The Pakistan Credit Rating Agency Limited

FAYSAL BANK LIMITED (FBL)

ENTITY RATING REPORT

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

Assets:

- The total finances, including debt instruments, were ~44% in FBL's total assets at end-Dec15. The bank's advances book largely remained at the same level on a YoY basis. Advances were concentrated in the corporate sector (65%), followed by commodity finance (12%), consumer (9%) and SME sector (8%).
- The sectoral concentration continued to be dominated by power sector (17%) followed by Agriculture (16%) and textile sector (11%). The top20 exposure, comprises a mix of high rated corporate was at 25% during CY15 (CY14: 22%).

Funding

- The main source of FBL's funding – deposit base – comprises 73% of total liabilities as at end-Dec15. The deposit base (excluding Financial Institutions Deposits) of the bank grew by 2% (CY15: PKR 279bln, CY14: PKR266mln), thus lagging behind the industry, which grew by 11% in CY15.

Credit Risk

- The NPLs of the bank increased by PKR 1bln to PKR 30bln during the period. With the largely sustained advances book, the bank's infection ratio increased to 15% during CY15 (CY14: 14.3%). NPL coverage stood at 80%.
- The classified portfolio was largely concentrated in the textile and power sector.

Market Risk

- FBL's observed a healthy increase of ~26% in its investment portfolio. The investments book of PKR 189bln from ~44% of total assets at end-Dec15 (CY14: 38%). The portfolio is dominated by T-bills (55%), followed by PIBs (40%), GoP Ijara (2%) & equity (2%). The average duration of investment book is ~1.5 years (PIBs) with the unrealized gain amount to PKR 2bln at end-Dec15.

Performance

- The bank's net interest revenue was largely maintained on a YoY basis. During CY15, the spreads marginally decreased by 60bps (CY15: 4.2%, CY14: 4.8%) on account of a greater dip in the asset yield as compared to the rationalization in cost of funds.
- The higher contribution from a realization of gain on sale of investments coupled with increase in fee, commission and brokerage helped in augmenting the bank's non-mark up income, in turn positively impacting the total revenue stream on a YoY basis.
- The decline in the non-mark up expenses owing to rationalization of personal expenses helped in improving the cost to total net revenue ratio (CY15: 58%, CY14: 69%).
- The dip in the overall provisioning expenses supported a healthy growth in the bank's profitability on a YoY basis (CY15: PKR 4,222mln, CY14: 2,477mln).

Capital

- The bank observed a decent uptick in its equity base during 2015 mainly owing to an enhancement in its share capital through the issuance of bonus shares by the sponsoring bank and improved profitability. During CY15, the bank achieved a CAR of 14.4% (CY14: 12.2%).

Business Strategy

- FBL plans to focus on mobilizing low cost core deposits and enhancing business volume via branch outreach while bringing cost efficiencies. The Bank showed growth in corporate banking segment in the form of acquiring project financing syndication in infrastructure based CPEC projects.

Profile

- Faysal Bank Limited (FBL) started operations in Pakistan in 1987, first as a branch set up of Shamil Bank of Bahrain and since 1994, as a locally incorporated bank under the present name. The bank has a nationwide network of 280 branches at end-Dec15

Governance and management

- The overall control of the bank vests in the seven-member Board of Directors (BoD) including the CEO. Mr. Farooq Rahmatullah, the Chairman, is a professional carrying extensive experience in diverse roles related to the oil and gas industry. Mr. Nauman Ansari, the CEO since May'14 possesses a vast domestic and international banking experience.

RATING RATIONALE

The ratings reflect FBL's sustained focus on cautious growth amid efforts to strengthen its relative positioning. This entails prudent asset deployment and endeavors to achieve efficience in operations, while reducing the funding cost. The bank's deposit base has experienced cost rationalization, though it has some signs of concentration. Faysal Bank earns good spreads, also supported by structure of its lending book. The Bank showed growth in Corporate Banking segment in the form of acquiring project financing syndication in CPEC-based projects. There is need to harness recoveries while arresting NPLs. This, while supporting the bank's profitability, would provide cushion against risk absorption capacity. FBL's conversion into Islamic banking is a medium-term plan, which must be rolled out carefully to avoid business disruption or squeeze. Meanwhile, the ratings recognize FBL's association with a foreign business group (Dar Al Maal Al-Islami Trust) as a key factor.

