Faysal Bank Limited

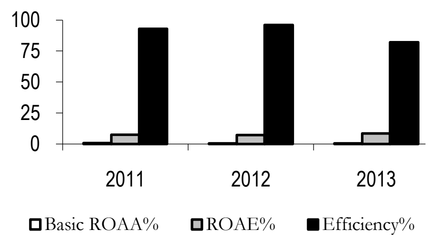
July 04, 2014

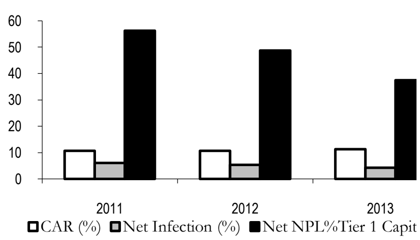
Chairman: Mr. Farooq Rahmatullah; CEO: Mr. Nauman Ansari

Waqas Munir, FRM
Moiz Badshah

Category	Latest	Previous
Entity	AA/A-1+ *Jun 30, '14*	AA/A-1+ *Jun 26, '13*
TFC-I *Rs. 1b*	AA- *Jun 30, '14*	AA- *Jun 26, '13*
TFC-II *Rs. 3b*	AA- *Jun 30, '14*	AA- *Jun 26, '13*
Outlook	*Stable*	*Stable*

Key Financial Trends





	2011	2012	2013
Net Advances (Rs. in b)	148.2	172.3	184.2
Deposits(Rs.in b) Market Share %	214.6 3.7%	240.7 3.6%	271.1 3.6%
Deposit Cost (%)	7.1%	6.4%	5.1%
Profit / (Loss) (Rs.in b)	1.3	1.4	1.8
Equity (Rs. in b)	17.8	18.7	20.6
CAR (%)	10.65%	10.69%	11.29%
Liquid Assets % Deposits & Borrowings	37%	35%	38%
Net Infection (%)	6.1%	5.4%	4.3%

Rating Rationale

Faysal Bank Limited (FBL) is a medium size bank in Pakistan with a steady market share of 3.6% in deposit terms. Various developments have taken place at the bank recently, which mark a transition for the bank including the recomposition of the Board of Directors, with a higher representation of the largest shareholder, Ithmaar Bank (IB). Following the conversion of IB into an Islamic retail bank, its Shariah Supervisory Board issued a Fatwa that allows the bank to convert conventional assets into Islamic alternatives, in an agreed time period. Accordingly, operations of FBL are planned to be converted into Islamic mode over the next two to three years. Other meaningful changes at the bank include appointment of a new President & CEO, staff retrenchment along with consolidation of business processes. Mr. Nauman Ansari, formerly the Head of Corporate and Investment Banking at FBL, was appointed as the President and CEO in May, 2014.

On a timeline basis, FBL has posted improvement in some financial indicators. While spreads of overall banking sector remained under pressure during FY13, FBL was able to withstand the impact of declining asset yields on its spreads by posting volumetric growth in earning assets and improving its cost of deposits. Increase in consumer lending also allowed the bank to contain the decline in return on advances. Moreover, the management has made various concerted efforts to rationalize overall cost structure. Resultantly, core profitability has showcased marked improvement. Sustainability of positive trend in earnings will be tested as the bank absorbs the impact of additional provisions in lieu of run down in FSV benefit.

Capital Adequacy Ratio (CAR) depicted improvement to 11.3% (FY12: 10.7%) during the out-going year. While having declined on a timeline basis, net non-performing exposures are still sizeable in relation to the bank's own equity; future stress on capitalization may arise on account of the same. Accordingly, cushion available in the capital base to absorb fresh accretion in NPLs is considered low. In this scenario, increase in level of other sources of risks, such as interest rate risk and market risk, as observed in 1Q14, may need to be contained.

Cognizant of the limited room available in capital, exposure to low risk government guaranteed loans was increased in 2013. While corporate lending continues to be the mainstay of the bank's lending activities, the bank has also built its consumer portfolio, particularly autos and personal loans; default rates in both these segments have so far remained satisfactory.

With incremental funding mainly channelized into short term low risk assets, overall liquidity profile of the institution has improved. Liquid assets in relation to deposit & borrowings improved to 38.2% (FY12: 34.8%). Moreover, granularity in deposit base has remained intact with top 50 deposits representing 18.1% (FY12: 18.4%) of overall deposit. The bank has been able to improve its deposit mix in recent years with proportion of CASA increasing to 61.8% at end-FY13. This along with lower average interest rates witnessed during FY13 led to decline in cost of deposit of the bank to 5.1% (FY12: 6.4%). The management expects further improvement in deposit mix in the coming year along with further reduction in cost of deposits.

Overview of the Institution

IB, an Islamic Retail Bank listed in Bahrain and Kuwait, is the parent bank of FBL, holding directly and indirectly, 66.78% of FBL's shares. Dar Al-Maal Al-Islami Trust (DMI) being the holding company of IB is the ultimate parent of FBL. The financial statements for FY13 have been audited by M/s A.F. Ferguson & Co. Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
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
		RATING TYPE: TFC – 1		
30-Jun-14	AA-	Stable		Reaffirmed
26-Jun-13	AA-	Stable		Reaffirmed
02-Jul-12	AA-	Stable		Reaffirmed
28-Jun-11	AA-	Stable		Reaffirmed
24-Feb-11	AA-	Stable		Rating Watch Removed
01-Jun-10	AA-			Rating Watch – Developing
08-Jul-09	AA-	Negative		Maintained
30-Jun-08	AA-	Stable		Reaffirmed
08-Jun-07	AA-	Stable		Reaffirmed
27-Dec-06	AA-	Stable		Final
07-Jul-06	AA-	Stable		Preliminary
		RATING TYPE: TFC - 2		
30-Jun-14	AA-	Stable		Reaffirmed
26-Jun-13	AA-	Stable		Reaffirmed
02-Jul-12	AA-	Stable		Reaffirmed
28-Jun-11	AA-	Stable		Reaffirmed
24-Feb-11	AA-	Stable		Rating Watch Removed
27-Sep-10	AA-	Rating Watch – Developing		Final
24-Jun-10	AA-	Rating Watch – Developing		Preliminary
30-Jun-08	-			Withdrawn
08-Jun-07	AA-	Stable		Preliminary