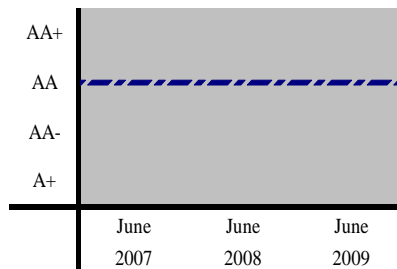


**The Pakistan Credit Rating Agency Limited****RATINGS (JUNE 2009)****FAYSAL BANK LIMITED (FBL)**

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Negative	-

RATING HISTORY**FINANCIAL DATA**

PKR (mln)

	Mar-09*	Dec-08	Dec-07
Total Assets	149,748	138,241	141,277
Equity	10,391.2	10136.0	10,345.1
Net Income	225.3	1115.0	2272.1
ROA%	0.71^	0.80	1.77
ROE%	9.95^	10.89	23.33
Equity/Assets %	6.94	7.33	7.32
SBP CAR%	10.74	9.41	10.27

*Based on unaudited results for 3 Months ended March09

^Annualized

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RATING RATIONALE AND KEY DRIVERS

- The ratings recognize FBL's association with a financially sound business group (Dar Al Maal Al-Islami Trust). Meanwhile, these take into account the continuing pressure on the bank's standing and asset quality in the current difficult environment. Besides profitability this has impacted bank's risk absorption capacity, though there is a high focus on recovery against NPLs. With a new team at top management level, there is a renewed effort to fortify bank's position and strengthen the compliance and control environment. Nevertheless, restructuring brings its own challenges. Further, the speed and efficacy with which the new management aligns its strategy to evolving dynamics of the banking industry and pressures being faced by FBL remains to be seen.
- The ratings are dependant on the bank's ability to sustain its market standing, and the preservation of asset quality. Meanwhile, augmentation of the risk absorption capacity and cohesiveness of the newly inducted management as a team would be critical. The patronage and support of the parent Group remains a key driver for rating.

ASSESSMENT

- FBL's growth in deposits and advances was limited during 2008, while the bank continued with the branch expansion strategy, adding 25 new branches to its network. Although net interest revenue increased during the year, increasing provisioning requirement against non-performing advances was the major contributing factor towards subdued profitability. Meanwhile, operating costs have risen primarily due to network expansion. While income from stock market related investment, mainly NIT, continued to have a sizeable contribution to the bank's revenue, the stability and quantum of this income stream remains uncertain in the current environment.
- The loan book of FBL is dominated by the corporate segment (62%), followed by SME (16%) and consumer (16%). Rising trend in non-performing loans (NPLs) continue in 2008 and 1Q09. NPLs as a percentage of gross advances rose from 5.2% in Dec07 to 8.6% in Mar09. While some large exposures have high contribution towards the NPLs, the trend in more broad based among different sectors and borrowers' profile. The provision coverage against NPLs was diluted, and with greater size of NPLs, the drag on equity in terms of net impaired lending to equity rose to 28% at end-Mar09 (end-Dec07: 10%). The management has constituted Special Asset Management Department (SAM) for recovery/ settlement of the NPLs. Meanwhile, there is greater focus on loan monitoring and surveillance to prevent further infection. However, the efficacy of these measures in the current difficult environment remains to be seen.
- The organizational structure of the bank has been restructured from geographical based to business/function based. A number of initiatives were taken to improve efficiency and performance of core banking software 'Symbols'. CRM solution based on Seibel was also fully implemented during the year. To develop a more robust risk management framework and control environment, the bank has embarked upon enterprise-wide risk management framework and also established compliance committee headed by CEO.
- Government securities, constituting 74% of the total investment portfolio, primarily include MTBs (more than 90%), signifying low interest rate risk. The remaining investment book mainly comprises investment in NIT (MV: PKR 3.5bln at end Mar-09). The bank recognized all of its impairment loss on available-for-sale equity investments, not availing the relaxation provided by the regulators.
- The bank continued to operate at a high finances-to-deposit ratio, which increased to as high as 100% when the deposits shrunk by around PKR 8bln during June-Sep08. The risk absorption capacity of the bank diluted, primarily due to the drag of uncovered infected portfolio on equity and forgone cushion available in Tier-II capital, as the revaluation surplus on NIT shrunk due to meltdown in stock market. Given the risk of further infection in the loan book and strained profitability prospects, external injection of equity may be required to recoup the risk absorption capacity.

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 Limited. On January 01, 2002 AL-Faysal Investment Bank, another group entity merged into FBL. It is a medium sized bank, with a network of 129 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 three renowned professional from Pakistan, including the Chairman, as independent directors. The BoD exercises close monitoring of the management's policies and the bank's operations through its three committees, namely i) Board Risk Management Committee (BRMC); ii) Recruitment Nomination and Remuneration Committee (RNRC); and iii) Audit Committee (AC).
- The CEO, Mr. Naved A. Khan, joined FBL in Mar08 and has extensive local and international banking experience.