RATING REPORT

Faysal Bank Limited

REPORT DATE:
June 30, 2022

RATING ANALYST:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity Rating	AA	A-1+	AA	A-1+
Outlook	Stable		Stable	
Date	*June 30, 2022*		*June 30, 2021*	

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 B.S.C ~48.06%	
Faisal Finance (Luxemburg) S.A. ~8.55%	
MFAI (Jersey) Limited ~5.89%	
State Life Insurance Corporation of Pakistan ~5.30%	
General Public ~16.69%	

APPLICABLE METHODOLOGY(IES)
VIS Commercial Banks Rating: **https://docs.vis.com.pk/docs/Meth-CommercialBanks202006.pdf**

Faysal Bank Limited

OVERVIEW OF THE INSTITUTION

Ithmaar Bank B.S.C (IB), an Islamic Retail Bank in Bahrain and Kuwait, is the parent Bank of Faysal Bank Limited, holding directly and indirectly, 66.8% of FBL's shares.

FBL has a branch network of 576 branches (2019: 555); including 500 Islamic branches in Pakistan.

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 28 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.

RATING RATIONALE

Faysal Bank Limited ('FABL' or 'the Bank') is a mid-sized Bank in Pakistan holding a market share of 3.2% and 4.1% in terms of deposits and financings respectively. FBL is engaged in provision of banking services in Pakistan for 27 years and caters to all customer segments, i.e. Retail, SMEs, Commercial, Agri-based and Corporates. Headquartered in Karachi, the Bank's footprint spreads over 220+ cities across Pakistan with 606 branches, of which 595 are Islamic banking branches.

The rating incorporates progress in conversion, which is scheduled to be concluded by Nov'22

As of March 2022, the management has successfully converted 86% of the financing book and 75% of the deposit book into Shariah compliant modes. As per management, the remaining financing book largely comprises a few syndicate financing transactions, which will likely be offloaded to conventional counterparts, unless Shariah Board allows an exemption on the same. The Bank is scheduled for full conversion by Nov'22.

The rating incorporates FABL's market positioning, which is a rating constraint

The assigned rating incorporates FABL's market positioning as a medium-sized bank, given its market share of 3.2% and 4.1% in terms of deposits and financings respectively, as of Mar'22.

The rating incorporates improvement in FABL's asset quality indicators

Asset quality indicators of the Bank depicted improvement, which is partly attributable to the portfolio growth and partly to the decline in NPLs. Improvement in impairment has been noted across the segments. Furthermore, net infection, at 0.9%, and specific provisioning coverage at 83.7% is considered adequate.

Liquidity indicators are comparable to peers

FABL's liquidity profile derives impetus from its sizable and growing branch network, which has allowed the Bank to gain market share, particularly in the Islamic Banking segment, since our last review. Furthermore, the Bank's overall cost of funding stands lower than the peer median. Deposit composition continued to depict improvement, as reflected by the proportionate increase in CASA. Nevertheless, it is pertinent to mention that much of the deposit growth manifested in larger-sized depositors, as a result of which deposit granularity has been affected The liquidity profile of FABL derives strength from sizable coverage of deposits and borrowings by liquid assets. As of Mar'22, the Bank's liquid assets to deposits and borrowings (LADB) was lower at 55.1%, which was in line with the peer median.

Profitability indicators of the Bank are comparable to peers, albeit outlook on industry profitability is stressed

In line with the industry trend, wherein average benchmark rate prevailing during 2021 was lower than 2020, FABL's spread depicted contraction. Nevertheless, given the volumetric growth in assets deployed the Bank's net spread income was up by 5% and 32% in 2021 and Q1'22 respectively. FABL's RoAA is aligned with its peers.

