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

Manama, June 07, 2021—The Islamic International Rating Agency (IIRA) has upgraded the ratings of Faisal Islamic Bank (“FIB” or “the Bank”) by two notches to ‘BBB+(sd)/A2 (sd)’ from BBB-/A3. A positive outlook had been assigned on April 16, 2020. In lieu of the upgrade to ratings, outlook is currently ‘Stable’. Improvement of the Bank’s ratings is indicative of favorable asset quality indicators, improving capital buffers, enhanced profitability over recent periods as well as positive development in terms of organizational reinforcement, expected to result in more effective operations going forward.

Sudan’s economic conditions continue to put pressure on the banking sector through inflation and currency devaluation, which in turn affects the repayment capacity of borrowers. Moreover, social and health disturbances have contributed to a deepening of the ongoing recession. However, gradual economic recovery maybe expected with a focus on reforms. Significant devaluation of currency and unification of various exchange rates in February 2021 was a major step forward; reorganization of the banking sector is on the anvil, through improved governance standards, recapitalization and potentially, mergers.

Faisal Islamic Bank has grown rapidly in the last few years with asset market share following an increasing trend to 11.9% by year-end 2020. With a network of 48 branches, distribution is supported by 30 sub-branches (cash offices) and 202 ATMs. The bank has remained highly liquid, and features sound asset quality, even as return indicators have been constrained, vis-a-vis peers. Conservative asset deployment is also reflected in higher allocation historically to infrastructure and microfinance. The Bank has been reducing its public sector exposures in recent periods, to achieve a diversified risk profile. Net impairments in relation to its assets, is deemed to be contained at only 0.4%.

Capital adequacy ratio of the Bank has improved to 13.1% as of year-end 2020, through internal capital generation, given improved earnings and complete retention over the last two years, as well as low growth in risk weighted assets. Standing modestly over the regulatory threshold of 12%, capital buffers are deemed to be fragile given upward pressure on risk weighted assets due to devaluation of SDG as well as growth prospects. Internal capital generation in the year 2021, boosted by significant currency gains, in the aftermath of steep depreciation of the SDG, may mitigate the pressures on capital buffers.

The Bank’s fiduciary score has also improved to ‘71-75’ and reflecting adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. The improvement in the overall score was driven by improvements in two sub-categories, being Asset Manager Quality Score and Corporate Governance, which were revised up by one band each to reflect sound asset quality and strengthened risk management and organizational capacity. Supported also by the oversight of a Higher Shari’a Commission of Control on Banks and Financial Institutions, overall Shari’a governance framework of FIB is deemed strong. Aside from the retirement of the former head of the Fatwa and Shari’a Supervisory Board of the Bank, there had been no major change in the Shari’a governance infrastructure.

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