KEY RATING DRIVERS

The ratings are dependent on bank's ability to sustain improvement in its financial profile. This is important since most peer banks have gained in terms of their size and profitability matrix in recent years. Any material weakening in asset quality, in turn, putting pressure on bank's profitability and risk absorption capacity would have negative implications for the ratings.

Financial Information

The Pakistan Credit Rating Agency Limited

Faysal Bank Limited

PKR mln

BALANCE SHEET	31-Mar-16	30-Dec-15	31-Dec-14	31-Dec-13
	1QCY16	Annual	Annual	Annual
Earning Assets				
Advances	174,830	172,214	175,383	176,725
Debt Instruments	3,179	7,969	7,737	6,671
Total Finances	178,009	180,183	183,120	183,396
Investments	155,890	189,690	149,299	107,386
Others	5,655	3,663	3,672	4,334
	339,555	**373,536**	**336,091**	**295,116**
Non Earning Assets				
Non-Earning Cash	22,801	23,739	18,036	25,401
Deferred Tax	3,172	3,087	2,429	3,981
Net Non-Performing Finances	2,534	3,743	4,017	6,728
Fixed Assets & Others	19,561	25,988	27,553	24,055
	48,068	**56,558**	**52,035**	**60,164**
TOTAL ASSETS	**387,622**	**430,094**	**388,126**	**355,280**
Interest Bearning Liabilities				
Deposits	296,718	292,130	283,346	271,134
Borrowings	44,112	93,559	63,922	48,942
	340,830	385,690	347,268	320,076
Non Interest Bearing Liabilities	16,224	14,031	14,555	13,037
TOTAL LIABILITIES	**357,054**	**399,720**	**361,823**	**333,114**
EQUITY (including revaluation surplus)	**30,569**	**30,374**	**26,303**	**22,166**
Total Liabilities & Equity	**387,622**	**430,094**	**388,126**	**355,280**

INCOME STATEMENT	31-Mar-16	30-Dec-15	31-Dec-14	31-Dec-13
	1QCY15	Annual	Annual	Annual
Interest / Mark up Earned	6,768	32,313	32,313	27,790
Interest / Mark up Expensed	(3,623)	(18,358)	(18,480)	(16,945)
Net Interest / Markup revenue	**3,145**	**13,955**	**13,832**	**10,845**
Other Income	1,681	5,557	4,373	4,526
Total Revenue	**4,827**	**19,512**	**18,206**	**15,371**
Non-Interest / Non-Mark up Expensed	(2,641)	(11,198)	(12,295)	(11,094)
Pre-provision operating profit	2,186	8,314	5,911	4,277
Provisions	(91)	(1,393)	(2,359)	(2,116)
Pre-tax profit	2,095	6,920	3,552	2,161
Taxes	(730)	(2,698)	(1,075)	(311)
Net Income	**1,365**	**4,222**	**2,477**	**1,850**

Ratio Analysis	31-Mar-16	30-Dec-15	31-Dec-14	31-Dec-13
	1QCY15	Annual	Annual	Annual
Performance				
ROE	20.9%	17.6%	11.7%	1.1%
Cost-to-Total Net Revenue	54.7%	58.2%	69.6%	75.0%
Provision Expense / Pre Provision Profit	4.2%	16.8%	39.9%	49.5%
Capital Adequacy				
Equity/Total Assets	6.8%	6.1%	5.6%	5.8%
Capital Adequacy Ratio as per SBP	12.6%	14.4%	12.2%	11.3%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	54.0%	57.6%	44.1%	39.2%
Advances / Deposits	60.9%	61.0%	64.0%	67.9%
CASA deposits / Total Customer Deposits	68.2%	67.6%	64.9%	64.6%
Intermediation Efficiency				
Asset Yield	10.7%	9.2%	10.3%	9.0%
Cost of Funds	5.1%	5.0%	5.5%	4.7%
Spread	5.5%	4.2%	4.8%	4.3%
Outreach				
Branches	280	280	274	269

STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**High default risk**. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Name of Issuer FAYSAL BANK LIMITED (FBL)
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Jun-16	AA	A1+	Stable	Maintain
22-Jun-15	AA	A1+	Stable	Maintain
23-Jun-14	AA	A1+	Stable	Maintain
26-Jun-13	AA	A1+	Stable	Maintain
30-Jun-12	AA	A1+	Stable	Maintain
30-Jun-11	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology — Bank Rating Methodology
Sector Research — Banking Sector - Viewpoint | Dec-15

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Rating Team Statement

Rating Procedure
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