The short term outlook on FABL's profitability is stressed mainly as spreads are likely to undergo contraction in the short term and normalize by Q4'22/Q1'23; this is mainly attributable to the upward trajectory in benchmark rates, which should translate in an uptick in spread. Nevertheless, given the lag in repricing of assets vis-à-vis liabilities, the spread is likely to contract in Q2/Q3'22 and normalize subsequently. FABL is viewed to be well placed vis-à-vis its conventional counterparts, in terms of modified duration of its debt portfolio. Incorporating the impact of the movement in benchmark rates, FABL is estimated to incur a deficit of Rs. 850m subsequent to Mar'22. Nevertheless, when viewed in context of the Bank's bottomline, the impact is likely to be manageable. Accordingly, even with slight stress, FABL's profitability is projected to remain comparable to peers.

The Bank compares favorably to peers, from a capital adequacy purview

As of Mar'22, FABL's CAR stood at 16.8%, significantly higher than the minimum requirement set by the SBP and superior to the peers. Going forward, as the management grows its financing book, in line with their vision of a higher Financings to Deposits ratio, the resultant uptick in risk-weighted assets is likely to weigh on the Bank's capital adequacy. Moreover the credit headwinds may translate in a higher provisioning burden, which may curtail internal capital generation capacity. Nevertheless, the stress on CAR, will be an industry phenomenon for 2022, and accordingly FABL's CAR is expected to remain strong in relative terms.

FINANCIAL SUMMARY				Appendix I
BALANCE SHEET *(Figures in PKR Billions)*	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Total Investments	204.1	276.9	357.5	400.5
Gross Advances	333.8	339.7	416.8	424.0
Total Assets	629.9	710.0	869.6	932.3
Borrowings	72.7	58.4	111.2	163.5
Deposits & other accounts	457.8	540.6	644.1	649.2
Subordinated Debt	-	-	-	-
Tier-1 Equity	43.2	49.7	57.6	57.1
Net Worth	55.3	60.1	65.8	66.5
INCOME STATEMENT	**2020**	**2021**	**Q1'21**	**Q1'22**
Net Mark-up Income	24.5	25.8	5.4	7.2
Net Provisioning/(Reversal)	2.3	0. 5	(0.5)	(0.7)
Non-Markup Income	8.2	8.5	2.2	2.1
Administrative Expenses	19.4	20.6	4.6	5.9
Profit Before Tax	10.8	13.4	3.5	3.5
Profit After Tax	6.5	8.2	2.1	2.1
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Market Share (Advances) (%)	4.1%	4.0%	4.1%	4.1%
Market Share (Deposits) (%)	3.1%	3.0%	3.1%	3.2%
Advances to Deposits Ratio (%)	68.1%	53.2%	52.8%	52.4%
Liquid Assets to Deposits & Borrowings (%)	44.2%	57.0%	54.3%	55.1%
NPLs	30.4	26.2	23.4	23.3
Gross Infection (%)	9.1%	7.7%	5.6%	5.5%
Provisioning Coverage (%) (incl. general prov)	79.7%	82.2%	87.5%	87.8%
Net Infection (%)	2.2%	1.7%	1.0%	0.9%
Cost of funds (%)	7.2%	5.2%	3.7%	4.8%
Net NPLs to Tier-1 Capital (%)	15.8%	11.0%	6.6%	6.5%
Tier-1 CAR (%)	15.5%	16.0%	15.7%	15.1%
Capital Adequacy Ratio (C.A.R (%))	19.1%	18.7%	17.5%	16.8%
LCR (%)	141.6%	211.0%	214.0%	209.0%
NSFR (%)	135.6%	169.3%	171.8%	163.9%
Markup Spreads (%)	4.6%	4.7%	4.3%	4.2%
Efficiency (%)	60.1%	62.9%	61.0%	63.0%
ROAA (%)	1.0%	1.0%	1.0%	0.9%*
ROAE (%)	12.2%	11.3%	12.9%	12.9%*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	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				
30-Jun-22	AA	Stable	A-1+	Reaffirmed
30-Jun-21	AA	Stable	A-1+	Reaffirmed
29-Jun-20	AA	Stable	A-1+	Reaffirmed
27-Jun-19	AA	Stable	A-1+	Reaffirmed
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	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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Due Diligence Meetings Conducted

S.no	Name	Designation	Date
1	Mr. Syed Majid Ali	CFO	June 15, 2022
2	Mr. Mian Salman Ali	CRO	June 15, 2022