

**AN INTRODUCTION:  
Islamic International Rating Agency (“IIRA”)**



### **What is credit rating?**

A credit rating is an independent and objective **OPINION** on the ability and willingness of an obligor to make timely payments against financial obligations



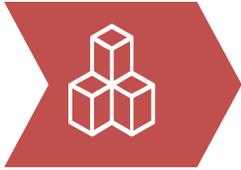
### **What a Credit Rating is NOT?**

A credit rating is not a recommendation to buy or sell a security, an investigative exercise or a guarantee against default



### **What is the role of Credit Ratings?**

The main role of credit ratings is to enhance transparency and efficiency in debt capital markets by reducing the information asymmetry between borrowers and lenders. Importance of credit ratings is recognized by regulators globally with the same embedded in financial sector regulatory frameworks.



## International Scale Ratings

International scale ratings express the ability of an entity to meet its international obligations in say the US dollar. These ratings are invariably capped by the sovereign ceiling, with some exceptions. The risks are comparable globally.



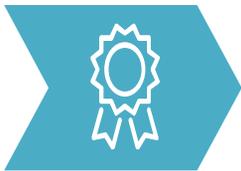
## International Scale Ratings in Local Currency

Local currency ratings on an international scale express the ability of an entity to meet its obligations in its local or domestic currency, and are usually higher than foreign currency ratings.



## Narrowing the Gap

In recent years, capital account mobility has increased, domestic capital markets, especially those in emerging economies have deepened and governments' investor base has broadened. As a result, justifications for distinguishing between local and foreign currency government bond ratings have weakened.



## National Scale Ratings

Ratings on a national scale express the ability of an entity to meet its domestic obligations in its local or domestic currency, within the national context. These ratings 'usually' assume the local sovereign to be the best risk in the domestic context & anchored at AAA.

## Symbols for medium to long term ratings

Gradation of creditworthiness is indicated by rating symbols, each representing a group broadly having similar credit characteristics. The following symbols are used internationally to describe the credit characteristics over a Medium to Long Term horizon:

	Investment Grade – High Creditworthiness	Standard & Poor's	Moody's	Islamic International Rating Agency
1	Gilt edge, prime, maximum safety	AAA	Aaa	AAA
2	Very high grade, high quality	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
3	Upper medium grade	A+, A, A-	A1, A2, A3	A+, A, A-
4	Lower medium grade	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-

**Rating Symbols**

	Distinctly Speculative – Low Creditworthiness	Standard & Poor's	Moody's	Islamic International Rating Agency
5	Low grade, speculative	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-
6	Highly speculative	B+, B, B-	B1, B2, B3	B+, B, B-

	Predominantly Speculative – Substantial Risk or in Default	Standard & Poor's	Moody's	Islamic International Rating Agency
7	Substantial risk, in poor standing	CCC+, CCC, CCC-	Caa	CCC
8	Extremely speculative	CC, C	Ca, C	CC, C
9	In Default	D		D

## Rating Symbols

## Symbols for short term ratings

Gradation of creditworthiness is indicated by rating symbols, each representing a group broadly having similar credit characteristics. The following symbols are used internationally to describe the credit characteristics over a Short Term horizon:

No	Standard & Poor's	Moody's	Islamic International Rating Agency
1	A-1+	P-1	A1+
2	A-1	P-2	A1
3	A-2	P-3	A2
4	A-3	NP	A3
5	B-1		B
6	B-2		C
7	B-3		
8	C		
9	D		

**Rating  
Symbols**

- IIRA was established as an infrastructure institution supporting Islamic finance by the **Islamic Development Bank (IDB)** Group.
- Shareholders include Prominent financial institutions, including two rating agencies in OIC member states.
- IIRA has a distributed shareholding ensuring independence and objectivity, while avoiding single shareholder dominance and any perceived conflict of interest.
- IIRA is based in Bahrain and commenced operations in July 2005

## Historical Overview of IIRA's Establishment

- **IIRA provides ratings for all types of issuers and issues**
  - Sovereign Ratings
  - Issuer Ratings
  - Sukuk Ratings
  - Takaful Financial Strength and Fiduciary Ratings
  - Participation Banks Credit and Fiduciary Ratings
  - Shari'a Quality Ratings (SQR)
  - Governance Ratings
  - Waqf Assessment (Development in progress)
  - Collective Investment Scheme (CIS) Ratings
- Financial Data Portal (available through Subscription )
- Rating and training workshops

**Core  
Services**

### GCC

- Bahrain
- Kingdom of Saudi Arabia
- United Arab Emirates
- Oman

### Levant

- Egypt
- Jordan
- Lebanon
- Syria
- Turkey

### South & North Africa

- Sudan
- Tunisia
- South Africa
- Algeria

### South & South East Asia

- Indonesia
- Malaysia
- Pakistan

**IIRA's  
Presence in  
Islamic  
Markets**

**Be an alternate voice in international ratings**

**Customized approach to rating Islamic Financial Institutions**

**Facilitate Development of Sukuk markets through National Scale Ratings**

**Facilitating Cross-border Transactions**

**Form local base in key OIC member economies**

**Wide coverage of Sovereign Ratings in OIC Countries**

**IIRA –  
Primary  
Objectives**

- Sovereign Ratings serve as cornerstone for development of **Domestic Debt Market**.
- Over time well established domestic debt markets facilitate **Cross-border capital flow**
- IIRA presently makes public disclosure of sovereign ratings for Kingdom of Bahrain, Malaysia & Republic of Turkey, whilst private/shadow ratings are undertaken for all jurisdictions where IIRA operates.
- Expansion of sovereign rating coverage remains a key objective for IIRA. Cognizant of its importance, IIRA has been provided **Technical Assistance (TA) by IDB** for undertaking sovereign assessments of 10 IDB member countries. As per the terms of the TA, IDB shall cover the entire cost of these assessments initially.

