



IIRA Reaffirms Credit Ratings of the International Islamic Trade Finance Corporation

Manama, March 13, 2023 – 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.

ITFC’s ownership structure comprising OIC member countries, IsDB & development funds, and key commercial banks & FIs is deemed strong, with high probability of support if and when needed. IsDB oversight through Board representation strengthens the control framework, and financial access evidenced through a Mudaraba line is a further credit positive. Moreover, as a multilateral development institution, exceptional access to member countries and preferred creditor status, are deemed significant credit strengths.

In line with recovery in global economic activity and trade, ITFC’s trade approvals and disbursements grew by around 38% and 26% respectively YoY in 2021 and exceeded pre-covid levels. Positive momentum was carried onto 2022, with continuously rising demand. Despite the challenging macroeconomic conditions in member states, ITFC has so far been able to maintain its sound asset quality with no new impairments. Given significant economic pressures and diminished fiscal space, mainly on its larger sovereign exposures, IIRA notes that asset risks are significantly higher in the near term. A high quality sukuk portfolio, strong liquidity buffers, and significant excess capital buffers mitigate concerns to an extent. The short-term nature of exposures and the strategic nature of commodities being financed, has also contributed to containing asset losses to date.

Profitability performance significantly improved in 2021, and further through H1’2022, supported by a higher rate environment in recent periods as well as enhanced business. ITFC could further increase the provisioning for its only non-performing exposure to full coverage before writing it off which would put modest upward pressure on provisioning charges, yet the collections from a previously written-off exposure will more than compensate for such increase. Accordingly, profitability in the latest year is foreseen to be well above 2021 levels, allowing for healthy internal capital generation and building up buffers for unforeseen challenges.

There has been steady increase in leverage, with capital adequacy ratio (“CAR”) retreating to 65% at end of June 2022 (2020: 81%; 2021: 73%) in line with the growth in the financing portfolio and given also rating downgrades in some of the member countries. Going forward, capital is deemed sufficient to support medium term growth, given favorable profitability prospects and still surplus buffers. The Corporation maintains an internal threshold of at least 40% for capital adequacy ratio to be maintained over the next

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couple of years. Liquid assets cover 32% of assets; no material maturity mismatch related risks are evident and viewed in conjunction with a minimal open FCY position, indicates a sound liquidity profile.

ITFC's overall fiduciary score has been maintained in the range of '76-80', indicating strong fiduciary standards, whereby various stakeholders' rights are protected. The organizational control hierarchy has been evolving towards better corporate governance practices, most notable of which since our prior review, was the establishment of the Board Executive Committee. Meanwhile, dissemination of governance-related information and interim financial data may enhance the transparency score. Staff strength in areas of internal control, has been reinforced. The Corporation has revisited the organizational structure, and accordingly instituted new functions to enhance capacity for maintaining effective controls and realign focus on efficiency and diversification.

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

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