The Pakistan Credit Rating Agency Limited

Rating Report

Faysal Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2021	AA	A1+	Stable	Maintain	-
26-Jun-2020	AA	A1+	Stable	Maintain	-
27-Dec-2019	AA	A1+	Stable	Maintain	-
27-Jun-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
28-Jun-2018	AA	A1+	Stable	Maintain	-
30-Dec-2017	AA	A1+	Stable	Maintain	-
22-Jun-2017	AA	A1+	Stable	Maintain	-
22-Jun-2016	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from the Faysal Bank Limited's (FABL) association with a foreign business group – (Dar Al-Maal Al Islami Trust). The presence of sponsor's nominees on the Board stands to provide it with the industry-specific working knowledge and strategic thinking capability. The Bank has also benefited from management stability over the past several years. FABL continued its focus on growth while maintaining its relative positioning among peer banks. The Bank has an enduring emphasis on CASA deposits, prudent deployment of assets for better yields and carefully planned loan book growth. The Bank has a continued focus on operational efficiency and despite an increase in its branch network, the Bank was able to keep costs under control. These initiatives have supported the Bank's profitability and provided a cushion against risk absorption capacity. The management is cognizant of dynamic competition in the industry and is taking steps to strengthen FABL's positioning amongst medium-sized banks operating in Pakistan. FABL's conversion into Islamic banking is a medium-term plan, which is being rolled out as envisaged. FABL opened 21 new Islamic branches during CY20 increasing the Islamic branch network to 500 branches including 1 Islamic sub-branch, making it the biggest network of dedicated Islamic Branches amongst all conventional banks in Pakistan. Moreover, the Bank has launched the first ever Tawaruq based Islamic Credit Card to target a large unserved customer base. FABL remains a highly capitalized commercial bank with a common equity tier 1 (CET-1) ratio of 15.9% as at Dec-20.
COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

The ratings are dependent on the 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 the Bank's profitability and risk absorption capacity may have negative implications for the ratings.

Disclosure

Name of Rated Entity	Faysal Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-21)
Rating Analysts	Muhammad Noor Ul Haq | noorulhaq@pacra.com | +92-42-35869504

Profile

Structure Faysal Bank Limited (FABL) was incorporated on October 03, 1994, as a public limited company under the provisions of the repealed Companies Ordinance 1984 (now Companies Act 2017). Its shares are listed on Pakistan Stock Exchange (PSX).

Background FABL 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. During 2002, Al-Faysal Investment Bank, another group entity, merged into FABL. During 2010, FABL acquired 99.37% shareholding of the Royal Bank of Scotland (Pakistan) Limited (RBS).

Operations The Bank is mainly engaged in Conventional and Islamic Corporate, Commercial and Consumer banking activities. The Bank has a network of 575 branches; including 500 Islamic banking branches and 1 Islamic sub-branch. The registered office of the Bank is located at Faysal House, ST-02, Shahra-e-Faisal, Karachi.

Ownership

Ownership Structure Ithmaar Bank B.S.C (closed), a wholly owned subsidiary of Ithmaar Holdings B.S.C. is the parent company of the Bank, holding directly and indirectly 66.78% of the shareholding of the Bank. Dar Al-Maal Al-Islami Trust (DMIT), (ultimate parent of the Bank) is the holding company of Ithmaar Holdings B.S.C.

Stability HR committee designs succession planning policies for the CEO, key executives and General Managers. Internal successors are highlighted in addition to earmarking key potential external resources to ensure a robust pipeline across all levels at the Bank.

Business Acumen Ithmaar Holdings B.S.C. (Ithmaar Holdings) is a Bahrain-based holding company that is licensed and regulated as an investment company and is listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. Ithmaar Holdings has a paid-up capital of US$757.69mln.

Financial Strength Ithmaar Holdings has an asset base of USD 8.3bln and equity of USD 0.23bln as at Dec-19. Ithmaar Holdings and its subsidiaries are engaged in a wide range of financial services including retail, commercial, investment banking, private banking, takaful and real estate development.

Governance

Board Structure The overall control of the Bank vests in the eleven-member Board of Directors (BoD) including the CEO. Ithmaar Bank, the key shareholder, is represented by six non-executive directors on the board who are nominees of the bank.

