RATING REPORT

Faysal Bank Limited

REPORT DATE:
July 4, 2018

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+
Outlook	Stable		Stable	
Date	*June 29, '18*		*June 30, '17*	

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):	**CEO:** Mr. Yousaf Hussain
Ithmaar Bank & Subsidiaries – 66.8%	
State Life Insurance Corporation of Pakistan – 5.3%	
General Public – 17.8%	

APPLICABLE METHODOLOGY(IES)
PRIMER - Commercial Banks (March 2018): http://jcrvis.com.pk/docs/Meth-CommercialBanks201803.pdf

Faysal Bank Limited

OVERVIEW OF THE INSTITUTION

Ithmaar Bank B.S.C (IB), a Islamic Retail Bank in Bahrain and Kuwait, is the parent bank of Faysal Bank Limited, holding directly and indirectly, 66.78% of FBL's shares.

FBL has a branch network of 405 (2016: 355) branches, including 197 (2016: 146) Islamic branches and one Islamic sub-branch

Profile of Chairman

Mr. Farooq Rahmatullah is a seasoned professional with a diverse experience in several roles in different organizations. He is a Law graduate and is currently serving on Board of three other organizations.

Profile of CEO

Mr. Yousaf Hussain has over 23 years of professional experience, primarily at ABN AMRO Bank where he held multiple senior managerial positions including those within the Corporate / Credit and Transaction Banking functions. He has been affiliated with Faysal Bank since August 2008, with a significant contribution to the franchise in his previous positions as Chief Risk Officer, Regional Corporate.

RATING RATIONALE

Faysal Bank Limited (FBL) is engaged in provision of conventional and Islamic Corporate, Commercial and Consumer banking services. FBL is a mid-sized bank having a market share of 3.0% (2016: 3.0%) in domestic deposits and 3.9% (2016: 4.1%) in domestic advances. Long term strategic vision of the bank involves transformation from a conventional bank into a full-fledged Islamic bank by 2020 (flexible). An asset led conversion model has been adopted by the management in this regard; the same is currently in implementation phase.

Rating Rationale:

Advances showcased growth with improvement in asset quality indicators. Room for improvement in NPLs exists in comparison to peers. Investment portfolio, concentrated in government securities, remains sound

Although, advances exhibited growth of 11.3% to Rs. 255.8b (2016: Rs. 229.8b), during the outgoing year, market share of the same declined slightly to 3.9% (2016: 4.1%) at end 2017. Corporate advances remain the forte of the bank as the same constituted 73% of the total advances portfolio. Client wise concentration improved on a year-on-year basis as top-20 funded exposures accounted for 40.5% (2016: 41.9 %) of the gross loan portfolio at end-2017. Moreover, management was able to maintain underwriting quality despite increasing financing portfolio as net infection witnessed favorable movement to 1.6% (2016: 2.7%) at end 2017 due to reduction in NPLs on the back of recoveries. However, net NPLs to Tier-1 equity continue to be on the higher side vis-à-vis peers due to the impact of legacy portfolio.

Credit and market risk emanating from investment portfolio is considered manageable given that government securities constitute 85.1% (2016: 87.5%) of the investment portfolio at end 2017. Moreover, duration has declined on a timeline basis owing to higher proportion of T-bill holding of 69% (2016: 53%) at end-2017. Given the limited availability of Islamic investment instruments, increase in Islamic financing portfolio is expected to remain the primary growth avenue for the bank.

Liquidity profile remains comfortable, deposit growth continues along with concentration in the same

Overall liquidity profile of the bank is considered manageable. While granularity in deposit base continued to decrease during the outgoing year, presence of sizeable liquid assets of 45.0% (2016: 45.9%) in relation to deposits and borrowings at end 2017 provides comfort to the liquidity profile of the bank. Market share of deposits remained stable at 3% (2016: 3%) at end 2017, moreover top 50 depositors accounted for 24.6% (2016: 23.3%) of the total deposit base. Improvement is warranted in the market share and concentration of deposits to keep the risk profile commensurate with the outstanding rating. Going forward, expansion in branch network is expected to improve the granularity in deposits, while initiatives undertaken by the management to improve customer service and focus on digital banking to automate processes are expected to facilitate growth in overall deposit base.

Profit retention strengthens capitalization indicators, the same are expected to maintain cushion over the regulatory requirement

Capitalization indicators, including Capital Adequacy Ratio (CAR) and leverage ratio, have depicted improvement to 15.9% (2016: 14.6%) and 5.2% (2016: 5.1%) respectively. Improvement in the same was brought about by increase in capital on the back of retention in profits. Going forward, capitalization indicators of the bank are expected to remain comfortable over the regulatory requirement after accounting for projected growth in advances and impact of additional provisioning due to adoption of IFRS 9 accounting standards.

Improvement in net profit has continued. Given the expansion in branches pressure in profitability growth which is expected to ease off in coming years given cost controls

Profitability of the bank increased to Rs 4.5b (2016: Rs. 4.3b) during the outgoing year as a result of improvement in topline and controlled growth in expenses. Net markup income increased primarily on account of volumetric growth in average earning assets, while spreads were also slightly higher at 2.8% (2016: 2.7%) due to realization of some suspended markup income and decrease in cost of deposits. Going forward, projected volumetric growth in advances coupled with increasing interest rate scenario is expected to bode well for the operating profitability of the bank provided that expenses for branch expansion and NPLs are kept under control.

Faysal Bank Limited

FINANCIAL SUMMARY			Appendix I
BALANCE SHEET *(Figures in PKR Billions unless stated otherwise)*	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments	180	170	196
Advances	232	205	181
Total Assets	488	444	430
Borrowings	55	53	91
Deposits & other accounts	373	340	292
Subordinated Loans *(in PKR millions)*	-	1,497	2,994
Tier-1 Equity	33	28	24
Net Worth	39	35	30
INCOME STATEMENT *(Figures in PKR millions)*	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	13,960	12,066	13,955
Net Provisioning/(Reversal)	(496)	564	1,426
Non-Markup Income	5,614	6,954	5,564
Operating Expenses	12,608	11,661	11,166
Profit Before Tax	7,269	6,659	6,920
Profit After Tax	4,515	4,302	4,222
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Market Share (Advances) (%)	3.9%	4.1%	4.3%
Market Share (Deposits) (%)	3.0%	3.0%	3.0%
Gross Infection (%)	10.7%	13.1%	14.8%
Provisioning Coverage (%)	88.9%	83.2%	80.7%
Net Infection (%)	1.6%	2.7%	3.5%
Cost of deposits (%)	3.3%	3.5%	4.3%
Net NPLs to Tier-1 Capital (%)	10.8%	19.4%	26.2%
Capital Adequacy Ratio (C.A.R (%))	15.9%	14.6%	14.4%
Markup Spreads (%)	2.8%	2.7%	3.0%
Efficiency (%)	67.8%	71.0%	60.4%
Basic* ROAA (%)	1.3%	1.1%	1.7%
ROAA (%)	1.0%	1.0%	1.0%
ROAE (%)	14.2%	15.6%	17.6%
Liquid Assets to Deposits & Borrowings (%)	45.0%	45.9%	46.3%
** Recurring Income – Administration Expenses*			

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

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 III

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

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Entity				
29-Jun-18	AA	Stable	A-1+	Reaffirmed
30-Jun-17	AA	Stable	A-1+	Reaffirmed
28-Jun-16	AA	Stable	A-1+	Reaffirmed
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

Instrument Structure	N/A
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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