



IIRA improves outlook on the Ratings of Faisal Islamic Bank and enhances the corporate governance score within its Fiduciary ratings approach

Manama, April 16, 2020—The Islamic International Rating Agency (IIRA) has affirmed the ratings of Faisal Islamic Bank (“FIB” or “the Bank”) on the national scale at ‘BBB-(sd)/A3 (sd)’ (BBB Minus / A Two), initially assigned in February 2019. The ratings represent the repayment capacity in local currency terms only in the national context, and factors in the effects of constraints stemming from the operating environment of the bank which is characterized by very high inflation, and continued stress on the external account and therefore on the local currency. The outlook on the assigned ratings has been improved to ‘Positive’ as the Bank was able to maintain its healthy volume growth despite the challenging environment and relatively lower ratio of FCY assets make it less vulnerable to prospective asset quality risks stemming from notable SDG depreciation. It further factors in the positive credit effects of corporate governance related measures

Having commenced its operations in the year 1977, Faisal Islamic Bank had a 14.6% market share in December 2018. Shareholders of the Bank include a Saudi group, which directly & indirectly holds 35% stake. Over 78% of the shareholding is held by foreign entities, whereas the remaining ownership is locally held.

The bank’s asset mix reflects general sector trends; however, the financing book mainly focuses on exposure to government entities and financings under government guarantee. FIB has maintained relatively low impairment levels with strong collateralization, although provisioning coverage is relatively modest.

FIB’s capitalization indicators deteriorated in recent periods given the strong growth in risk weighted assets. As of September 2019, the bank’s capital adequacy ratio dropped to 11% which is below the regulatory minimum of 12%. IIRA opines that capitalization levels are strained and warrant strengthening, particularly given the challenging operating environment and the existence of large exposures exceeding the single obligor limit.

The bank’s net profit more than doubled in 2018 mainly due to non-recurring noncash gains on FCY revaluation. In 2019, the bank booked decline in profit before tax as the FCY valuation gains dissipated and spread income retreated sharply. The surging fee income was not able to compensate for weaker spread income; consequently, return on average assets shrank notably on nominal terms while improving on adjusted basis.

The Bank’s fiduciary score has been revised up to the ‘66-70’ range from ‘61-65’ previously and reflects sufficient fiduciary standards wherein rights of various stakeholders are adequately defined and protected. In line with local sector trends, the bank’s Board composition, albeit aligning with local regulations, diverges from international best practices especially as regards independent representation

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on the Board. This reflects also onto the Board Committees and the bank's control framework. However, we noted the establishment of two new board level committees, namely the Nomination, Remuneration and Incentive Committee, and the Governance and Compliance Committee positively.

On the Shari'a governance front, there has been no major changes since our previous review. The bank's Sharia governance framework is supported by the existence of the centralized Higher Shari'a Supervisory Board (HSSB). The Shari'a governance framework could be enhanced via strengthening of the headcount of the Shari'a Audit function and the separation of Shari'a Audit and Review functions. Furthermore, Shari'a related disclosures are deemed to be rather weak.

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

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