DIRECTORS' REVIEW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

It gives me great pleasure to present, on behalf of the Board of Directors, the financial statements for the quarter and nine months ended September 30, 2009.

The bank was incorporated on October 3, 1994 and is quoted at all stock exchanges in Pakistan. Ithmaar Bank B.S.C., an investment bank listed in Bahrain, is the ultimate holding company of the bank.

ECONOMIC UPDATE

The first three quarters of 2009 have proved to be extremely challenging for Pakistan's economy. At the start of this period, the economy was faced with multifold challenges including; rampant inflation, a ballooning current account deficit and fast depleting foreign exchange reserves. To avert a balance of payment crisis Pakistan entered into a standby agreement with the IMF worth USD 7.6 billion, which was later enhanced to USD 11.3 Billion. Under the terms of the SBA, which was aimed at bringing about corrective structural measures in the economy, the economic managers had to conform to some rather tough conditionalities. These included a steep reduction in the fiscal deficit; withdrawal of subsidies and restrictions on GOP's borrowing from the central bank.

Economic activity during FY '09 remained lackluster with GDP growing by a meager 2%, this dismal performance can be attributed to; structural bottlenecks (gas and electricity shortfalls), rising input costs, banks averseness to extending fresh credit due to rising NPLs (this lowered access and increased cost of credit, fresh credit off take to the Private sector for FY '09 was PKR 18.8 billion vs PKR 408 billion in FY '08 and for the first quarter of FY '10 its negative PKR 78 billion vs PKR 81 billion this time last year), deteriorating law and order situation, global recession and PSDP spending in 2nd half FY '09 almost came to a halt due to restrained fiscal space.

The macroeconomic outlook began to display some semblance of stability by 3rd Quarter '09 as the receipt of the first three IMF tranches of approximately USD 5.2 billion helped shore up foreign exchange reserves (which improved to USD 14.46 billion in October '09 vs USD 6.7 billion in October '08) warding off any potential balance of payment crisis. The current account deficit in the first 8 months of 2009 also narrowed to USD 1.8 billion vs USD 10.2 billion during the same period last year. This was aided largely by; falling global energy prices, dampening of aggregate demand and an increase in home remittances which crossed USD 800 million in September '09 - a stellar achievement considering labour markets are highly sensitive to global recessionary cycles.

Inflation remained a primary concern during FY '09 where the CPI was recorded at 20.8% vs 12% in FY '08. This was mainly due to rising international commodity and food prices, a weakening USD/ PKR parity which depreciated by approximately 19% and the monetary hangover from the monetization of the fiscal deficit in previous years. This propelled the Central Bank to respond by increasing the policy rate twice; by 1% in July '08 and another 2% in November '08 in order to curb aggregate demand. Subsequently the average CPI inflation began to taper off in 2009 and for the third quarter (July-Sept.) '09 it was recorded at 10.7%. It was only after the downward trend in inflation was deemed permanent, aided by plummeting international energy prices, did the SBP revise its monetary policy stance and reduce the discount rate by one percentage point in April '09 and another percentage point in August '09. Inflation is expected to maintain a downward trajectory in '09, although it is still not benign due to the expected hike in electricity tariffs and the recent upsurge in international commodity prices.

Going forward there is cautious optimism regarding an economic revival as the macro imbalances now seem to be in a corrective phase; inflation is falling, the foreign exchange reserves are rising and the current account deficit is narrowing (August '09 witnessed a current account surplus of USD 82 million). Encouraged by improving macroeconomic indicators the GOP in the current federal budget embarked upon a mammoth public spending program envisioned at PKR 646 Billion, which is aimed towards providing a countercyclical stimulus to the beleaguered economy. The biggest challenge to funding this package comes from an increased reliance on external pledges and the current delay in the FODP and Kerry Lugar related disbursements are only exacerbating concerns about the GOP's deficit funding ability. The fiscal deficit for FY '09 was recorded at 5.2% a breach by 0.9%, and for the first quarter of FY '10 there are again fears of slippages in the deficit target of 1.3% of GDP by 0.3%. Hence the catalyst for fiscal consolidation will be the timely arrival of external pledges and improved tax collection, this will in turn take pressure off the GOP borrowing from the inter-bank market and facilitate private sector credit off take.

BANK'S PERFORMANCE

After developing a five year strategy in 2008 the bank started its implementation in 2009. During the nine months period under review the bank, as explained below, has made a considerable progress in all the five areas of strategy focus i.e. Customer Franchise, People, Risk Management, Processes and Financial Perspective.

Customer Franchise

- The rebranding of the bank with a fresh look has been completed which includes new branch signages, promotional displays and internal branding elements.

- To improve customer experience a comprehensive service quality programme covering customer experience measurement, process refinement and employee engagement has been initiated.

- As part of our strategy to offer innovative products to our existing and potential customers, a new saving account, by the name of Faysal Marketlink, with unique features has been launched. Profit rates in this product are linked with KIBOR and updated on daily basis with changing KIBOR unlike a regular savings product where a fixed rate is offered to the customers.

- On the alternate delivery channel side, where the bank added 22 ATMs during the year to achieve a network of 115 ATMs, it also started operation of 12 “Cash Deposit Machines” which allow customers to deposit cash real time in their linked accounts. This service, coupled with existing Funds Transfer and Bill Payment services available on ATMs, is a milestone in achieving true 24 x 7 banking using electronic channels.

