



FAYSAL BANK LIMITED (FBL)

RATINGS (JUNE 2006)

FAYSAL BANK LIMITED

	NEW
ENTITY	
Long Term	AA
Short Term	A1+

FINANCIAL DATA

PKR (mln)		31-Dec-05	31-Dec-04
Total Assets	110,281.3	78,538.2	
Equity	8,111.9	6,251.2	
Adjusted Equity	14,260.5	10,214.4	
Net Income	3,069.5	1,753.5	
ROA %	3.25	2.78	
Equity / Total Assets %	7.36	7.96	
CAR %	14.62	12.20	

ANALYSTS

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RATING RATIONALE

ASSESSMENT

- The ratings reflect the bank’s very strong risk absorption capacity, supplemented by sound credit quality of the loan book. Meanwhile, the strong capital structure supports the relatively high exposure in the stock market. While earning reasonably competitive returns on core banking operations, the overall profitability is augmented by healthy returns from non-interest based avenues, resulting in strong performance indicators.
- The bank recorded appreciable growth in finances and deposits in recent years, leading to increase in its system share. The finances portfolio primarily constitutes Corporate segment (68%), followed by SMEs and Consumer segments in largely equal proportion. The main focus is on fixed investment and working capital financing. Despite relatively low contribution on account of trade related income, the overall fee-based income of the bank is comparable with peers, attributable to the bank’s strong investment banking and advisory function, generating sizeable fee income, besides facilitating expansion in the corporate loan book. Although return on financing portfolio is higher with focus on mid-tier corporates, spreads are not commensurate mainly owing to greater reliance on institutional deposits, an outcome of a relatively limited outreach. However, its impact is compensated by low operating cost structure of the bank. Meanwhile, the overall profitability of the bank, in the last three to four years, has been boosted by a sizeable dividend income stream, mainly from bank’s holding in NIT units, and capital gains on equity investments.
- The management plans to open 25 new branches during 2006, for facilitating deposit mobilization, especially from the retail segment. While targeting to pursue a moderate growth in the loan book, it intends to gradually enhance its focus on SMEs, consumer and agricultural financing; thereby supporting the overall spread management. The contribution from capital gains on stock market operations is susceptible to year on year variation. However, the expanding core business, investment banking strengths, speedy decision making process and substantial risk absorption capacity are likely to sustain the bank’s position among peers despite the intensifying competitive pressures.
- The bank’s investment portfolio, constituting around one-fourth of the total asset base, comprises government securities, mainly MTBs, and equity investments, in approximately equal proportion. The major portion of the equity securities comprises investment in NIT units, having a substantial revaluation surplus, lending additional support to the bank’s capital structure. The investment in listed equity securities, close to the maximum permissible limit; primarily consists of fundamentally strong stocks, while the short-term trading portfolio is kept at a modest level. The bank’s strategic investments, mainly in an asset management company and funds under its management, are yielding reasonable returns. As part of the management’s overall strategy for exploring new investment opportunities, the bank participated as a venture partner in real estate and a power generation projects. Given the encouraging results so far from these projects, the management is expecting a healthy return.
- Due to reduction in NPLs and a growth in the advances portfolio, NPLs as a proportion of total finances have declined appreciably in recent years. Meanwhile, the uncovered risk in terms of net impaired lending to equity has also reduced. The bank’s consumer loan book is dominated by auto loans, followed by mortgaged loans, while the proportion of unsecured lending is very low. To effectively manage the expanded business volumes and improve the quality of service, the bank is in the process of installing a new fully integrated core banking software. A high level steering committee has been constituted to plan and monitor the implementation of Basel II. Meanwhile, the bank has engaged a consultancy firm to identify the gaps between the bank’s existing practices and the requirements under that accord.
- The bank has one of the strongest capitalization levels in the sector. The privatisation of NIT in near future would further strengthen the Tier 1 Capital through realization of substantial gains. The bank has been operating at very high credit to deposit ratio over the years. However, comfort can be drawn from the huge equity base.

SUPPORT

- Sponsor support is perceived as strong and has been amply demonstrated in the past.

BACKGROUND

- The bank started operations in Pakistan in 1987, first as a branch set up of Shamil Bank of Bahrain and since 1995, as a locally incorporated bank under the present name of Faysal Bank Ltd. On January 01, 2002 AL-Faysal Investment Bank, another group entity merged into FBL.
- The majority shareholding (67%) of FBL is owned by Dar Al-Maal Al-Islami Trust (DMI) through its various subsidiaries, including 45% holding by Shamil bank. The DMI group, headed by H.R.H. Prince Al Faisal Al Saud of Saudi Arabia, is registered in Bhamas with main offices in Geneva, Switzerland. DMI owns and operates an international network of Islamic Banks, Investment and Insurance companies. The current chief executive, a qualified professional having extensive local and international banking experience, has been associated with the bank since 1999.

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