RATING REPORT

Faysal Bank Limited

REPORT DATE:
June 27, 2023

RATING ANALYST:
Musaddeq Ahmed Khan
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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	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Date	*June 27, 2023*		*June 30, 2022*	

COMPANY INFORMATION	
Established in 1994	**External auditors:** M/s. KPMG Taseer Hadi & Co., Chartered Accountants
Public Limited Listed Company	**Chairman of the Board:** Mr. Farooq Rahmatullah Khan
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%	

APPLICABLE METHODOLOGY(IES)

VIS Financial Institution Rating (June 2023):
https://docs.vis.com.pk/docs/FinancialInstitution.pdf

VIS Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Faysal Bank Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 700 Islamic branches (2021: 595 Islamic; 11 Conventional 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 29 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 3.4% and 4.3% in terms of deposits and financings respectively as of Mar'23. Registered Office in Karachi, FABL is engaged in provision of banking services in Pakistan for 29 years and caters to all customer segments, i.e. Retail, SMEs, Commercial, Agri-based and Corporates. The Bank has recently, effective January 01, 2023, converted into a full-fledged Islamic bank, becoming the second largest full-fledged Islamic bank in the country with 700 branches operating across 270 +cities.

Banking Sector

The economy is currently facing several challenges, including a decrease in foreign reserves, a devaluing currency, and high inflation levels. To combat rising inflation, caused by the commodity super cycle and effects of Ukraine war, the central bank has implemented stricter monetary policies, resulting in a significant increase in the policy rate. This has led to higher funding costs for banks and impacted borrowers' debt servicing ability. As a result, banks are adjusting by increasing provisions for potential loan losses and writing off non-performing loans. The economic slowdown will likely prompt stricter lending standards with banks continuing to remain heavily invested in sovereign exposures. Counterbalancing this, rising interest rates should help banks maintain their margins, partially offsetting the decline in earnings and allowing for improved profitability. However, there is increased credit risk and market risk vulnerability, especially in the face of any potential interest rate or currency fluctuations, which could impact the capitalization levels of banks. Looking ahead, the medium to long-term outlook for the fiscal account is challenging because the government is struggling to expand its revenue base. Public debt accumulation is accelerating, crowding out private sector credit. This trend also increases the risk of potential sovereign debt restructuring. Given banking sector balance sheets highly skewed towards Government paper, this could lead to liquidity and profitability challenges, particularly for small and medium-sized banks in the future.

Key Rating Drivers

Successful transition to an Islamic bank presents enhanced prospects and opportunities.

As of January 1, 2023, the Bank has successfully converted into an Islamic bank. Given the scale, the conversion is significant and puts the Bank in a new league of Islamic banks. With the rapid growth of Islamic banking in recent years, the market offers greater opportunities for the Bank.

Market share remains a rating constraint

FABL's market positioning as a medium sized bank with a market share of 3.4%, as of Mar'23, in terms of deposit, remains a rating constraint. Going forward, leveraging the Islamic bank conversion to strengthen market share will remain important.

FABL's asset quality indicators compare favorably to peers, albeit provisioning coverage has room for improvement.

Improvement in gross infection (GI) has been noted across the segments. Moreover, as of Mar'23, the net infection rate of 0.6% compares favorably with peers and industry. However, specific provisioning coverage of 85.6% is considered adequate, compared to peers with room for improvement when benchmarked against the industry.

Deposit concentration weighs in on liquidity metrics of the Bank

Deposit composition continued to depict improvement, as reflected by the proportionate increase in Current Account Saving Account (CASA), however much of the deposit growth manifested in larger-sized depositors, as a result of which deposit granularity has been affected. In addition, deposit sensitivity has increased with greater reliance on relatively more volatile deposits which has led to Liquidity Coverage Ratio (LCR) recording a decline over time.

Profitability indicators of the Bank are comparable to peers with margin uptick expected, going forward

While profitability in terms of return on assets (RoAA) remained aligned with that of peers, there is room for spread improvement relative to peers. No significant provisioning in 2022 supported the profitability profile of the Bank, however in Q1'23 the Bank absorbed some of the equity book losses given the uptick in net interest income. Going forward, we expect margin improvement to continue allowing the Bank to absorb potential provisioning burden that may arise amidst heightened credit risk environment as well as additional tax burden. However, maintenance and further enhancement of low cost deposit base will remain important for future profitability as financing portfolio presents limited room for pricing improvement.

