RATING REPORT

Faysal Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AA	A-1+	AA	A-1+
TFC-II	AA-		AA-	
Outlook	Stable		Stable	
Date	*June 28, '16*		*June 30, '15*	

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):	President & CEO: **Mr. Nauman Ansari**
Ithmaar Bank B.S.C. (66.78%)	

APPLICABLE METHODOLOGY(IES)
PRIMER - Commercial Banks (December 2001):*http://jcrvis.com.pk/images/primercb.pdf*
Rating the Issue (September 2014): http://jcrvis.com.pk/Images/criteria_instrument.pdf

Faysal Bank Limited

OVERVIEW OF THE INSTITUTION

Ithmaar Bank B.S.C (IB), an Islamic Retail Bank listed in Bahrain and Kuwait, is the parent bank of Faysal Bank Limited, 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.

FBL was operating through a network of 280 (2014: 274; 2013: 269; 2012: 265; 2011: 257) branches at year-end'2015. Islamic banking has 68 branches in 30 cities. In terms of branch network, the bank was the 10th largest bank in the country at end-December'2015.

RATING RATIONALE

Faysal Bank Limited is a mid-sized bank having a market share of 3% (2014: 3.3%; 2013: 3.6%) in domestic deposits. In order to maintain its competitive position, aggressive branch expansion (75 branches in the ongoing year) is planned with addition of 300 branches over the next three years (2016-2018). Branch expansion is planned to facilitate in achieving growth momentum in deposits, improve CASA mix and further reduce cost of deposits. As part of the strategic direction of the Board of Directors and shareholders, the Bank remains committed to its vision to convert to an Islamic Bank. However, given the challenges, timeline for the same has been extended till 2020 but remains flexible. In order to achieve smooth conversion, a comprehensive business transformation plan has been developed.

Financing portfolio remained stagnant in the outgoing year with additional liquidity generated by way of borrowings and deposits deployed in government securities. Broad based growth in financing portfolio is targeted in corporate, consumer and commercial & SME segment (CBSME) for 2016. For corporate exposures, a strong product pipeline has been developed which comprises lending to power, infrastructure and other growth sectors. On the CBSME front, the bank plans to leverage its presence in major cities with target market being corporate value chain. Consumer portfolio (both secured and unsecured products) is targeted to grow aggressively with net infection in the segment improving in the outgoing year. Overall asset quality indicators compare less favorably to peers with the bank availing sizeable Forced Sale Value (FSV) benefit. Management intends to minimize the provisioning expense, arising on account of FSV withdrawal, change in classification of NPLs and provisions in lieu of fresh classification, through recoveries from existing non-performing clients. Credit and market risk arising from investment portfolio is considered manageable given that majority exposure is in government securities and duration on PIB portfolio has declined significantly in 2016.

Liquidity profile of FBL has depicted improvement in the outgoing year as evident from an increase in liquid assets to deposits & borrowings ratio. While depositor concentration levels have increased, deposit mix has improved and cost of deposits has witnessed a decline. Granularity in deposits is expected to improve with branch expansion. Financing to Deposits Ratio (ADR) has declined to 64.6% (2014: 66.8%) in the outgoing year but remains higher vis-à-vis peers.

Capitalization levels of the bank have improved on account of retained profits and managed growth in risk weighted assets. Resultantly, Tier 1 (12.54%), overall CAR (14.41%) and leverage ratio (4.26%) have posted noticeable improvement in the outgoing year. Moreover, net NPLs in relation to Tier-1 equity has declined; however, it remains on the higher side vis-à-vis peers. In the backdrop of aggressive branch expansion and projected growth in financing book, consolidation of capitalization indicators of the bank would be needed, going forward.