- To improve customer security, scope of SMS alert service was enhanced with the introduction of additional features including the capability to receive alerts on paper based transactions.

- The bank has launched "Barkat Islamic Banking" by opening its first Islamic Banking branch in Karachi.

Corporate Banking Group (CBG) continued to expand its share of the total trade business of Pakistan whereby large ticket trade and remittance transactions were handled for leading oil and gas marketing companies. CBG also maintained momentum towards significantly improving the fee based income through capturing large Cash Management mandates and expansion of annuity business. Corporate portfolio registered double-digit growth in the acquisition of new corporate accounts.

Investment banking Group (IBG) remained active throughout the year with several major transactions being successfully executed. Successful implementation of project revival strategies in a major steel project and an infrastructure project were carried out. The Project Finance, Private Equity and Distribution teams were fortified while an Agency & Trustee function was added to IBG. The following transactions were concluded during the year:

- Acted as the Lead Advisor and Arranger to arrange PKR 5.1 billion for the buyback of a long term USD 250 million Euro Bond for a leading Telecom company.

- Acted as Co-Lead Advisor and Arranger to a Syndicated Finance Facility of PKR.10 billion to achieve COD for a fertilizer plant.

- Acted as Lead Arranger for PKR 1.4 billion cost over-runs to set up the first Commissioned Independent Power Producer under the Power Policy of 2002

- Acted as Lead Arranger for Privately Placed Rated Term Finance Facility of PKR 1.0 billion for a leading electronic appliance company

- Acted as Co-Lead Arranger to a PKR 9.4 billion Syndicated Term Finance facility for a capacity expansion program for the local arm of an international packaging company

- Acted as Financial Advisor & Lead Arranger to arrange a Privately Placed Rated Sukuk Issue of up to PKR 1.0 billion for a steel bar producing company

- Participated to the extent of Rs.2.1 billion in privately Placed Term Finance Facility for a circular debt SPV company for the Government of Pakistan.

- The bank for the first time participated in commodity financing amounting to Rs. 3 billion to a provincial government department for procurement of wheat through syndicate financing. FBL also participated in another commodity financing transaction for Rs. 1 billion.

During 2009 the bank also signed a non committed Trade Finance Facility agreement with Asian Development Bank (ADB). The Trade Finance Facilitation Programme (TFFP) is the first region wide programme undertaken by the ADB aimed at helping banks in developing member countries to provide trade finance products to importers and exporters. Under this Programme, FBL will facilitate its customers by getting general trade guarantees, LCs and SBLCs confirmed via the ADB guarantee to confirming banks, covering both the country as well as commercial risk. The guarantee will be issued at the request of FBL in favour of the confirming bank and the cost of such guarantees will be market based. By signing up this facility, FBL has improved its global outreach and will now be better able to serve its customers.

People

In the area of People, the organization structures of all the functions have been reviewed and brought in line with the best practices. HR processes have been streamlined and automated with the successful implementation of Phase I of Oracle HRMS. A new performance management system has been introduced and goal setting on SMART objective basis has been completed. All HR polices have been reviewed and aligned with current market practices and will be rolled out on January 01, 2010.

Risk Management

In line with management's strategy to strengthen Risk Management framework:

- Approval functions for Corporate & Commercial segments have been equipped with suitably experienced & qualified senior officials. While Corporate Risk segment will remain centralized at the head office, regional setup for Commercial Risk has been instituted to improve credit appraisal process in commercial & SME segment.

- The Bank is also in the process of strengthening its Retail Risk segment for which a strategy has been devised & the recruitment of skilled staff is in process. With the strategy in place to manage retail risk, management expects a paradigm shift in our credit initiation, evaluation & assessment criteria, which will reflect significant improvement in Retail Risk management.

- Cognizant of after effects of economic turmoil, the bank has devised sufficient controls to have a check on Non-Performing Loans (NPLs) keeping a proactive approach. SAM function has been assigned with specific recovery targets and the Bank has managed to effect significant recoveries/restructurings in some of the chronic NPLs.

- The bank continues to focus on developing an end-to-end Enterprise Risk Solution, for which the structure & human resources are in place.

- To control regulatory risk, compliance function has been strengthened. Over All Risk Assessment Procedures (ORAP) for new initiatives and New Client Take On Procedures have been introduced.

Processes

- In order to bring in efficiency all Regional Centralized Processing Centres (CPUs) and trade factories have been centralized at one place.

- To improve customer services, corporate service centres have been established in Karachi, Lahore and Islamabad.

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- On technology side, IT platform was stabilized, security improved, operations streamlined and detailed strategy for meeting future business and regulatory requirements has been prepared.

Financial Perspective

In line with the organizational set up, the MIS set of the bank has also been changed from geographical to functional. After developing MIS at business segment level the work on customer level MIS has been initiated. A culture of quantification of financial impact of all the initiatives has been introduced in the bank. Implementation of Oracle Financials has been initiated to provide a stable and robust platform to this MIS setup.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Faysal Bank being a socially responsible corporate entity has been a regular contributor to the society and communities it operates in. The employees of the bank established a relief fund for those tragically displaced from their homes in Swat with the bank contributing by matching the employees' collection.

The bank with a focus on promoting education for the underprivileged entered into a partnership with Institute of Business Administration Karachi to provide Rs. 50 million for sponsorship of one academic chair in IBA's Executive MBA program from September 2009. Further, the bank also provided direct sponsorships and contribution of computer equipment to educational institutions of Behbud Association, TCF, TAC School, Mashaal Trust Hostel. The Bank also extended support to education and medical causes by supporting their Zakat drives during Ramzan at Bank counters and through outdoor media.

