

RATING ACTION COMMENTARY

Fitch Affirms OPEC Fund for International Development at 'AA+'; Outlook Stable

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Fitch Ratings - Paris - 27 Jul 2022: Fitch Ratings has affirmed OPEC Fund for International Development's (OPEC Fund) Long-Term Issuer Default Rating (IDR) at 'AA+'. The Outlook is Stable.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Standalone Credit Profile Underpins Ratings: OPEC Fund's Long-Term IDR of 'AA+' continues to be anchored on the institution's Standalone Credit Profile (SCP). Its SCP is driven by the lower of Fitch's assessment of the fund's solvency profile (aa+) and liquidity profile (aaa), combined with a medium-risk business environment that translates into a zero-notch adjustment to the IDR. Our assessment of OPEC Fund's shareholders' capacity and propensity to support does not provide any uplift above the fund's SCP.

Targeted Lending Programmes Continue: In April 2020, the fund approved a USD1 billion Covid-19 response programme to support partner countries and private-sector clients to address the impact of the pandemic. The entire USD1 billion facility was utilised in 2020 and 2021, spanning 19 countries and 30 projects, across the bank's ordinary capital resources (OCR) and special fund (SCR). In May 2022, a similar USD1 billion facility was approved by the Board to provide support to members to alleviate the impact of the Russia-Ukraine war on global food supplies and prices. Approximately 80%

of these funds will be allocated to the OCR. Of the total facility, about 70% of this exposure will be sovereign lending.

GMTN Programme Launched: In May 2022, OPEC Fund finalised its GMTN programme, ahead of its debut bond issue. As yet, the fund has not issued in capital markets. Given OPEC Fund's highly capitalised and liquid balance sheet, there is no urgency to issue to fulfil its mandate. Fitch expects a debut issue will take place once market conditions stabilise. In its baseline scenario, the agency expects OPEC Fund to have issued approximately USD2 billion over the forecast period to 2024, but uncertainty remains in the short term as to when the fund's inaugural issue will occur.

'Excellent' Capitalisation Key Strength: Fitch views OPEC Fund's 'excellent' capitalisation as a key rating strength, primarily driven by our expectation that the fund's equity/assets ratio will continue to far exceed the 25% 'excellent' threshold over the medium term. As of end-2021, this ratio was around 91%. Our assessment is also supported by the fund's usable capital/risk-weighted assets (FRA) ratio - which also far exceeds the 35% 'excellent' threshold (end-2021: 103%). Fitch expects OPEC Fund's capitalisation ratios to remain well above the 'excellent' thresholds in the medium term, as the fund gradually increases its leverage.

'Low' Risk Profile Supports Solvency: OPEC Fund's loan portfolio comprises both sovereign borrowers (65% of total exposure) and non-sovereign borrowers (35%). Fitch estimates OPEC Fund's loan portfolio to have an average rating of 'B+' at end-2021, which is unchanged from last year's. Fitch assesses OPEC Fund's strength of preferred-creditor status (PCS) as 'strong', which translates into a two-notch uplift from the average rating of loans. We assess OPEC Fund's concentration risk as 'very low', with the fund's five-largest exposures accounting for 19.3% of total banking exposure at end-2021.

Write-Offs Reduce NPL Rate: Non-performing loans (NPLs) represented 1.6% of total loans at end-2021 (2.2% at end-2020) and were to 7 non-sovereign borrowers spanning different geographies and sectors. In 2021, a combination of USD35.5 million in write-offs of two non-sovereign loans and USD16.3 million in two new non-sovereign NPLs affected the NPL ratio. As in previous years, OPEC Fund has no sovereign NPLs. Fitch continues to expect the fund's NPL rate to remain 1%-3% over the forecast period.

'Excellent' Liquidity Profile: Liquidity is a rating strength for OPEC Fund, with the institution's liquidity profile assessed at 'aaa', reflecting an 'excellent' liquidity buffer, 'excellent' asset quality but 'weak' access to capital markets. As aforementioned, OPEC Fund has not tapped international capital markets, with its sole funding source being capital replenishment contributions from member states (MS). Given the very limited

debt burden expected for OPEC Fund over the medium term, we expect its liquidity buffer to remain comfortably in excess of the 150% 'excellent' threshold over the medium-to-longer term.

