Faysal Bank Limited

RATING REPORT

REPORT DATE:
July 3, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AA	A-1+	AA	A-1+
TFC-II	AA-		AA-	
Outlook	Stable		Stable	
Date	*June 30, '15*		*June 30, '14*	

COMPANY INFORMATION

Established in 1994	External auditors: **A.F. Ferguson & Co. Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Farooq Rahmatullah**
Key Shareholders (with stake 5% or more):	President & CEO: **Mr. Nauman Ansari**
Ithmaar Bank B.S.C. (66.78%)	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (December 2001): ***http://jcrvis.com.pk/images/primercb.pdf***
Rating the Issue (September 2014): **http://jcrvis.com.pk/Images/criteria_instrument.pdf**

Faysal Bank Limited

OVERVIEW OF THE INSTITUTION

Ithmaar Bank B.S.C (IB), an Islamic Retail Bank listed in Bahrain and Kuwait, is the parent bank of Faysal Bank Limited, holding directly and indirectly, 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.

RATING RATIONALE

With concerted efforts by management, the stress on financial indicators of Faysal Bank Limited (FBL) has continued to subside, as evident from growing operating profitability and enhanced liquidity profile. Asset quality and capitalization indicators have depicted improvement; although they still compare less favorably to peer banks. Market share of the bank in domestic deposits stood at 3.4% (2013: 3.6%).

Capitalization indicators of the bank have improved on a timeline base with increase in Tier-1 and overall CAR and a reduction in net NPLs to Tier 1 equity. However, capitalization indicators compare less favorably to most peer banks. Net NPLs in relation to tier-1 capital stood at 28.8% as compared to peer group median of 11.5%. Given the growth plans of the bank, enhanced capital requirements under Basel 3 and increase in risk weight on unrated exposures, there is a need to further strengthen capitalization levels.

Asset base of the bank has grown at a compound annual growth rate (CAGR) of 9.8% over the last 4 years, lower than CAGR of 14.2% posted by the banking sector. In line with trend in the banking sector, additional liquidity was channelized towards PIBs. Resultantly, proportion of investments in total assets increased to 40% (2013: 32%). Given that around 94% of the investment portfolio represents exposure to the sovereign, credit risk emanating from the investment portfolio is considered manageable.

Corporate loan book continues to remain the mainstay of the bank's lending operations comprising over three-fourths of the financing portfolio. Overall portfolio quality indicators have depicted improvement with reduction in portfolio concentration and decline in net infection; although, both parameters continue to be on the higher side. Net infection at 3.5% is higher than peer median of 1.5% at year-end 2014. Going forward, management plans to aggressively grow its consumer portfolio; rising trend in infection in the same needs to be arrested. FSV benefit availed by the bank declined on a timeline basis; although it continues to remain sizeable. Management intends to minimize the provisioning expense, arising on account of FSV withdrawal, change in classification of NPLs and provisions in lieu of fresh classification, through recoveries from existing non-performing clients.

Liquidity profile of FBL has depicted improvement in the outgoing year as evident from an increase in liquid assets to deposits & borrowings ratio. Deposit mix has largely been maintained at prior year level, with proportion of CASA being maintained at 66% while concentration in deposit base has depicted mild improvement. Given that deposit per branch is currently on the higher side in relation to peers, management plans to set up additional branches during 2015 in order to expand its deposit base.

Core earnings of the bank increased by 46% and 89% in 2014 and 1Q15, respectively. Apart from increase in net interest income, major contribution to growth in operating profits during 1Q15 was due to a sizeable decline in administrative expenses on the back of VSS initiative undertaken by the bank. Profitability of the bank is expected to remain strong on the back of sizeable PIB holdings and benefit of lower operating expenses due to VSS introduced by the management. However, if low interest rate environment persist over the long term, spreads and profitability are expected to come under pressure with maturity of PIBs, particularly following the recent cut in discount rate whereby the downward adjustment in cost of saving deposits will be less than the re-pricing of loans.

FINANCIAL SUMMARY			Appendix II
BALANCE SHEET *(Figures in PKR Billions unless stated otherwise)*	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	155	113	88
Advances	181	184	172
Total Assets	388	355	313
Borrowings	61	45	36
Deposits & other accounts	283	271	241
Subordinated Loans *(in PKR millions)*	2,995	3,495	4,195
Tier-1 Equity	22	21	19
Net Worth	26	22	21
INCOME STATEMENT *(Figures in PKR millions)*	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	13,832	10,845	8,963
Net Provisioning	2,359	2,116	1,401
Non-Markup Income	4,374	4,526	5,282
Operating Expenses	12,162	11,079	10,810
Profit Before Tax	3,552	2,161	1,835
Profit After Tax	2,477	1,850	1,420
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	4.1%	4.5%	4.5%
Market Share (Deposits) (%)	3.4%	3.6%	3.6%
Gross Infection (%)	14.3%	13.5%	14.4%
Provisioning Coverage (%)	78.6%	71.5%	66.3%
Net Infection (%)	3.5%	4.3%	5.0%
Cost of deposits (%)	5.1%	5.1%	6.4%
Net NPLs to Tier-1 Capital (%)	28.8%	38.2%	49.4%
Capital Adequacy Ratio (C.A.R (%))	12.2%	11.3%	10.7%
Markup Spreads (%)	5.3%	4.8%	4.6%
Efficiency (%)	70.9%	76.4%	89.9%
Basic* ROAA (%)	1.3%	1.0%	0.4%
ROAA (%)	0.7%	0.6%	0.5%
ROAE (%)	10.2%	8.6%	7.1%
Liquid Assets to Deposits & Borrowings (%)	49.9%	43.4%	38.7%
** Recurring Income – Administration Expenses*			

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix IV

Name of Rated Entity	Faysal Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity & TFC Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: Entity		
30-Jun-15	AA	Stable	A-1+	Reaffirmed
30-Jun-14	AA	Stable	A-1+	Reaffirmed
26-Jun-13	AA	Stable	A-1+	Reaffirmed
02-Jul-12	AA	Stable	A-1+	Reaffirmed
28-Jun-11	AA	Stable	A-1+	Reaffirmed
24-Feb-11	AA	Stable	A-1+	Rating Watch Removed
01-Jun-10	AA		A-1+	Rating Watch - Developing

		RATING TYPE: TFC - 2	
30-Jun-15	AA-	Stable	Reaffirmed
30-Jun-14	AA-	Stable	Reaffirmed
26-Jun-13	AA-	Stable	Reaffirmed
02-Jul-12	AA-	Stable	Reaffirmed
28-Jun-11	AA-	Stable	Reaffirmed
24-Feb-11	AA-	Stable	Rating Watch Removed
27-Sep-10	AA-	Rating Watch – Developing	Final
24-Jun-10	AA-	Rating Watch – Developing	Preliminary

Instrument Structure	TFC-2 is an unsecured instrument, sub-ordinated to all other indebtedness of the bank including deposits. The TFC features payments of 0.20% of principle of Rs. 3b in first 60 months and remaining principal in 4 semi-annual installments of 24.95% starting from 66th month. Applicable coupon rate is KIBOR +2.25%. The instrument was issued in December 2010 and is due to mature in December 2017.
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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