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
23-Jun-2023	AA	A1+	Stable	Maintain	-
25-Jun-2022	AA	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Faysal Bank Limited (FABL) was incorporated on October 3, 1994, as a public limited company under the provisions of the Companies Ordinance 1984. Its shares are listed on Pakistan Stock Exchange (PSX). During CY22, the Bank opened 94 new branches, taking its branch network to 700 branches. In 2022, FABL completed the process of converting its operations to Islamic banking with effect from 01 January 2023. The Bank has successfully pulled a one-of-a-kind feat: the conversion of a Conventional Bank into a full-fledged Islamic Bank. The Bank now has a distinct position in the Islamic Banking space. FABL is a medium-sized Bank with sustainable growth and has witnessed an increase of 21.3% in its total deposit base to PKR 781bln (CY21: PKR 644bln). During CY22, the markup earned by the Bank witnessed a significant increase and was reported at PKR 104bln (CY21: 53.8bln), contributed equally from Islamic finances and investments. The Bank recorded a sizable increase in its profit after tax (PAT), which grew by 37.7% to PKR 11.2bln in CY22 (CY21: PKR 8.1bln) attributable to enhanced total income and reversal of PKR 940mln. During 1QCY23, Profit after tax was recorded at PKR 3.21bln as compared to PKR 2.13bln in the respective quarter of the previous year. The infection ratio, during CY22, reflected a decline, whereas the coverage ratio witnessed improvement; which is noted as a positive. CASA ratio recorded significant growth and the bank's strategy is to maintain its positive trajectory. The Bank also intends to grow its Islamic portfolio. Assets are being deployed wisely by the Bank for higher yields with a methodically managed loan book. Despite expanding its branch network, the Bank continued to place a strong emphasis on operational efficiency, which kept associated expenses under control. These actions have bolstered the Bank's profitability and given it a safety net for its capability to absorb risk. Going forward, sustenance is necessary to maintain a positive track.

The macroeconomic landscape is fraught with numerous challenges, including political instability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22. The banking sector continues to flourish with high profitability. Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). During CY22, banking sector deposits enhanced to PKR 23.4trln. Net profitability of the sector was recorded at PKR 331bln (CY21: PKR 267bln); up 23% YoY. However, the growth of the equity base of the sector recorded a meager uptick of 7% YoY attributable to a handsome dividend payout.

Disclosure

Name of Rated Entity	Faysal Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Commercial Bank(Jun-23)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Faysal Bank Limited (FABL) was incorporated on October 3, 1994 as a public limited company under the provisions of the Companies Ordinance 1984. 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. In the year of 2002, Al-Faysal Investment Bank, another group entity, merged into Faysal Bank Limited.

Operations The Bank is mainly engaged in Conventional and Islamic Corporate, Commercial and Consumer banking activities. During CY22, the Bank opened 94 new branches, taking its branch network to 700 branches. The registered office of the Bank is located at Faysal House, St-02, Shahrah-e-Faysal, Karachi, Pakistan.

Ownership

Ownership Structure Ithmaar Bank, a fully owned subsidiary of Ithmaar Holdings, is the bank's parent company, holding 66.78% of the shareholding directly and indirectly. The remaining belong to the general public and are divided among directors, CEO, Banks, and DFIs.

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. 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.

Financial Strength Ithmaar Holdings B.S.C. 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 twelve-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. The remaining four are independent directors.

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 a 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 of the Bank, A F Ferguson & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY22. Furthermore, the Board has set up an effective internal audit function that reports independently to the Board Audit & Corporate Governance 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 The Bank has well-defined organizational structure. 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 over two decades. He is supported by a management team of well-experienced and qualified individuals.

Effectiveness A Management Committee (MANCOM), comprising group heads, meets on a quarterly basis to review the performance of each division vis-à-vis set targets. The MANCOM also provides strategic input for setting the direction of the Bank vis-à-vis the 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.

Risk Management Framework 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 macroeconomic landscape is fraught with numerous challenges, including political instability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22. The banking sector continues to flourish with high profitability. Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). During CY22, banking sector deposits enhanced to PKR 23.4trln. Net profitability of the sector was recorded at PKR 331bln (CY21: PKR 267bln); up 23% YoY. However, the growth of the equity base of the sector recorded a meager uptick of 7% YoY attributable to a handsome dividend payout.

Relative Position FABL is a medium-sized bank with sustainable growth and has witnessed an increase of 21.3% in its total deposit base to PKR 781bln (CY21: PKR 644bln).

Revenues During CY22, the markup earned by the Bank witnessed a significant increase and was reported at PKR 104bln (CY21: 53.8bln), contributed equally from Islamic finances and investments. Islamic finances and related assets rose to PKR 54.5bln (CY21: PKR 29.4bln), whereas on the investments side, markup rose to PKR 50bln (CY21: PKR 24.3bln). During CY22, the Bank's yield on assets recorded an incline, owing to an increased key policy rate. The Bank's cost of funds also grew to 7.7% (CY21: 4.1%). This was accompanied by an increase in spreads rising to 4.9% (CY21: 3.9%).

Performance During CY22, the operating cost of the Bank increased by 31.6% to PKR 27.4bln (CY21: PKR 20.8bln). owing to an increase in compensation expenses coupled with a rise in infrastructure expenses. The Bank's profit after tax (PAT) grew by 37.7% to PKR 11.2bln in CY22 (CY21: PKR 8.1bln). During 1QCY23, Profit after tax was recorded at PKR 3.21bln as compared to PKR 2.13bln in the respective quarter of the previous year

Sustainability FBL is well-positioned with good momentum. The Bank is committed to continuing investing in the growth of its network to increase its market presence and better serve the customers aiming to work towards bringing efficiency, deposit growth, and improving the quality of customer service.