Operating profit during 2015 increased to Rs. 6.9b (2014: Rs. 5.0b).While recurring income increased, major growth in operating profitability during 2015 was on account of reduction in operating expenses. Accounting for sizeable increase in capital gains and lower provisioning charge, profit before tax increased by 95% during 2015. Efficiency (cost to income) ratio of the bank has improved; retaining this given the branch expansion would pose a challenge ahead. Operating profits declined in 1Q16 vis-à-vis preceding quarters on account of spread compression due to declining interest rates. Volumetric growth in high yielding earning assets and further rationalizing cost of deposits is planned to mitigate the impact of declining spreads on profitability. Higher capital gains and fee based income is also projected to support profitability in 2016.

FINANCIAL SUMMARY			**Appendix I**
BALANCE SHEET *(Figures in PKR Billions unless stated otherwise)*	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Total Investments	183	155	113
Advances	178	181	184
Total Assets	430	388	355
Borrowings	90	61	45
Deposits & other accounts	292	283	271
Subordinated Loans *(in PKR millions)*	2,994	2,995	3,495
Tier-1 Equity	24	19	18
Net Worth	30	26	22
INCOME STATEMENT *(Figures in PKR millions)*	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	13,954	13,832	10,845
Net Provisioning	1,393	2,359	2,116
Non-Markup Income	5,564	4,374	4,526
Operating Expenses	11,198	12,295	11,100
Profit Before Tax	6,920	3,552	2,161
Profit After Tax	4,222	2,477	1,850
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Market Share (Advances) (%)	4.2%	4.6%	5.0%
Market Share (Deposits) (%)	3.0%	3.3%	3.6%
Gross Infection (%)	15.0%	14.3%	13.5%
Provisioning Coverage (%)	80.7%	80.1%	73.0%
Net Infection (%)	3.5%	3.5%	4.3%
Cost of deposits (%)	4.3%	5.3%	5.2%
Net NPLs to Tier-1 Capital (%)	25.9%	31.6%	41.2%
Capital Adequacy Ratio (C.A.R (%))	14.4%	12.2%	11.3%
Markup Spreads (%)	3.0%	3.5%	3.5%
Efficiency (%)	60.4%	70.6%	76.4%
Basic* ROAA (%)	1.7%	1.5%	1.0%
ROAA (%)	1.0%	0.7%	0.6%
ROAE (%)	17.4%	12.0%	9.4%
Liquid Assets to Deposits & Borrowings (%)	46.3%	42.5%	38.2%
** Recurring Income – Administration Expenses*			

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

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

'SD' Rating: An 'SD' rating is assigned when JCR-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 Entity	Faysal Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity & TFC Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: Entity		
28-Jun-16	AA	Stable	A-1+	Re-affirmed
30-Jun-15	AA	Stable	A-1+	Reaffimed
30-Jun-14	AA	Stable	A-1+	Reaffimed
26-Jun-13	AA	Stable	A-1+	Reaffimed
02-Jul-12	AA	Stable	A-1+	Reaffimed
28-Jun-11	AA	Stable	A-1+	Reaffimed
24-Feb-11	AA	Stable	A-1+	Rating Watch Removed
01-Jun-10	AA		A-1+	Rating Watch - Developing
		RATING TYPE: TFC - 2		
28-Jun-16	AA-	Stable		Re-affirmed
30-Jun-15	AA-	Stable		Reaffimed
30-Jun-14	AA-	Stable		Reaffimed
26-Jun-13	AA-	Stable		Reaffimed
02-Jul-12	AA-	Stable		Reaffimed
28-Jun-11	AA-	Stable		Reaffimed
24-Feb-11	AA-	Stable		Rating Watch Removed
27-Sep-10	AA-	Rating Watch – Developing		Final
24-Jun-10	AA-	Rating Watch – Developing		Preliminary

Instrument Structure	TFC-2 is an unsecured instrument, sub-ordinated to all other indebtedness of the bank including deposits. The TFC features payments of 0.20% of principle of Rs. 3b in first 60 months and remaining principal in 4 semi-annual installments of 24.95% starting from 66th month. Applicable coupon rate is KIBOR +2.25%. The instrument was issued in December 2010 and is due to mature in December 2017.
Statement by the Rating Team	JCR-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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.