

RATING REPORT

Faysal Bank Limited

REPORT DATE:

June 28, 2024

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/Rating Watch	Positive		Stable	
Rating Action	<i>Maintained</i>		<i>Reaffirmed</i>	
<i>Date</i>	<i>June 28, 2024</i>		<i>June 27, 2023</i>	

COMPANY INFORMATION

Established in 1994	External auditors: M/s. KPMG Taseer Hadi & Co., Chartered Accountants
Public Limited Listed Company	Chairman of the Board: Mian Mohammad Younis
Key Shareholders (with stake 5% or more):	CEO: Mr. Yousaf Hussain
<i>Ithmaar Bank B.S.C ~48.06%</i>	
<i>Faisal Finance (Luxemburg) S.A. ~8.55%</i>	
<i>MFAI (Jersey) Limited ~5.89%</i>	
<i>State Life Insurance Corporation of Pakistan ~5.30%</i>	

APPLICABLE METHODOLOGY(IES)

Rating Methodology – Financial Institution

<https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf>

VIS Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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 722 Islamic branches (2022: 700 Islamic branches); in Pakistan.

Profile of Chairman

Mr. Mian Mohammad Younis, has a Master's degree in economics and brings nearly 40 years of distinguished experience in public finance, banking, and financial sector reforms on both national and international level. His expertise encompasses corporate governance, regulatory frameworks, and audit procedures.

Profile of CEO

Mr. Yousaf Hussain has over 30 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'), incorporated in 1994, is a mid-sized Bank in Pakistan, which has transitioned into a full-fledged Islamic Bank effective Jan 1, 2023, holding a market share of 3.7% and 5.0% in terms of deposits and financings respectively as of Mar'24. Registered Office in Karachi, FABL is engaged in provision of banking services in Pakistan for 30 years and caters to all customer segments, i.e. Retail, SMEs, Commercial, Agri-based and Corporates. The bank now operates about 722 branches across 270+ cities and ranks as the 7th largest bank in the country.

Banking Sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability.

One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated, prompting the SBP to retain the policy rate at 22.0% for an extended period and only reducing it by 1.5% in June 2024. This stance reflects the central bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as taxation, energy, and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Key Rating Drivers**Transition to a full-fledged Islamic bank strengthens banks market position**

The successful transition to a full-fledged Islamic bank, completed on January 1, 2023, has opened doors to a large faith-based market, offering better spreads and robust growth opportunities. By the end of March 2024, the bank achieved a market share of

3.7%, with deposits surpassing Rs 1 trillion. This milestone has positioned it as the second-largest Islamic bank in the country, commanding a 23% share of deposits among standalone Islamic banks. The stability of the management team throughout this transition period demonstrates a strong commitment to the bank's strategic vision and the perseverance to execute the strategic plan effectively.

Rating incorporates the ongoing change in ownership

The recent announcement for sale of controlling interest in FBL to GFH Financial Group BSC, following regulatory approvals, is considered positive. GFH Financial Group, a Bahrain-based Islamic investment bank, offers financial services in investment banking, commercial banking, and asset management. The group has diverse investments across sectors such as real estate, infrastructure, and private equity, with projects in the Middle East, North Africa, Europe, and North America. GFH is listed on the Bahrain Bourse, Kuwait Stock Exchange, and Dubai Financial Market. As of Dec 31, 2023, the equity base of GFH stood at USD 1billion, while asset base was recorded at USD 11b.

Asset quality improvement

Non-performing loans (NPLs) have remained fairly contained with gross infection at 3.8%, comparing favorably to peers. The containment of NPLs is particularly noteworthy given the expanding loan portfolio and the heightened credit risk environment. Furthermore, the implementation of IFRS 9, which introduces more stringent requirements for loan loss provisioning and recognition, has not adversely impacted the stability of NPLs. This indicates that the bank has successfully navigated the transition to IFRS 9, maintaining a healthy balance sheet while continuing to grow its lending operations.

Improved cost of deposit weighs in favorably

The transition to an Islamic bank has helped lower the cost of deposits, making it more competitive compared to other medium-sized banks. This spread improvement is a key driver of the bank's strong financial performance in CY23, underscoring the effectiveness of its transition to Islamic banking. Going forward further enhancement of low cost deposit base will remain important for future profitability.