CREDIT RATING

Faysal Bank enjoys the highest short term rating of A1+ (A One Plus) and AA (Double A) for the long term by JCR-VIS (credit rating company). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. Another major credit rating company of Pakistan, PACRA, has also assigned the same ratings to the Bank. During the period under review, in view of the prevailing economic environment, the outlook on the rating was changed from stable to negative.

FINANCIAL HIGHLIGHTS

	For the quarter ended		**For the nine months ended**	
	Sept. 30, 2009	Sept. 30, 2008	**Sept. 30, 2009**	Sept. 30, 2008
	Rupees in millions			
Profit before taxation	**731**	1,284	**1,505**	2,422
Taxation	**279**	238	**587**	630
Profit after tax	**452**	1,046	**918**	1,792
Un-appropriated profit brought forward	**721**	904	**1,050**	1,482
	1,173	1,950	**1,968**	3,274
Appropriations:				
Final cash dividend 2008:Nil (2007 @ 25%)	**-**	-	**-**	(1,324)
Issue of bonus shares 2008 @ 15%	**-**	-	**(795)**	-
Un-appropriated profit carried forward	**1,173**	1,950	**1,173**	1,950
Earnings per share (Rupees)	**0.74**	1.72	**1.51**	2.94

- As a result of growth in assets total mark up income for the nine months ended September 30, 2009 was 30% or Rs. 2,851 million higher than last year. This was however, offset by increase in mark up expenses due to higher cost of deposits.

- Non markup income for the nine months of 2009 was higher by 10% mainly due to gains from equity market.

- Expenses have increased to Rs. 3,245 million from Rs. 2,338 million over last year due to opening of 24 branches in 2008, higher inflation and investment in high quality HR and efficient systems.

- Due to difficult economic conditions, provision for bad debts during the period were also higher by Rs. 231 million i.e. 22%.

Accordingly, net profit after tax for the nine months ended September 30, 2009 was Rs. 918 million as against Rs. 1,792 million for the corresponding period last year.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank on behalf of the Board and Management of the Bank, the customers for their patronage, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their continued support and guidance and the shareholders for the trust they have reposed in the Bank. I would also like to express sincere appreciation of the employees of the Bank for their dedication and hard work.

On behalf of the Board of Directors

Karachi

President & CEO

Dated: October 27, 2009

Faysal Bank Limited

Unconsolidated Condensed Interim Financial Statements for the quarter and nine months ended September 30, 2009

UNCONSOLIDATED CONDENSED INTERIM BALANCE SHEET

As at September 30, 2009

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	Note	Unaudited September 30, 2009	Audited December 31, 2008
		Rupees '000	
ASSETS			
Cash and balances with treasury banks		**8,328,809**	8,927,524
Balances with other banks	9	**418,046**	876,780
Lendings to financial institutions	10	**1,025,954**	2,861,401
Investments	11	**47,680,767**	30,186,168
Advances	12	**94,187,073**	89,758,789
Operating fixed assets	13	**2,836,346**	2,646,978
Deferred tax assets - net	14	**850,787**	-
Other assets		**3,375,650**	2,983,846
		158,703,432	138,241,486
LIABILITIES			
Bills payable		**1,856,184**	1,536,517
Borrowings from financial institutions		**25,074,286**	13,027,468
Deposits and other accounts	15	**109,332,016**	102,776,793
Sub - ordinated loans		**999,400**	999,600
Liabilities against assets subject to finance lease		**-**	4,103
Deferred tax liabilities - net		**-**	2,483,355
Other liabilities		**8,737,413**	6,641,542
		145,999,299	127,469,378
NET ASSETS		**12,704,133**	10,772,108
REPRESENTED BY			
Share capital		**6,090,914**	5,296,445
Reserves		**3,790,023**	3,790,023
Unappropriated profit		**1,173,471**	1,049,519
		11,054,408	10,135,987
Surplus on revaluation of assets - net of deferred tax		**1,649,725**	636,121
		12,704,133	10,772,108
CONTINGENCIES AND COMMITMENTS	16		

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO **Director** **Director** **Director**

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UNCONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the quarter and nine months ended September 30, 2009