## Approach to Sovereign Ratings

- IIRA has, over the years, maintained a distinct approach to sovereign rating assessments. Key features of IIRA's sovereign rating methodology are as follows.
  - Focus on wealth creation as a source of repayment rather than payment of debt from debt
  - Focus on domestic demand, self reliance
  - Focus on social indicators including education, technology and intellectual property
  - Political disturbance viewed largely as a short- to medium term concern, unless long-term basis for disturbance is present.
- All publicly disclosed sovereign ratings assigned by IIRA are co-operative
- Given the distinctive rating approach, IIRA's rating opinions have been gaining acceptance and have been formally recognized by banking regulators of Bahrain, Jordan & Turkey. Furthermore, Capital Market Authority in Oman has permitted IIRA to operate as a licensed rating agency in the Sultanate. The Astana Financial Center also recognizes IIRA as an External Credit Assessment Institution in Kazakhstan.

- How are Fiduciary Ratings differentiated from conventional ratings?
  - Two-dimensional assessment – recognizes the mutually dependent nature of credit & Fiduciary risks in an IFI
  - Poorly governed institutions – may be more susceptible to the risk of failure
    - ❖ Credit event could be triggered by lets say perception regarding Shari’a Governance
  - Presence of sound governance structure - does not guarantee strong financial performance
    - ❖ Fiduciary Scores may be faced with downward pressure on account of credit-related developments

## Fiduciary Ratings

**Facilitate Development of Sukuk markets through National Scale Ratings**

**Dubai Islamic Bank PJSC**

**Report Date:**  
April 6, 2015

**Analysts:**  
Moh'd Raza Lakhani  
Avinash Asar

**Credit Rating**

	<b>Credit Ratings</b> (April 6, 2015)
International Scale - (LT/ST)	A/A1
National Scale - (LT/ST)	AA-(ae)/A1+(ae)
Rating Outlook	Stable

**Fiduciary Score**

	<b>Latest</b>
<b>Fiduciary Score</b>	<b>76-80</b>
Asset Manager Quality	81-85
Corporate Governance	71-75
Shari'a Governance	76-80

Fiduciary Score 76-80 indicates strong fiduciary standards and a well developed governance structure, wherein rights of stakeholders are well-defined and protected.

**Bank of Khartoum**

**Report Date:**  
March 05, 2015

**Analysts:**  
Shahbaz Nadir  
Avinash Asar

**Credit Rating**

	<b>Latest Ratings</b> (March 5, 2015)	<b>Previous Ratings</b> (April 28, 2014)
National Scale (LT/ST)	AA-(sd)/A1(sd)	AA-(sd)/A1(sd)
Rating Outlook	Stable	Stable

**Fiduciary Score**

	<b>Latest</b>	<b>Previous</b>
<b>Total Score</b>	<b>71-75</b>	<b>71-75</b>
Asset Manager Quality	66-70	66-70
Corporate Governance	66-70	66-70
Shari'a Governance	76-80	76-80

Fiduciary Score 71-75 indicates that rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

IIRA's Fiduciary Ratings appealing to varying needs of investors, with greater information for investors regarding institutional strength, in addition to governance capabilities, while giving specific coverage to Shari'a governance

**Fiduciary Ratings**

- On the panel of approved rating agencies of IDB
- Recognized as an External Credit Assessment Institution (ECAI) by:
  - Central Bank of Bahrain (CBB)
  - Central Bank of Jordan (CBJ; Recent Development in November 2016)
  - Banking Regulation & Supervisory Agency, Turkey.
- Recognized as an External Credit Rating Agency (ECRA)
  - Astana Financial Services Authority (AFSA), Kazakhstan (December 2017)
- IIRA is also licensed to operate as a rating agency in Sultanate of Oman (April 2018)

Formal  
Recognition

- Completely independent & transparent -IIRA follows a consistent methodical and rigorous analytical process and subscribes to a code of conduct / ethics which is consistent with the IOSCO code of conduct for rating agencies
- Fiduciary Ratings- Tailor made methodologies for IFIs and Islamic issues
- Team of experienced professionals, from different countries, with in-depth knowledge and experience
- Superior regional knowledge that results in superior conclusions
- Emphasis on National Scale Ratings with the objective of promoting local markets

**IIRA's  
Competitive  
Edge**

- Rating Committee consists of
  - Core members
  - Occasional experts.
  - All members are completely independent with no conflict of interest
  
- IIRA's website [www.iirating.com](http://www.iirating.com) makes full disclosure regarding its ownership, management, rating methodology for all its services and rating scales and definitions

**IIRA's  
Competitive  
Edge –  
(Cont'd.....)**

**THANK  
YOU**