Sound capital buffers

The equity position remains robust despite a Rs. 2.9 billion net tax adjustment due to IFRS 9, primarily due to substantial profitability gains. Consequently, Capital Adequacy Ratio (CAR) improved to 17.5% as of December 2023 and further to 18.6% as of March 2024. In addition, despite rise in risk weighted assets arising from expansion in financing portfolio, the profitability improvement on the back of Islamic banking assets and low cost liabilities supports the capitalization profile of the Bank.

Faysal Bank Limited

FINANCIAL SUMMARY (Rs. in millions)		Annexure I		
<u>BALANCE SHEET</u>		Dec'22	Dec'23	Mar'24
Total Investments		469,451	589,545	646,604
Islamic financing and related assets - Gross		473,590	600,762	602,807
Islamic financing and related assets - Net		454,261	580,711	576,313
Total Assets		1,074,353	1,370,074	1,474,484
Due to Financial Institutions		150,134	166,887	245,133
Deposits & other accounts		781,571	1,018,276	1,049,641
Subordinated Sukuks		-	-	-
Tier-1 Equity		55,718	72,868	77,778
Paid-up Capital		15,177	15,177	15,177
Net Shareholders Equity (excl. revaluation surplus)		59,435	75,047	76,731
<u>INCOME STATEMENT</u>		CY22	CY23	1QCY24
Net Spread Earned		39,988	71,053	18,685
Net Provisioning / (Reversal)		(940)	914	32
Total Other Income		8,959	12,089	4,663
Operating expenses		26,995	39,801	10,577
Profit/ (Loss) Before Tax		22,393	41,422	12,478
Profit / (Loss) After Tax		11,233	20,046	6,513
<u>RATIO ANALYSIS</u>		CY22	CY23	1QCY24
Market Share (Domestic Advances) (%)		4.0%	4.9%	5.0%
Market Share (Domestic Deposits) (%)		3.5%	3.7%	3.7%
Non-Performing Financings (NPFs)		21,698	23,060	23,189
Gross Infection (%)		4.6%	3.8%	3.8%
Total Provisioning Coverage (%) (incl. general prov.)		89.1%	86.9%	114.3%
Net Infection (%)		0.7%	0.7%	0.7%
Cost of Deposits (%)		6.2%	9.8%	12.6%*
Gross Financings to Deposits Ratio*** (%)		49.8%	51.1%	50.0%
Net NPFs to Tier-1 Capital (%) (adj. for general prov.)		5.6%	5.3%	4.9%
Tier 1 CAR (%)		12.9%	14.6%	15.9%
Capital Adequacy Ratio (CAR) (%)		15.5%	17.5%	18.6%
Spread (%)		4.8%	7.3%	7.5%*
Efficiency (%)		54.0%	47.0%	46.1%*
Liquidity Coverage Ratio (%) (LCR)		178.7%	152.7%	163.7%
Net Stable Funding Ratio (%) (NSFR)		169.7%	173.8%	175.2%
ROAA (%)		1.2%	1.6%	1.8%*
ROAE (%) (Net Shareholder Equity)		19.0%	29.8%	34.3%*
Liquid Assets to Deposits & Borrowings** (%)		55.1%	53.2%	51.9%

* Annualized

** Adjusted for Shariah Compliant Open Market Operations and Collateral

*** Adjusted for SBP refinancing schemes

REGULATORY DISCLOSURES					Appendix II
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	Outlook/ Rating Watch	Rating Action
	RATING TYPE: Entity				
	28-Jun-24	AA	A-1+	Positive	Maintained
	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	
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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	S.no	Name	Designation	Date
Due Diligence Meetings Conducted	1	Mr. Yousaf Hussain	Chief Executive Officer	13 th June 2024
	2	Mr. Syed Majid Ali	Chief Financial Officer	
	3	Mr. Ali Waqar	Head, Corporate & Investment Banking	
	4	Mr. Shuja Haider	Head, Treasury & ECM	
	5	Mr. Amin ur Rahman	Chief Digital Officer	