	Note	For the quarter ended September 30, 2009	For the quarter ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
		Rupees '000			
Mark-up / return / interest earned		**4,215,378**	3,388,118	**12,486,579**	9,635,439
Mark-up / return / interest expensed		**2,919,227**	2,091,738	**8,775,316**	5,940,093
Net mark-up / interest income		**1,296,151**	1,296,380	**3,711,263**	3,695,346
Provision against non-performing loans and advances	12.2	**590,273**	543,342	**1,273,234**	1,041,794
(Reversal) / Provision for consumer loans - general	12.3	**(1,402)**	209	**(20,681)**	(91,391)
Reversal for diminution in the value of investments		**(183,269)**	(52,211)	**(116,915)**	(46,807)
Bad debts written off directly		**-**	-	**-**	-
		405,602	491,340	**1,135,638**	903,596
Net mark-up / interest income after provisions		**890,549**	805,040	**2,575,625**	2,791,750
NON MARK-UP / INTEREST INCOME					
Fee, commission and brokerage income		**184,840**	210,022	**659,978**	573,043
Dividend income		**538,220**	1,054,519	**617,547**	1,162,741
Income from dealing in foreign currencies		**39,243**	110,432	**203,205**	235,194
Gain on sale of investments		**172,888**	(63,489)	**664,582**	(49,395)
Unrealised gain / (loss) on revaluation of securities classified as held-for-trading		**58,774**	(2,713)	**(28,545)**	(2,713)
Other income		**13,733**	21,261	**57,772**	49,220
Total non mark-up / interest income		**1,007,698**	1,330,032	**2,174,539**	1,968,090
		1,898,247	2,135,072	**4,750,164**	4,759,840
NON MARK-UP / INTEREST EXPENSES					
Administrative expenses		**1,105,063**	857,263	**3,152,979**	2,343,103
Other provisions		**30,000**	(6,061)	**59,180**	(6,061)
Other charges		**32,607**	195	**32,698**	1,041
Total non mark-up interest expenses		**1,167,670**	851,397	**3,244,857**	2,338,083
Extraordinary items / unusual items		**-**	-	**-**	-
PROFIT BEFORE TAXATION		**730,577**	1,283,675	**1,505,307**	2,421,757
Taxation - Current		**370,971**	408,874	**776,028**	952,899
- Prior years		**-**	-	**3,305,364**	-
- Deferred		**(91,743)**	(170,765)	**(3,494,506)**	(322,908)
		279,228	238,109	**586,886**	629,991
PROFIT AFTER TAXATION		**451,349**	1,045,566	**918,421**	1,791,766
		Rupees			
Basic and diluted earnings per share	18	**0.74**	1.72	**1.51**	2.94

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO **Director** **Director** **Director**

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the quarter and nine months ended September 30, 2009

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	For the quarter ended		For the nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
	Rupees '000			
PROFIT FOR THE PERIOD	**451,349**	1,045,566	**918,421**	1,791,766
OTHER COMPREHENSIVE INCOME				
Net change in fair value of available-for-sale financial assets	**659,019**	(4,002,050)	**1,173,969**	(5,302,732)
Income tax on other comprehensive income	**(51,006)**	1,058,690	**(160,365)**	(90,997)
Other comprehensive income / (loss) for the period	**608,013**	(2,943,360)	**1,013,604**	(5,393,729)
Total comprehensive income / (loss) for the period	**1,059,362**	(1,897,794)	**1,932,025**	(3,601,963)

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO **Director** **Director** **Director**

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UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

For the nine months ended September 30, 2009

	September 30, 2009	September 30, 2008
	Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	**1,505,307**	2,421,757
Less: Dividend income	**(617,547)**	(1,162,741)
Profit on available-for-sale securities	**(3,066,452)**	(1,310,126)
	(2,178,692)	(51,110)
Adjustments for non-cash charges:		
Depreciation / Amortisation	**446,512**	334,525
Provision against non-performing advances	**1,273,234**	1,041,794
Reversal for consumer loans - general	**(20,681)**	(91,391)
Provision for diminution in the value of investments	**(116,915)**	(46,807)
Provision / (Reversal) for other assets	**59,180**	(6,061)
Unrealised gain / (loss) on revaluation of held-for-trading financial instruments	**28,545**	(2,713)
Bad debts written off directly	**-**	-
Gain on sale of operating fixed assets	**(7,214)**	(9,484)
Finance charges on leased assets	**22**	162
Exchange gain	**(13,351)**	(147,508)
	1,649,332	1,072,517
	(529,360)	1,021,407
(Increase) / Decrease in operating assets		
Lendings to financial institutions	**2,385,447**	3,560,993
Held-for-trading securities	**(1,008,949)**	(186,847)
Advances	**(5,680,837)**	(4,945,275)
Other assets (excluding advance taxation)	**(359,133)**	(188,377)
	(4,663,472)	(1,759,506)
Increase / (Decrease) in operating liabilities		
Bills payable	**319,667**	(802,815)
Borrowings from financial institutions	**12,046,818**	8,093,255
Deposits	**6,555,223**	(9,556,646)
Other liabilities (excluding taxation)	**1,111,680**	6,734
	20,033,388	(2,259,472)
	14,840,556	(2,997,571)
Income tax paid	**(3,096,913)**	(130,220)
Net cash flow from operating activities	**11,743,643**	(3,127,791)
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	**(24,028,556)**	3,591,153
Net investments in held-to-maturity securities	**8,805,245**	-
Dividends received	**594,290**	116,557
Profit received on available-for-sale securities	**2,997,859**	1,279,657
Fixed capital expenditure	**(659,029)**	(477,559)
Sale proceeds from disposal of fixed assets	**30,361**	31,167
Net cash flow from investing activities	**(12,259,830)**	4,540,975
CASH FLOW FROM FINANCING ACTIVITIES		
Payments of lease obligations	**(4,125)**	(2,254)
Repayment of Sub-ordinated loans	**(200)**	(200)
Dividends paid	**(288)**	(1,320,256)
Net cash flow from financing activities	**(4,613)**	(1,322,710)
(Decrease) / Increase in cash and cash equivalents	**(520,800)**	90,474
Cash and cash equivalents at beginning of the period	**9,804,304**	11,380,484
Effects of exchange rate changes on cash and cash equivalents	**13,351**	147,508
Cash and cash equivalents at beginning of the period	**9,817,655**	11,527,992
Cash and cash equivalents at end of the period	**9,296,855**	11,618,466

