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## IIRA Issues Shari'ah Compliance and Fiduciary Rating of "SCFR (pk) 1" on the national scale to Faysal Bank Limited, Pakistan (Islamic Banking Division)

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**Manama, November 23, 2020:** Islamic International Rating Agency ("IIRA") has assessed the Shari'ah Compliance and Fiduciary Rating of Faysal Bank Limited (Islamic Banking Division) at "SCFR (pk) 1" on the national scale, which denotes "No material deviations from national regulatory framework for Shari'ah Compliant Finance" and "SCFR (Global) High" on the global scale, which denotes, "High level of conformance to global standards in terms of fulfilling fiduciary obligations of Shari'ah compliant Finance",

Faysal Bank Limited ('FBL' or 'the bank') operates as a commercial bank in Pakistan. In 2015, the bank initiated the process of conversion from conventional to Islamic banking in line with the vision of the shareholders and the Board of Directors, and remains a 'first of its scale' conversion in the domain of Islamic banking, globally. Noted progress has been made on conversion in the most recent two years. Majority shareholding (67%) of FBL, either directly or indirectly, is owned by Ithmaar Bank (IB, Bahrain) and its subsidiaries. With 414 Islamic branches, the Islamic branch network of FBL constitutes 75% of total branches, with an overall 26% Islamic deposit base and 37% Islamic financing by end-2019.

As the regulatory authority for banks in the country, State Bank of Pakistan (SBP) has developed a comprehensive "Shari'ah Governance Framework (SGF)" that applies to all Islamic Banking Institutions (IBIs) i.e. full-fledged Islamic banks, Islamic banking subsidiaries and Islamic banking divisions of conventional banks. The framework encompasses a wide range of guidance in terms of defining the roles and responsibilities of various organs of such institutions, including Board of Directors, management, Shari'ah Board, Shari'ah compliance, product development and approval, and internal and external audit beside Shari'ah Audit.

The bank has instituted a Shari'ah Board, which is responsible for ensuring conformance of operations to principles of Islamic Banking and relevant policy structure and the framework of Shari'ah governance of the bank is found to be in line with local regulations. FBL's product structures also comply with regulatory guidelines, having been approved by bank's own Shari'ah Board and meeting approved structure guidelines of SBP. Key products also meet international scholarly guidance in terms of structure although some deviations have been noted as a reflection of local market needs. Shari'ah non-compliant income mostly stems from late payment Charity and has risen, denoting an increase in quantum of such transactions as a reflection of market stress, rather than expansion in the sources of such funds under the Charity ; the distribution mechanism is well-defined and in line with best practices.

From a transparency standpoint, the dissemination of material information is adequate. While considered at par with superior standards of disclosure in the local market, non-financial disclosures leave room for improvement. Adherence to the principle of Corporate Social Responsibility (CSR) is

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evident, with the Bank having adopted relevant policy, and given the commitment to Islamic banking. Clear setting of targets in terms of allocation to socially responsible financing and systematically incentivizing such investments will support the bank's philosophy in the area.

Sound asset quality and moderate quantum of non-compliant earnings evidences above par management of fiduciary responsibility entrusted to the bank. Competitive market-oriented returns are further reflective of effective business operations.

### **Scope of the Rating**

This rating is an independent assessment & opinion on the Shari'ah Governance & Compliance framework as implemented by the Islamic Banking Division of Faysal Bank Limited Pakistan. The rating encapsulates areas of coverage laid out in Governance Standard for Islamic Financial Institutions 10 (GSIFI 10), developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The rating committee benefits from Shari'a scholarly opinion and senior level representation of AAOIFI and IIRA.

The Global scale rating benchmarks institution level practices vis-à-vis best practices world-wide and international scholarly opinions in terms of structure for products and services, as implemented by the rated institution. As such, compliance with local regulatory requirements does not necessarily warrant the maximum score. However international best practices, the adoption of which make legal or regulatory compliance impossible in the jurisdiction, where the rated institution is domiciled, are not accounted for in the scoring system underlying IIRA's methodology framework, and hence do not constrain the assigned score in any manner.

The national scale SCFR rating assigned is based on the extent of conformance of practices of the Islamic Banking Division of Faysal Bank Limited with the national regulatory framework in Pakistan.

For further information on this rating announcement, please contact us via e-mail at [iira@iirating.com](mailto:iira@iirating.com).

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