Capital Adequacy to remain sound relative to peers.

With the Bank targeting to grow the balance sheet and its financing book, 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 impact on CAR may not be significant, with the Bank being able to maintain the CAR above 15.5%, in line with industry average.

Faysal Bank Limited

FINANCIAL SUMMARY			Appendix I
BALANCE SHEET *(Figures in PKR Billions)*	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Total Investments	357.5	469.5	467.0
Gross Advances	416.8	473.6	508.2
Total Assets	869.6	1,074.4	1,133.1
Borrowings	111.2	150.1	189.6
Deposits & other accounts	644.1	781.6	799.8
Subordinated Debt	-	-	-
Paid-Up Capital	15.2	15.2	15.2
Tier-1 Equity	57.2	55.7	56.1
Net Worth	65.8	70.0	70.4
INCOME STATEMENT	**2021**	**2022**	**Q1'2023**
Net Mark-up Income	25.8	40.0	13.0
Net Provisioning/(Reversal)	0.05	(0.9)	1.4
Non-Markup Income	8.5	9.0	2.5
Administrative Expenses	20.6	27.0	7.8
Profit Before Tax	13.4	22.4	6.2
Profit After Tax	8.2	11.2	3.2
RATIO ANALYSIS	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Market Share (Advances) (%)	4.1%	4.0%	4.3%
Market Share (Deposits) (%)	3.1%	3.5%	3.4%
Advances to Deposits Ratio (%)	52.8%	49.8%	53.5%
Liquid Assets to Deposits & Borrowings (%)	54.3%	53.2%	47.2%
NPLs	23.4	21.7	21.8
Gross Infection (%)	5.6%	4.6%	4.3%
Specific Provisioning Coverage (%)	83.5%	85.5%	85.6%
Total Provisioning Coverage (%)	87.5%	89.1%	89.2%
Net Infection (%)	1.0%	0.7%	0.6%
Cost of funds (%)	3.7%	7.4%	9.10%**
Net NPLs to Tier-1 Capital (%)	6.6%	5.6%	5.5%
Tier-1 CAR (%)	15.7%	12.9%	13.9%
Capital Adequacy Ratio (C.A.R (%))	17.5%	15.5%	16.7%
LCR (%)	214.0%	179%	140%
NSFR (%)	171.8%	169.7%	161%
Markup Spreads (%)	4.3%	4.9%	5.3%**
Efficiency (%)	61.0%	54.0%	47.6%
ROAA (%)	1.0%	1.2%	1.2%*
ROAE (%)	15.0%	19.1%	21.3%

**Annualized*
***Estimate*

REGULATORY DISCLOSURES — Appendix II

Name of Rated	Faysal Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see below)
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	(see below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Entity				
27-Jun-23	AA	A-1+	Stable	Reaffirmed
30-Jun-22	AA	A-1+	Stable	Reaffirmed
30-Jun-21	AA	A-1+	Stable	Reaffirmed
29-Jun-20	AA	A-1+	Stable	Reaffirmed
27-Jun-19	AA	A-1+	Stable	Reaffirmed
29-Jun-18	AA	A-1+	Stable	Reaffirmed
30-Jun-17	AA	A-1+	Stable	Reaffirmed
28-Jun-16	AA	A-1+	Stable	Reaffirmed
30-Jun-15	AA	A-1+	Stable	Reaffirmed
30-Jun-14	AA	A-1+	Stable	Reaffirmed
26-Jun-13	AA	A-1+	Stable	Reaffirmed
02-Jul-12	AA	A-1+	Stable	Reaffirmed
28-Jun-11	AA	A-1+	Stable	Reaffirmed
24-Feb-11	AA	A-1+	Stable	Rating Watch Removed
01-Jun-10	AA	A-1+		Rating Watch - Developing

Due Diligence Meetings Conducted

S.no	Name	Designation	Date
1	Mr. Shuja Haider	Treasury Head	8-June-2023
2	Mr. Syed Majid Ali	Chief Financial Officer	8-June-2023
3	Mr. Tanveer Khatri	Financial Controller	8-June-2023
4	Mr. Mian Salman Ali	Chief Risk Officer	16-June-2023