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO **Director** **Director** **Director**

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended September 30, 2009

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	Share capital	Reserves			Unappropriated profit	Total
		Capital		Revenue		
		Reserve for issue of bonus shares	Statutory reserve	Capital market reserve		
	----------	----------	----------	Rupees '000	----------	----------
Balance as at January 1, 2008	5,296,445	-	3,177,491	389,542	1,481,668	10,345,146
Changes in Equity for the nine months ended September 30, 2008 :						
Final cash dividend for the year ended December 31, 2007 at Rs. 2.5 per share approved subsequent to the year end	-	-	-	-	(1,324,111)	(1,324,111)
Profit after taxation for the nine months ended September 30, 2008	-	-	-	-	1,791,766	1,791,766
Balance as at September 30, 2008	5,296,445	-	3,177,491	389,542	1,949,323	10,812,801
Changes in Equity for the three months ended December 31, 2008 :						
Profit after taxation for the period October 01 to December 31, 2008	-	-	-	-	(676,815)	(676,815)
Transfer to statutory reserve	-	-	222,990	-	(222,990)	-
Balance as at December 31, 2008	5,296,445	-	3,400,481	389,542	1,049,519	10,135,987
Changes in Equity for the nine months ended September 30, 2009 :						
Profit after taxation for the nine months ended September 30, 2009	-	-	-	-	918,421	918,421
Transfer to reserve for issue of bonus shares	-	794,469	-	-	(794,469)	-
Issue of bonus shares	794,469	(794,469)	-	-	-	-
Balance as at September 30, 2009	6,090,914	-	3,400,481	389,542	1,173,471	11,054,408

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO **Director** **Director** **Director**

1. STATUS AND NATURE OF BUSINESS

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is engaged in Commercial, Consumer and Corporate banking activities. The bank has a branch network of 130 branches (December 31, 2008 : 129 branches) including 1 Islamic banking branch (December 31, 2008 : Nil) and operates 2 sub branches (December 31, 2008 : Nil), 1 sales and service centre (December 31, 2008 : 2).

The Registered Office (Head Office) of the Bank is located at Faysal House, ST-02, Shahra-e-Faisal, Karachi.

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain, is the ultimate holding company of Faysal Bank Limited.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated condensed interim financial statements as such and in substance are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

The financial results of Islamic banking branch have been consolidated in these financial stetements for reporting purpose only.

3. STATEMENT OF COMPLIANCE

These unconsolidated condensed interim financial statements are in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan shall prevail.

The State Bank of Pakistan as per BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

Further, disclosures made in these unconsolidated condensed interim financial statements have been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular Letter No. 2 dated May 12, 2004. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the bank for the year ended December 31, 2008.

During the current period, International Accounting Standard 1 (Revised), Presentation of Financial Statements (IAS 1) and International Financial Reporting Standard 8, Operating Segments (IFRS 8) became effective from January 1, 2009. The application of these standards has resulted in certain increased disclosures only. Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2009 and are not considered to be relevant or have no significant effect on the bank's operations, are not detailed in these unconsolidated condensed interim financial statements.

4. BASIS OF MEASUREMENT

These unconsolidated condensed interim financial statements have been prepared under the historical cost convention, except for the following financial instruments:

- Derivative financial instruments are measured at fair value; and

- Investments classified as held for trading and available-for-sale are also measured at fair values.

5. FUNCTIONAL AND PRESENTATION CURRENCY

These unconsolidated condensed interim financial statements have been presented in Pakistani Rupee, which is the functional as well as the reporting currency of the Bank.

6. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these unconsolidated condensed interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended December 31, 2008.

7. USE OF ESTIMATES AND JUDGEMENTS

The preparation of these unconsolidated condensed interim financial statements in accordance with approved accounting standards require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the current and future reporting periods. The actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates (other than adjusting events) are recognized prospectively commencing from the period of revision.

The significant judgements made by management and the key sources of estimating uncertainty in preparation of these unconsolidated condensed interim financial statements were same as those applied to the annual financial statements for the year ended December 31, 2008.

8. FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended December 31, 2008.

9. BALANCES WITH OTHER BANKS

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
In Pakistan		
- Current accounts	**83,476**	163,851
Outside Pakistan		
- Current accounts	**334,570**	712,929
	418,046	876,780

	Note	September 30, 2009	December 31, 2008
		(Rupees in '000)	

10. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	September 30, 2009	December 31, 2008
Call money lendings		550,000	-
Repurchase agreement lendings	10.1	475,954	2,861,401
		1,025,954	2,861,401

10.1 Repurchase agreement lendings :

	September 30, 2009			December 31, 2008		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	Rupees '000					
Market Treasury Bills	475,954	-	475,954	2,861,401	-	2,861,401

