

## Faysal Bank Limited

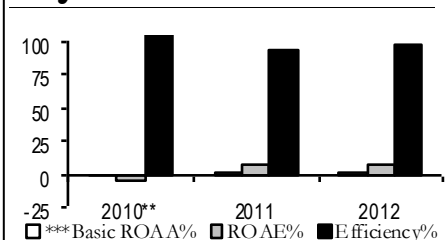
Chairman: Syed Naseem Ahmad; CEO: Mr. Naved A. Khan

July 02, 2013

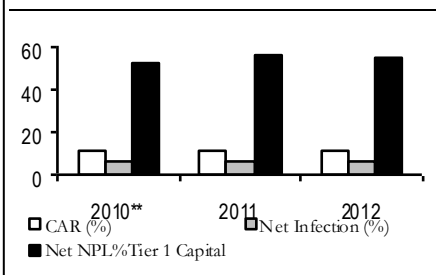
Analysts: Sobia Maqbool, CFA  
Anum Irfan

Category	Latest	Previous
Entity	AA/A-1+	AA/A-1+
	Jun 26, '13	Jun 29, '12
TFC-I	AA-	AA-
Rs. 1b	Jun 26, '13	Jun 29, '12
TFC-II	AA-	AA-
Rs. 3b	Jun 26, '13	Jun 29, '12
Outlook	Stable	Stable

### Key Financial Trends



\*\*Based on recurring profit before provision and taxation



	2010**	2011	2012
Net Advances (Rs. in b)	133.7	148.2	172.3
Deposits (Rs. in b)	195.3	214.6	240.7
Market Share %	3.8%	3.7%	3.6%
Deposit Cost (%)	7.1%	7.1%	6.4%
Profit / (Loss) (Rs. in b)	1.2***	1.3	1.4
Equity (Rs. in b)	16.5	17.8	18.7
CAR (%)	10.31%	10.65%	10.75%
Liquid Assets % Deposits & Borrowings	34%	37%	35%
Net Infection (%)	5.6%	6.1%	5.4%

\*\* Combined full year RBS & FBL stand-alone numbers \*\*\* Includes full year profit of FBL and two and a half months' profit of RBS

### Rating Rationale

Given the prevailing conditions, operating environment for mid-tier banks is considered to be challenging. As banks recognize the full year impact of downward asset re-pricing and minimum return of 6% on savings deposits on average balance method, spreads may squeeze further. Additional reduction in discount rate may exert pressure on spreads and hence profitability.

Faysal Bank Limited (FBL) was operationally profitable in FY12, supported by bank's ability to control costs. Bottom line also derived support from capital gains on trading of government securities and limited provisioning expense; the bank has availed cumulative Forced Sale Value (FSV) benefit of Rs. 3.9b. Moreover, the bank has also availed relaxation from the regulator in lieu of application of time based provisioning criteria against certain non-performing loans & investments, aggregating Rs. 1.5b. Unless recoveries are made in case of former and financial condition of the borrowers improves in case of latter, additional provisions would require to be created against such facilities in 2013 and ahead. In view of this, capitalization indicators of the bank require strengthening; Capital Adequacy Ratio (CAR) was marginally higher at 10.75% at end-FY12 (FY11: 10.65%), against minimum requirement of 10%.

The stock of liquid assets in relation to deposits and borrowings was slightly lower at end-FY12 vis-à-vis FY11. As a positive development, growth in small ticket deposits has reduced the bank's reliance on large sized deposits. Moreover marginal improvement was witnessed in concentration in deposit base as top ten deposits represented 10% (FY11: 11%) of total deposits at end-FY12. Growth in deposit base of the bank has been derived from current & savings accounts while proportion of term deposits has been reduced in the deposit mix. As a result, improvement was witnessed in the cost of deposits to 6.4% for FY12 (FY11: 7.1%).

During FY12, growth in lending portfolio of the bank surpassed industry growth rate; net advances amounted to Rs. 172b (FY11: Rs. 148b) at end-FY12. Growth in advances is largely led by corporate banking department. FBL has been increasing the proportion of corporate portfolio in total advances over the years; from 65% exposure in the same at end-FY07, it has increased to 80% (FY11: 74%) as at end-FY12. This also affects the ability of the bank to generate high spreads on lending activities, though quality of portfolio built in recent years has remained sound and instances of non-performance have been very limited in fresh lending undertaken by the bank. Overall portfolio quality however has room for improvement, with net infection reported at 5.4% (FY11: 6.1%).

Over the last year, exposure to equity price risk has been curtailed significantly as the bank shed off its equity holdings. This is also likely to reduce volatility in earnings profile. Moreover, the bank continues to closely monitor administrative costs. The bank is also aggressively working on recovery proceedings against non-performing financings to support the bottom line.

### Overview of the Institution

Ithmaar Bank Bahrain B.S.C. (IB), an Islamic Retail Bank listed in Bahrain and Kuwait, is the parent company of Faysal Bank Limited, holding directly and indirectly through its subsidiaries, 66.78% of FBL's shares. Dar Al-Maal Al-Islami Trust (DMI) being the holding company of IB is the ultimate parent of FBL. The financial statements for FY12 have been audited by M/s A.F. Ferguson & Co. Chartered Accountants **JCR-VIS**