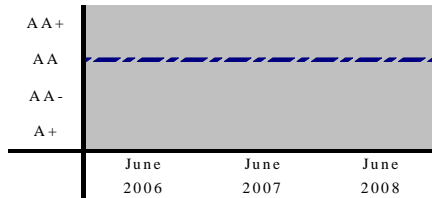


**FAYSAL BANK LIMITED (FBL)****RATINGS (JUNE 2008)****FAYSAL BANK LIMITED**

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+

IFS RATING - HISTORY**FINANCIAL DATA**

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	141,277.4	115,470.4
Equity	10,345.1	9,132.3
ROA %	1.77	2.50
CAR %	11.76	12.35

ANALYSTS

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PROFILE

- 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. Faysal bank is a medium sized bank, with a network of 109 branches at present.
- Ithmaar Bank, a 42% owned associate of Dar Al-Maal Al-Islami Trust (DMI), indirectly through its different entities, mainly Shamil Bank, holds the majority shareholding (67%) of FBL. The DMI group owns and operates an international network of Islamic Banks, and Investment and Insurance companies. The seven-member BoD includes three nominees of DMI, the CEO, and two renowned professional from Pakistan, including the Chairman, as independent directors.
- The current chief executive of FBL, Mr. Naved A. Khan, who has recently joined in Mar08, has extensive local and international banking experience.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect FBL's association with a financially robust business group and a sound capital structure. While maintaining its system share, FBL has managed the asset quality at an acceptable level. The profitability, though remaining strong over the years, has a higher contribution of income from stock market. Considering the increasingly competitive operating environment, the management is embarked upon a network expansion strategy, aiming to further diversify the advances portfolio, while focusing on mobilizing low cost funds.
- The ratings are dependent on the bank's ability to sustain its market standing, and strengthening its core banking revenue streams. Meanwhile, cohesiveness of the top management, and improvement in the governance and control environment would be critical. Any material deterioration in the bank's asset quality would have negative implications for the ratings.

ASSESSMENT

- The bank's profitability declined during 2007, attributable mainly to the higher provisioning expense arising from change in regulatory provisioning criteria against NPLs. FBL achieved healthy growth in assets during the year supported by sizeable increase in deposits. This has also helped in reducing the advances to deposit ratio, though still high among peers. Meanwhile, the reliance on high cost institutional deposits remained on the higher side. The net interest income and fee based income showed a moderate growth, though the pressure on spreads persisted. The total net revenue was boosted by continuously high dividend income on investment in NIT Units and realization of gain on 10% redemption of the bank's investment in these units. However, the increasing operating costs due to network expansion (30 new branches added), and one-off compensation paid to the outgoing CEO dampened the overall profitability. During 1Q08, the deposit largely remained at the year-end level, while advances registered a modest decline.
- Going forward, while pursuing further expansion in network (25 new branches targeted for 2008) the management plans to energize its existing branches for mobilizing core deposits, thereby reducing the relatively higher reliance on institutional high cost deposits. The increasing branch network is also expected to facilitate credit expansion in the targeted segments. In terms of its loan book, the bank, while continuing to focus on corporate segment, intends to expand SME and consumer segments, thereby also supporting the overall spread management. Meanwhile, FBL continues to enjoy a strong position in investment banking and advisory business that contributes appreciably towards the fee based income. The intensifying competition and increasing consolidation in the sector, together with difficult credit environment, present new challenges that require proactive efforts on the part of management for identifying the right opportunities, while at the same time keeping the associated risk within acceptable level.
- The investment in government securities, constituting around 61% of the total investment portfolio, primarily include MTBs, signifying low interest rate risk. The bank's investment in stock market mainly includes NIT units, having a substantial revaluation surplus.
- During 2007, the bank fully migrated to a modernized, fully integrated core banking software – Symbol – which is expected to help in effectively managing the expanded business volumes and improve the quality of service. Meanwhile, many other IT based initiatives, including implementation of Oracle Financials and Human Resource Modules and a world-renowned Customer relationship management software (CRM) – Siebel – are in the pipeline.
- The asset quality, measured in terms of impaired lending as a percentage of gross advances registered a moderate increase. In terms of potential risk in consumer portfolio, the bank's portfolio is well diversified in auto and house financing; both backed by strong collateral, and exposure of the bank in unsecured financing is modest. During the year, the management has strengthened its Risk Management Framework and has taken many steps aimed at improving the credit appraisal and monitoring processes. The bank, after completion of gap analysis, has started implementing suggested actions to ensure timely compliance with Basel II requirements. With the recent change in top management, there has been an enhanced focus on strengthening the compliance and control function, which may result in some changes in the organizational structure of the bank.
- FBL has a sound capital structure in terms of equity to assets. Having strong contribution of Tier-1 Capital, the CAR is also supplemented by substantial amount of revaluation surplus on investments in NIT units (Tier 11).