Members' Profile Mr. Farooq Rahmatullah, the Chairman, is a law graduate. He has extensive experience in diverse roles related to the oil and gas industry.

Board Effectiveness Board meetings are conducted at regular intervals and minutes of the meetings are documented adequately. The BoD exercises close monitoring of the management's policies and the Bank's operations through board committees.

Financial Transparency The External Auditors, A. F. Ferguson & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY20. Furthermore, the Board has set up an effective internal audit function that reports independently to the Audit Committee regularly on compliance with critical policies and procedures and recommends amendments to these policies in line with the industry's best practices.

Management

Organizational Structure Well-defined organizational structure exists. Operations are segregated into various departments wherein clear lines of responsibility are defined for each cadre.

Management Team Mr. Yousaf Hussain is the President & CEO since May-2017. Mr. Hussain has been associated with Faysal Bank since 2008 and has banking experience of worth over two decades. He is supported by a management team of well experienced and qualified individuals.

Effectiveness Group Heads, meet on a quarterly basis to review the performance of each division vis-à-vis set targets. The management meetings also provide strategic input for setting the direction of the Bank vis-à-vis economic environment and decides on the implications of new business initiatives for the Bank.

MIS The Bank has a comprehensive reporting system for the management to keep track of activities. The Bank is using business intelligence software namely QlikView. The Bank has developed Dash Boards and performance evaluation reports to evaluate business performance, expenses, budget monitoring and forecasting.

Risk Management Framework The Bank has developed and implemented a governance and management structure, processes surrounding each risk area, including credit risk, market risk, capital management, operational risk and information security risk. Risk Management Framework's primary objective is to ensure that risk taking activities are in line with the guidelines approved by the BoD and to protect the interests of the Bank's depositors and shareholders.

Business Risk

Industry Dynamics The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position FABL is a medium-sized bank with sustainable growth and has witnessed an increase of 20.2% in its customer's deposit to PKR 518bln, improving its system share at 3.1% (CY19: 3.0%).

Revenues Despite elevated economic stress driven by the COVID-19 pandemic, during CY20, the revenue of the Bank witnessed a growth of 15.5% (PKR 32.8bln) as compared to 24.1% (PKR 28.4bln) growth in CY19. The growth is attributable mainly to increase in net-markup income due to low cost deposit mobilization, deceleration in interest expenses and rise in non-interest income. The Bank's return on advances and investments dropped by 38.6% to PKR 6.5bln (1QCY20: PKR 10.6bln) and 16.4% to PKR 5.5bln (1QCY20: PKR 6.6bln), respectively in 1QCY21, as compared to the corresponding period of last year. This decline is majorly due to the reduced policy rates owing to the adverse economic impact that the Country has experienced due to deadly virus.

Performance The muted growth in economy owing to the country-wide lock down led to a decline of 6.1% to PKR 3.9bln (CY19: PKR 4.1bln) in fee and commission income of the Bank. During CY20, operating cost increased by 13.7% to increasing in network coupled with higher inflation. The Bank's PAT surged by 7.8% to PKR 6.5bln (CY19: PKR 6.0bln) in CY20. Due to the cost control initiatives and effective risk management, the Bank was able to book a PAT of PKR 2.1bln for 1QCY21; grew by 1.1% YoY basis.

Sustainability Going forward, FABL plans to focus on mobilizing low-cost deposits and enhancing business volume via branch outreach. By the end of CY21, FABL is targeting over 95% of its branch network to be Islamic with a focus on cost control measures in order to preserve and improve profitability.

Financial Risk

Credit Risk During CY20, FABL's loan portfolio registered a slight growth of 2.8% to PKR 318.2bln (CY19: PKR 309.6bln), mainly financed through deposits and keeping in view current economic uncertainties remained cautious on lending side. The Bank's asset quality remained under control and is considered satisfactory. The lending portfolio is mainly dominated by Power and Textile sectors lending. Moreover, borrowers, having aggregate outstanding exposure of PKR 25.6bln, have availed regulatory relief; the risk of increase in credit losses persists. During 3MCY21, net advances grew by 1.3% to PKR 322.0bln (CY20: 318.2bln).