In line with previous expectations, the implementation of OPEC Fund's new liquidity policy has seen the previous stock of legacy, unrated treasury assets liquidated and re-invested in cash (in the form of short-term deposits in EU, UK, Canadian banks) or into debt securities rated 'AA' to 'AAA'. This transition has seen the stock of legacy assets decrease to USD36 million at end-2021 from USD571 million at end-2020. Fitch expects the remaining legacy assets to be liquidated by 1H23.

'Medium Risk' Business Environment: OPEC Fund's business environment is deemed 'medium risk', which translates into a zero-notch adjustment to the solvency assessment of 'aa+', therefore leading to an SCP of 'aa+'. Our assessment of OPEC Fund's business profile is driven by the 'medium risk' policy importance, which is affected by its limited size (banking portfolio forecast to be over the 'high risk' USD5 billion threshold by 2024) relative to rated peers'. Around a third of the banking portfolio is to the non-sovereign sector. The assessment benefits from a 'low' risk quality of governance, supported by none of the MS being able to borrow from OPEC Fund.

Our 'medium risk' assessment of OPEC Fund's operating environment reflects that countries eligible to borrow from OPEC Fund's OCR are broadly middle-income countries, with an average rating of the fund's countries of operation at 'B+'.

Support Assessment Forecast to Improve: OPEC Fund's rating is fully driven by the fund's standalone credit strengths, and support is not currently a rating driver. The support assessment is anchored in the weighted average rating of OPEC Fund's key shareholders; Saudi Arabia (A/Positive), Venezuela, Kuwait (AA-/Stable). On the date of publication, the weighted average rating is 'bbb'; however, given the fund's largest shareholder (Saudi Arabia: 33.6% of paid-in contributions) is on a Positive Outlook, if we assume a one-notch upgrade to the sovereign rating of Saudi Arabia, the average rating of key shareholders improves to 'bbb+'.

Fitch maintains a 'moderate' assessment of propensity to support, based on the material delays of contributions from MS over the course of the fund's history.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Solvency (Credit Risk): Resilience of the loan portfolio that would result in a stronger credit-risk profile than currently anticipated, particularly an improvement in the fund's

loan impairment ratio to a level commensurate with a 'very low' assessment and/or material improvement in the average rating of the lending portfolio

- Solvency (Risks): A sustained record of operations under the recently revised risk-management framework as the bank transitions to a more leveraged balance sheet, including full compliance with all internal risk ratios over the medium term, could lead to an upward revision of the current assessment of 'strong' risk-management policies

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (Credit Risk): Significant deterioration in the bank's risk profile, stemming from a marked weakening in the credit quality of the loan portfolio. This could be the case if one of the larger sovereign exposures defaults, which could lead to a rise in NPLs above the 'moderate' threshold of 3%

- Business Environment: A deterioration in the fund's business-profile or operating-environment assessments, which could lead to a weakening of our current 'medium' risk assessment. This could, for example, stem from weakening in the fund's strategy risk amid the transition towards a more leveraged balance sheet and/or failure to increase lending towards medium-income countries with stronger credit-risk profiles

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

OPEC Fund has an ESG Relevance Score of '4' for rule of law, institutional & regulatory quality. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

OPEC Fund has an ESG Relevance Score of 4 for governance structure. Similar to other multilateral development banks (MDBs) where one shareholder owns a significant share of the capital, Saudi Arabia, (34% of paid-in capital), as the largest shareholder, exerts a strong influence on the bank's board, management, and strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The ESG Relevance Score for labour relations and practices has been changed to '2' from '3', given that restrictions on recruitment based on nationality or quotas is no longer relevant to MDBs' ratings.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
The OPEC Fund for International Development (OPEC Fund)	LT IDR	AA+ Rating Outlook Stable		AA+ Rating Outlook Stable
		Affirmed		
	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Affirmed	AA+

[VIEW ADDITIONAL RATING DETAILS](#)

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[Suprationals Rating Criteria \(pub. 11 Apr 2022\) \(including rating assumption sensitivity\)](#)

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The OPEC Fund for International Development (OPEC Fund)

EU Issued, UK Endorsed

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