



IIRA Reaffirms Fiduciary Ratings of the International Islamic Trade Finance Corporation

Manama, January 18, 2021 – Islamic International Rating Agency (“IIRA”) has reaffirmed 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.

ITFC’s shareholding structure comprising Islamic Development Bank (IsDB) as the main shareholder along with sovereign and quasi-sovereign entities, is a significant credit positive. IsDB’s financial support is also reflected in a US\$1bn Mudaraba line for financing operations in addition to cost synergies arising from co-sharing arrangements pertaining to control functions. The association with the Group strengthens access to member countries and also benefits the Corporation through board oversight and Group supervision. Cross default provision, whereby default to any one of IsDB’s arms, triggers default to the Group as a whole, gives a strong edge to the corporation in terms of protection against selective default. As a multilateral development institution (MDI), ITFC is not regulated in any country where it engages in business and has access to a geographically diversified territory, in addition to enjoying preferred creditor status.

Over the course of the last few years, steady business growth has been achieved with no new impairments, and profitability supported by an increasing rate environment was compounded by healthy ancillary income generation. However, following the Covid-19 triggered global slowdown, yields have fallen which is likely to negatively impact profitability in 2020. Transition towards non-LIBOR linked business and diversification into non-oil sectors and in fee based income as planned, may counter adverse trends in 2021.

Impairment indicators have been on a downtrend, compounded by the base effect of a growing portfolio. On a net basis, further improvement has been observed with increasing provisioning levels during the year 2019. The financing portfolio of the Corporation manifests notable concentration in terms of counterparties and sectors. Exposures are concentrated in energy sector in line with the dependence of member countries to strategic commodities. Despite concentration and the negative repercussions of Covid-19, no new impairments are foreseen in the very near term with large exposures allocated mostly to sovereign and quasi sovereign entities. Decline in the share of ‘unsecured financings to total financings’ to nil in recent periods also contains credit risk as does the rather short tenor of the portfolio. There could be some lagged impact of emerging global economic stress; however, we deem the asset deployment to be relatively conservative, with net non-performance in relation to equity being very limited at 1.5%, evidencing sufficient loss absorption capacity.

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ITFC's fiduciary score has been maintained in the range of '76-80', as an indication of strong fiduciary standards, wherein rights of various stakeholders are protected. Within this, the Corporation's score on the Corporate Governance front stands enhanced to '76-80' from '71-75' as structural improvements in the internal control set up have been noted successively. We are cognizant of the shared Shari'ah governance infrastructure amongst organizations in the IsDBG, which ensures homogeneity of practices within the Group. Increased allocation of resources to the function and participation at initial stages of approvals may strengthen the review and monitoring framework of ITFC's operations in terms of its alignment with Shari'ah rules and principles.

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

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