International Rating Agency ("IIRA") has maintained the international scale ratings of The International Islamic Trade Finance Corporation ("ITFC" or "the Corporation") at 'AA- / A1' (Double A Minus / A One) with 'Stable' outlook.

Islamic Development Bank (IsDB) is the largest shareholder with a 35.7% stake, while member countries (MCs) of Organization of Islamic Cooperation (OIC) and development funds are the other two main groups of shareholders. Along with strong capital & liquidity buffers and sound asset quality, shareholding structure of the Corporation is deemed to be a credit positive and allows the Corporation privileged access in a range of diversified markets. ITFC contributes to the developmental mandate of IsDB Group and promotes trade among its MCs, while operating in accordance with Shari'a principles.

In addition to a sizable equity stake, IsDB's financial support is also reflected in a US$1bn Mudarabah line for financing operations. Cost synergies arising from co-sharing arrangements pertaining to control functions and Group level supervision also benefit the corporation. A cross-default provision with IsDB and its satellite financial entities within the Group, discourages selective default and is also deemed a significant credit strength.

A challenging operating environment precipitated by a global pandemic, decline in oil prices and squeezed funding conditions in international markets, manifested in the decline in trade approvals for 2020 which recovered in the year 2021. A global economic recovery and an organization-wide focus on efficient workflows is expected to provide impetus to business volumes and profitability over the next few years. IIRA positively notes the under-control non-performance in ITFC portfolio despite elevated portfolio risk. A strategic relationship with member countries and close monitoring of exposures, mitigates concerns as does increased level of secured financings. In addition, improving risk distribution of the sukuk portfolio, keeps overall risk minimal.

Although utilization of external funds has increased, leverage remained low at 1.3x as of June 2021. CAR has retreated to 81% at YE 2020, in line with steady increase in financing portfolio. Capital buffers are deemed to be significantly above requirements and are likely to remain so, despite expected growth and in view of internal capital generation forecasts. Internally set threshold at 60% floor to CAR and 40% debt to equity serves as key control parameters to manage balance sheet leverage. In tandem, with the surge in financing in 2020, there was a proportional decline in liquidity reserves, which rebounded by June 2021, given a disbursement slowdown. Nevertheless, ready access to fresh funds, relatively short maturity of financings and surplus reserves vis-à-vis non-equity funds utilized, and particularly in relation to short-term funding requirements, are indicative of strong liquidity.

Net earnings had been negatively impacted by lower LIBOR linked revenue in 2020 in tandem with a falling rate environment and weaker ancillary revenues. More significantly, there was a large increase in provisioning charges as the coverage for existing non-performing assets was enhanced and newly classified loans were provisioned and written off. As a result, return on average assets (RoAA) registered at 0.9%, down from 3.2% in the prior year. Subsequently, there was notable rebound in profitability indicators in H1'2021 with increase in ancillary revenues, contained operating costs, and favorable trend in provisioning, causing the RoAA to recover to 2.8% on an annualized basis. We expect positive momentum in business in the rest of the year and profitability to remain upbeat, although ambiguity in forecasts is material given uncertainty in the trajectory of Covid-19 and its economic manifestation.

ITFC's overall fiduciary score has been maintained in the range of '76-80', indicating strong fiduciary standards, where various stakeholders' rights are protected. Realignment in the organizational structure and upgraded internal controls have been noted. ITFC benefits from IsDB's Group Shari'a governance framework, ensuring harmonization of practices within the Group. Shari'a governance as assessed by IIRA has been enhanced, reflecting the increased allocation of resources to the Shari'a control function.

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