Financial Risk

Credit Risk During CY22, FABL's advances portfolio registered a growth of 12% to PKR 506bln (CY21: PKR 453bln), mainly financed through deposits. The advances to Deposit Ratio (ADR) of the Bank stood at 58.1% (CY21: 61.5%). NPLs were reported at PKR 21.7bln (CY21: PKR 23.4bln). The infection ratio decreased to 4.6% as of end-Dec'22 (end Dec21: 5.6%) owing to a decline in absolute NPLs. Loan loss coverage enhanced to 89.1% from 87.5% in the previous year; which is considered good. During 1QCY23, the infection ratio was recorded at 4.3%. The loan loss coverage ratio was recorded at 89.2%. ADR of the bank marginally increased to 61.1% at end-Mar23 (end-Dec22: 58.1%).

Market Risk FABL's investment portfolio continues to be dominated (97%) by government securities. FABL's investment portfolio was recorded at (CY22: PKR 414bln; CY21: PKR 297bln). The funds generated from deposits were invested in Market Treasury Bills (T-Bills), Pakistan Investment Bonds (PIBs), and Ijara Sukuks.

Liquidity And Funding Bank's liquidity position witnessed improvement as reflected in the liquidity ratio of 50.4% (end-Dec21: 46.1%). This was supported by an improved CASA mix of 79.1% (end-Dec21: 74.9%). During 1QCY23, the Liquidity of the bank was recorded at 48.4% (1QCY22: 45.9%). Liquid Assets were amounting to PKR 466bln (1QCY22: PKR 400bln). CASA mix has increased to 84.9% (1QCY22: 79.2%).

Capitalization During CY22, the Bank achieved a CAR of 15.5% (CY21: 17.5%) with contributions from Tier-1 capital (12.9%) and Tier-II (2.6%). The equity base as of end-Mar23 inclined to PKR 70.3bln, (end-Dec22: PKR 70bln; end-Dec21: PKR 65.8bln). The Bank also paid dividends worth PKR 1.5bln to the shareholders. During, 1QCY23, the equity to total assets ratio was recorded at 6.2% (1QCY22: 7.1%). CAR has improved to 16.7%.

PKR mln

Faysal Bank Limited	Mar-23	Dec-22	Dec-21	Dec-20
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	540,781	506,619	453,011	377,426
2 Investments	412,517	414,724	297,839	213,024
3 Other Earning Assets	6,123	12,177	4,415	6,846
4 Non-Earning Assets	171,341	138,464	111,430	108,002
5 Non-Performing Finances-net	2,353	2,369	2,917	4,660
Total Assets	1,133,115	1,074,353	869,612	709,958
6 Deposits	799,781	781,571	644,089	540,636
7 Borrowings	189,580	150,134	111,190	58,447
8 Other Liabilities (Non-Interest Bearing)	73,402	72,564	48,510	50,768
Total Liabilities	1,062,763	1,004,269	803,789	649,851
Equity	70,352	70,083	65,823	60,107
B INCOME STATEMENT				
1 Mark Up Earned	34,837	104,521	53,869	55,922
2 Mark Up Expensed	(21,797)	(64,533)	(28,035)	(31,388)
3 Non Mark Up Income	2,516	8,959	8,509	8,231
Total Income	15,556	48,947	34,343	32,765
4 Non-Mark Up Expenses	(7,954)	(27,494)	(20,887)	(19,740)
5 Provisions/Write offs/Reversals	(1,365)	940	(48)	(2,254)
Pre-Tax Profit	6,238	22,393	13,409	10,770
6 Taxes	(3,026)	(11,160)	(5,256)	(4,260)
Profit After Tax	3,211	11,233	8,153	6,511
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	4.7%	4.1%	3.3%	3.5%
Non-Mark Up Expenses / Total Income	51.1%	56.2%	60.8%	60.2%
ROE	18.3%	16.5%	12.9%	10.8%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	6.2%	6.5%	7.6%	8.5%
Capital Adequacy Ratio	16.7%	15.5%	17.5%	18.7%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	48.4%	50.4%	46.1%	45.8%
(Advances + Net Non-Performing Advances) / Deposits	61.1%	58.1%	61.5%	58.9%
CA Deposits / Deposits	37.2%	34.5%	32.8%	30.7%
SA Deposits / Deposits	47.8%	44.6%	42.1%	40.4%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.3%	4.6%	5.6%	7.7%
Non-Performing Finances-net / Equity	3.3%	3.4%	4.4%	7.8%

Credit Rating

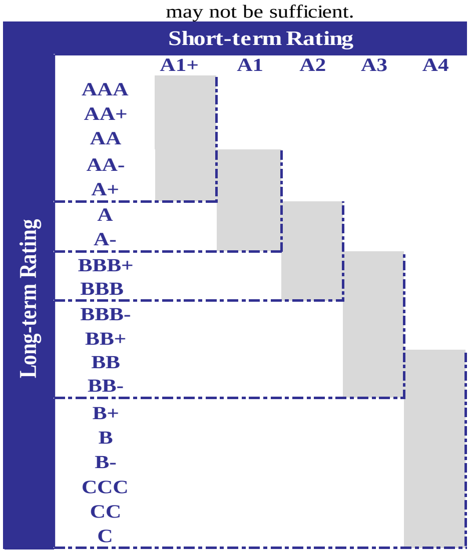
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

Restrictions

(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 | Clause 11-(A)(p).

(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)

Proprietary Information