11. INVESTMENTS

11.1 Investments by type

	September 30, 2009			December 31, 2008		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees '000					
Held for trading securities						
Fully paid up ordinary shares	1,028,053	-	1,028,053	19,104	-	19,104
Available-for-sale securities						
Market Treasury Bills	19,624,324	10,798,724	30,423,048	11,345,480	1,122,183	12,467,663
Pakistan Investment Bonds	5,800,127	-	5,800,127	1,154,312	-	1,154,312
Sukkuk Bonds	462,000	-	462,000	-	-	-
Units of open end mutual funds						
- National Investment (Unit) Trust - note 11.2	3,537,842	-	3,537,842	3,475,056	-	3,475,056
- First Habib Income Fund	-	-	-	25,000	-	25,000
- Faysal Balanced Growth Fund	80,374	-	80,374	80,374	-	80,374
- Faysal Income Growth Fund	200,000	-	200,000	200,000	-	200,000
- Faysal Savings Growth Fund	207,411	-	207,411	207,411	-	207,411
- NAFA Cash Fund	-	-	-	50,000	-	50,000
- Atlas Income Fund	-	-	-	35,000	-	35,000
- United Money Market Fund	-	-	-	25,000	-	25,000
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	2,806,093	-	2,806,093	1,750,640	-	1,750,640
Fully paid up preference shares	492,677	-	492,677	492,677	-	492,677
Term finance certificates and bonds	1,522,976	-	1,522,976	1,540,859	-	1,540,859
	34,733,824	10,798,724	45,532,548	20,381,809	1,122,183	21,503,992
Held to maturity						
Market Treasury Bills	-	-	-	8,805,245	-	8,805,245
Associates						
- Shares of Faysal Asset Management Ltd.	45,000	-	45,000	45,000	-	45,000
Subsidiaries						
Shares of Faysal Management Services (Private) Ltd.	108,000	-	108,000	108,000	-	108,000
Investments at cost	35,914,877	10,798,724	46,713,601	29,359,158	1,122,183	30,481,341
Provision for diminution in the value of investments	(754,566)	-	(754,566)	(871,481)	-	(871,481)
Investments (Net of Provisions)	35,160,311	10,798,724	45,959,035	28,487,677	1,122,183	29,609,860
Deficit on revaluation of held for trading securities	(31,955)	-	(31,955)	(3,410)	-	(3,410)
Surplus on revaluation of available for sale securities (net)	1,778,677	(24,990)	1,753,687	579,718	-	579,718
Total investments at market value	36,907,033	10,773,734	47,680,767	29,063,985	1,122,183	30,186,168

11.2 This includes 150,268,315 NIT Units (December 31, 2008 : 150,268,315 NIT units) covered under letter of comfort (LOC) dated June 30, 2009 issued by the Federal Government with an expiry / renewal date of December 31, 2009.

12. ADVANCES	**Note**	**September 30, 2009**	December 31, 2008
		(Rupees in '000)	
Loans, cash credits, running finances, etc.		**86,874,031**	79,492,629
Net investment in finance lease- In Pakistan		**12,057,518**	13,493,087
		98,931,549	92,985,716
Bills discounted and purchased (excluding government market treasury bills)			
- Payable in Pakistan		**341,157**	675,771
- Payable outside Pakistan		**953,702**	596,917
		1,294,859	1,272,688
		100,226,408	94,258,404
Margin financing / reverse repo transactions		**338,200**	625,367
Provision for non-performing advances	*12.2*	**(6,181,418)**	(4,908,184)
Provision for consumer loans - general	*12.3*	**(196,117)**	(216,798)
		94,187,073	89,758,789

12.1 Advances includes Rs. 9.370 billion (December 31, 2008 : Rs. 7.479 billion) which have been placed under non-performing status as detailed below:

	September 30, 2009				
	Domestic	**Overseas**	**Total**	**Provision required**	**Provision held**
	(Rupees in '000)				
Category of classification					
Other assets especially mentioned	**522,529**	**-**	**522,529**	**-**	**-**
Substandard	**1,285,130**	**-**	**1,285,130**	**220,961**	**220,961**
Doubtful	**1,411,052**	**-**	**1,411,052**	**512,184**	**512,184**
Loss	**6,151,882**	**-**	**6,151,882**	**5,389,597**	**5,389,597**
	9,370,593	**-**	**9,370,593**	**6,122,742**	**6,122,742**

	December 31, 2008				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Category of classification					
Other assets especially mentioned	242,329	-	242,329	-	-
Substandard	1,882,120	-	1,882,120	655,627	655,627
Doubtful	1,553,008	-	1,553,008	658,836	658,836
Loss	3,801,842	-	3,801,842	3,535,045	3,535,045
	7,479,299	-	7,479,299	4,849,508	4,849,508

12.1.1 In accordance with the directives issued by SBP, the Bank has considered the benefit of 40% of FSV of pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against all Non Performing Loans (NPLs), except consumer financing, for three years from the date of classification for calculating provisioning requirements. For Non Performing Loans in respect of consumer financing, benefit of 50% of the FSV of mortgage property is considered in the first two years of classification and 40% in the third year of classification.

12.2 Particulars of provision for non-performing advances

	September 30, 2009		
	Specific	**General**	**Total**
	---------------- (Rupees in '000) ----------------		
Opening balance	**4,849,508**	**58,676**	**4,908,184**
Charge for the period	**1,825,459**	-	**1,825,459**
Transfer to specific provision from general provision	**-**	-	**-**
Reversals during the period	**(552,225)**	-	**(552,225)**
	1,273,234	-	**1,273,234**
Write off during the period	**-**	-	**-**
Closing balance	**6,122,742**	**58,676**	**6,181,418**

	December 31, 2008		
	Specific	General	Total
	---------------- (Rupees in '000) ----------------		
Opening balance	3,199,581	148,676	3,348,257
Charge for the period	1,973,009	-	1,973,009
Transfer to specific provision from general provision	90,000	(90,000)	-
Reversals during the period	(411,993)	-	(411,993)
	1,651,016	(90,000)	1,561,016
Write off during the period	(1,089)	-	(1,089)
Closing balance	4,849,508	58,676	4,908,184

12.3 Particulars of provision for consumer loans - general

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
Opening balance	**216,798**	321,620
Charge for the period	**-**	-
Reversals during the period	**(20,681)**	(104,822)
Closing balance	**196,117**	216,798

12.3.1 General provision against consumer portfolio has been determined in accordance with the requirements of Prudential Regulations issued by the State Bank of Pakistan equivalent to 1.5% of secured loans and 5% of unsecured loans.