Market Risk During CY20, the funds generated from deposits were invested in government securities, grew by 48.7%. The Bank's investment portfolio constitutes 35.7% of total earning assets and government securities continue to dominate the overall investment book (95.6%).

Liquidity And Funding Bank's liquidity position showed improvement as reflected in liquid ratio 45.8% (end-Dec19: 36.5%). With a remarkable growth in customer deposits, the top-20 depositor concentration showed improvement and clocked in at 15.9% in CY20 (CY19: 17.2%). Moreover, the Bank has a 58.9% Advances to Deposit Ratio (ADR). During 3MCY21, the Bank was able to generate low cost deposit, resulting CA ratio improved to 34.6% (CY20: 30.7%).

Capitalization FABL is a well-capitalized institution with an equity base of PKR 61.6bln (CY20: PKR 60.1bln). Bank's CAR on end-Mar21 was 19.5% (end-Dec20: 18.7%), which is well above the regulatory requirement of SBP.

PKR mln

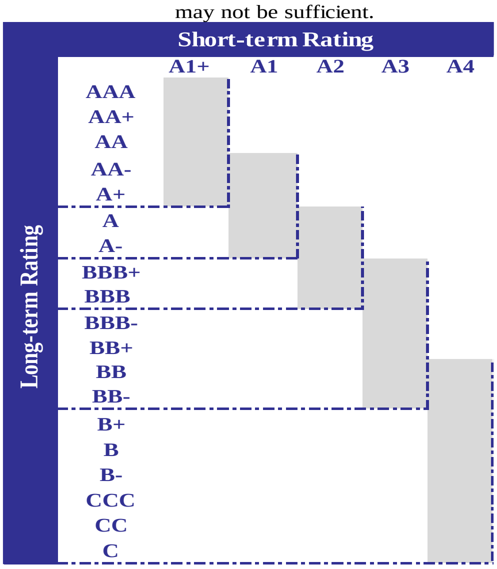
Faysal Bank Limited Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	381,996	377,426	362,479	315,458
2 Investments	250,145	213,024	144,992	192,298
3 Other Earning Assets	12,812	6,846	5,381	7,975
4 Non-Earning Assets	101,026	108,002	110,829	81,309
5 Non-Performing Finances-net	3,966	4,660	6,172	2,874
Total Assets	749,946	709,958	629,853	599,914
6 Deposits	549,398	540,636	457,789	409,384
7 Borrowings	91,373	58,447	72,747	98,352
8 Other Liabilities (Non-Interest Bearing)	47,527	50,768	44,053	48,680
Total Liabilities	688,297	649,851	574,589	556,415
Equity	61,649	60,107	55,264	43,499
B INCOME STATEMENT				
1 Mark Up Earned	12,022	55,922	58,398	35,200
2 Mark Up Expensed	(6,583)	(31,388)	(37,278)	(18,925)
3 Non Mark Up Income	2,226	8,231	7,247	6,584
Total Income	7,665	32,765	28,367	22,859
4 Non-Mark Up Expenses	(4,684)	(19,740)	(17,333)	(15,079)
5 Provisions/Write offs/Reversals	533	(2,254)	(843)	422
Pre-Tax Profit	3,513	10,770	10,192	8,202
6 Taxes	(1,410)	(4,260)	(4,151)	(3,365)
Profit After Tax	2,103	6,511	6,041	4,837
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.0%	3.7%	3.4%	3.0%
Non-Mark Up Expenses / Total Income	61.1%	60.2%	61.1%	66.0%
ROE	13.8%	11.3%	12.2%	11.7%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	8.2%	8.5%	8.8%	7.3%
Capital Adequacy Ratio	19.5%	18.7%	19.1%	16.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	44.5%	45.8%	36.5%	39.6%
(Advances + Net Non-Performing Advances) / Deposits	58.7%	58.9%	67.6%	72.4%
CA Deposits / Deposits	34.6%	30.7%	32.3%	32.3%
SA Deposits / Deposits	39.0%	40.4%	37.7%	35.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	6.9%	7.7%	9.1%	8.3%
Non-Performing Finances-net / Equity	6.4%	7.8%	11.2%	6.6%

Credit Rating

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 Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High 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**	**Very high credit 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 Rating	
Scale	**Definition**
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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