	For the nine months ended	
	September 30, 2009	September 30, 2008
13. OPERATING FIXED ASSETS	**(Rupees in '000)**	
13.1 Additions to operating fixed assets		
Leasehold land	**50,756**	-
Leasehold property and improvements	**127,794**	110,089
Office furniture, fixtures, equipment and computers	**423,252**	133,586
Vehicles-owned	**93,783**	103,756
Capital Work-in-progress	**-**	71,532
Software	**82,258**	58,596
13.2 Disposals of operating fixed assets		
Leasehold property and improvements	**-**	-
Office furniture, fixtures, equipment and computers	**10,546**	12,934
Vehicles-owned	**43,344**	28,399
Vehicles-subject to finance lease	**10,478**	-

14. DEFERRED TAX ASSETS - NET

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provisions for doubtful and loss categories of advances and off balance sheet items is allowed upto a maximum of 1% of total advances. The amount of bad debts classified as OAEM (in agriculture) and Substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. Provisioning in excess of 1% of total advances would be allowed to be carried over to succeeding years. Therefore, the management has carried out an exercise at period end and concluded that they would be able to get deduction of provision in excess of 1% of total advances (provided for the nine months ended September 30, 2009) and have recognized deferred tax asset on such provision amounting to Rs. 174 million.

The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto December 31, 2008 would be allowed as a deduction. The Institute of Chartered Accountants of Pakistan (ICAP) and Pakistan Banking Association (PBA) has taken up this matter with Federal Board of Revenue (FBR). However, pending the final resolution of the matter, ICAP considers that reversal of deferred tax assets in relation thereto may not be made until the end of the financial year by which time the matter is expected to be decided by the FBR as proposed by the ICAP and the PBA. Accordingly, the deferred tax asset recognized through December 31, 2008 relating to provisions for advances and off balance sheet items amounting to Rs. 1,598 million has been carried forward.

	September 30, 2009	December 31, 2008
15. DEPOSITS AND OTHER ACCOUNTS	**(Rupees in '000)**	
Term deposits	**47,403,867**	56,930,591
Saving deposits	**41,508,038**	25,317,608
Current accounts	**18,672,094**	18,509,917
Margin accounts	**1,748,017**	2,018,677
	109,332,016	102,776,793

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16. CONTINGENCIES AND COMMITMENTS

16.1 Direct credit substitutes

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
Contingent liability in respect of guarantees favouring:		
i) Government	**-**	-
ii) Banking companies and other financial institutions	**7,819**	11,314
iii) Others	**3,076,485**	2,298,364
	3,084,304	2,309,678
Acceptances		
i) Government	**-**	8,903
ii) Banking companies and other financial institutions	**-**	-
iii) Others	**1,220,018**	2,115,242
	1,220,018	2,124,145

16.2 Transaction-related contingent liabilities

	September 30, 2009	December 31, 2008
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
i) Government	**3,689,641**	3,940,271
ii) Banking companies and other financial institutions	**942,334**	121,645
iii) Others	**11,703,224**	13,053,502
	16,335,199	17,115,418

16.3 Trade-related contingent liabilities

	September 30, 2009	December 31, 2008
Letters of credit		
i) Government	**2,677,604**	302,870
ii) Banking companies and other financial institutions	**-**	115,210
iii) Others	**6,308,558**	8,378,903
	8,986,162	8,796,983

16.4 Other Contingencies

	September 30, 2009	December 31, 2008
i) Suit filed by a customer for recovery of alleged losses suffered, which is pending in the High Court of Sindh; Bank's legal advisors are confident that the Bank has a strong case	**2,500,000**	2,500,000
ii) Indemnity issued favouring the High Court in above case	**457,543**	457,543
iii) Claims against the Bank not acknowledged as debt	**1,291,069**	1,126,990

16.5 The tax department has amended the assessments of the Bank under section 122(5A) of the Income Tax Ordinance, 2001 relating to the tax years 2004 to 2008. The Bank filed an appeal against the amended orders passed, before the Commissioner of Income Tax (CIT)-Appeals. The CIT - Appeals passed a combined order, the effect of which had been accounted for by the Bank. The Bank has now filed an appeal before the Income Tax Appellate Tribunal against the order of the CIT - Appeals on certain issues, which are pending.

16.6 Commitments in respect of forward lending / purchase

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
Commitments to extend credit - Advances	**-**	3,179,852
Commitments to invest in securities	**300,000**	330,000

		September 30, 2009	December 31, 2008
		(Rupees in '000)	
16.7	**Commitments in respect of forward exchange contracts**		
	Purchase		
	- Customers	**1,077,308**	1,103,966
	- Banks	**11,083,645**	4,905,443
		12,160,953	6,009,409
	Sale		
	- Customers	**6,749**	-
	- Banks	**10,911,010**	3,224,281
		10,917,759	3,224,281
16.8	**Commitments for acquisition of operating fixed assets**	**84,632**	196,637
16.9	**Commitments in respect of repo transactions**		
	Repurchase	**870,680**	3,448,631
	Resale	**10,773,734**	1,122,184

17. CAPITAL MARKET RESERVE

The bank makes appropriation for capital market reserve in order to meet unforeseen future contingencies in the capital market. Appropriation in respect of the current year will be considered at the time of finalisation of the annual statutory financial statements.

18. BASIC / DILUTED EARNINGS PER SHARE

	For the Quarter ended		For the nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
	(Rupees in '000)			
Profit after taxation	**451,349**	1,045,566	**918,421**	1,791,766
	Number of shares in thousands			
Weighted average number of ordinary shares	**609,091**	609,091	**609,091**	609,091
Basic and diluted earnings per share	**Rs. 0.74**	Rs. 1.72	**Rs. 1.51**	Rs. 2.94

19. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

For management purposes the Bank is organised into four major business segments;

Corporate Finance
Trading and Sales
Retail Banking and
Commercial Banking

All assets, liabilities, off balance sheet items, and items of income and expense are distributed in primary segments in accordance the core functions performed by the business groups.

	Corporate finance	Trading & sales	Retail banking	Commercial banking
	------------------------ (Rupees in '000) ------------------------			
September 30, 2009				
Total income	**45,296**	**4,947,139**	**3,348,545**	**6,320,138**
Total expenses	**(55,125)**	**(4,363,258)**	**(3,404,517)**	**(5,919,797)**
Net income / (loss)	**(9,829)**	**583,881**	**(55,972)**	**400,341**
Segment assets (Gross)	**-**	**51,700,767**	**40,445,687**	**73,689,079**
Segment non performing financing / investment	**-**	**-**	**6,196,777**	**3,173,816**
Segment provision required	**-**	**(754,566)**	**(3,431,315)**	**(2,946,220)**
Segment liabilities	**-**	**44,743,831**	**36,310,263**	**64,945,205**
Segment return on assets (ROA) (%)	**-**	**12.76%**	**11.04%**	**11.44%**
Segment cost of funds (%)	**-**	**8.10%**	**2.40%**	**9.10%**
September 30, 2008				
Total income	35,849	3,915,409	2,650,203	5,002,068
Total expenses	(39,357)	(3,115,200)	(2,430,696)	(4,226,510)
Net income / (loss)	(3,508)	800,209	219,507	775,558
December 31, 2008				
Segment assets (Gross)	-	41,352,986	37,250,078	65,742,918
Segment non performing financing / investment	-	-	6,046,426	4,575,807
Segment provision required	-	(718,565)	(2,661,391)	(2,724,540)
Segment liabilities	-	38,768,953	32,997,331	55,703,094
Segment return on assets (ROA) (%)	-	12.22%	10.59%	11.49%
Segment cost of funds (%)	-	9.41%	2.12%	7.29%

Note:
The above table is based on best estimates / assumptions and other segments (payment & settlement and agency services) as required to be disclosed are not material.

20. RELATED PARTY TRANSACTIONS

The Bank has related party relations with its associated undertakings, subsidiary company, group companies, employee benefit plans and its directors and executive officers (including their associates). Transaction with key management personnel and entities in which the Bank has strategic investment are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transactions with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk.

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	September 30, 2009					
	Directors and Key management personnel	Group companies	Associate	Subsidiary	Strategic and other investments	Retirement Benefit Plans
	(Rupees in '000)					
Deposits						
Balance as at January 01, 2009	21,081	1,174,456	958	184,051	13,412	148,888
Placements during the period	515,385	26,828,042	65,857	3,270,884	9,838,566	613,092
Withdrawals during the period	(471,567)	(27,984,586)	(66,455)	(3,267,272)	(9,773,803)	(451,053)
Balance as at September 30, 2009	64,899	17,912	360	187,663	78,175	310,927
Advances						
Balance as at January 01, 2009	71,807	-	-	-	731,564	-
Disbursement during the period	-	-	-	-	63,077	-
Repayment during the period	(37,032)	-	-	-	(1,280)	-
Balance as at September 30, 2009	34,775	-	-	-	793,361	-

	September 30, 2009			
	Associates	Subsidiaries	Strategic Investments	Group Companies
	(Rupees in '000)			
Investments				
Balance as at January 01, 2009	45,000	108,000	853,750	132,487
Investments during the period	-	-	-	1,240,460
Sale proceed during the period	-	-	(37,737)	(1,369,625)
Balance as at September 30, 2009	45,000	108,000	816,013	3,322

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
Nostro balances with related parties	**16,009**	15,238

	For the nine months ended	
	September 30, 2009	September 30, 2008
	(Rupees in '000)	
Profit paid / accrued	**164,357**	5,681
Profit / return earned	**79,275**	53,339
Technical Fee	**-**	10,969
Dividend income from subsidiary	**6,750**	7,560
Remuneration of key management personnel		
Salaries, bonuses and other short-term employee benefits	**100,660**	87,710
Post-employment benefits	**2,535**	4,476
Contribution to staff retirement benefits	**9,179**	30,372

21. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated condensed interim financial statements were authorised for issue on October 27, 2009 by the Board of Directors of the Bank.

22. GENERAL

22.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

22.2 Previous periods' figures have been rearranged and reclassified where ever necessary, to facilitate comparision.

President & CEO	Director	Director	Director