



The will to go beyond

## Half-Yearly Report

Ended June 30, 2011  
Unaudited Financial Statements

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Registered Office  
Faysal House, ST-2, Shara-e-Faisal, Karachi  
Tel: 021-32795200 Fax: 021-32795234

## Board of Directors

Syed Naseem Ahmad	Chairman
Naved A. Khan	President & CEO
Graham Roderick Walker	Director
Mohamed A. R. Hussain	Director
Farooq Rahmatullah	Director
Shahid Ahmad	Director
Hassan Mohammed Mahmood Hassan	Director
Lt. Gen. Muhammad Maqbool (Retd)	Director

## Audit Committee (AC)

Graham Roderick Walker	Chairman
Hassan Mohammed Mahmood Hassan	Member
Lt. Gen. Muhammad Maqbool (Retd)	Member

## Board Risk Management Committee (BRMC)

Mohamed A.R.Hussain	Chairman
Naved A. Khan	Member
Syed Naseem Ahmad	Member
Shahid Ahmad	Member
Farooq Rahmatullah	Member

## Recruitment Nomination and Remuneration Committee (RNRC)

Syed Naseem Ahmad	Chairman
Farooq Rahmatullah	Member
Naved A. Khan	Member
Shahid Ahmad	Member
Hassan Mohammed Mahmood Hassan	Member

On behalf of the Board of Directors, I am pleased to present the financial statements of Faysal Bank Limited for the quarter and half year ended June 30, 2011.

## Economic Update

From the onset FY'11 proved to be an extremely challenging year for Pakistan's economy. The catastrophic floods which hit Pakistan in July '10 adversely affected economic growth and public finances by depressing budget revenues and necessitating additional spending to meet the humanitarian and reconstruction needs. Real GDP growth which in the beginning of the FY'11 was envisioned at 4% is now estimated at 2.4% against 3.8% in FY'10.

The fiscal position of the GOP remained disconcerting throughout FY'11 as in the aftermath of the floods there was a widespread concern among the economic managers that the deficit could swell close to 8%, but due to the austerity measures taken by the GOP and new taxes implemented under the Presidential Ordinance, the deficit is now estimated between 5.5-6.5%. The most disconcerting aspect of the GOP's fiscal disposition was its financing mix during the first half of FY'11 which was largely skewed towards borrowings from the SBP. This issue was aptly addressed during the 1st quarter of 2011 as the GOP and SBP reached an agreement on a borrowing ceiling set at PKR 1,290 billion. This is an encouraging development as the excessive growth in the Money Supply is viewed as the major culprit by the SBP for the inflexibility in inflation.

The most heartening economic development of FY'11 has been the improvement witnessed in the current account which during the first 11 months recorded a surplus of USD 205 million vs. a deficit of USD 3.402 billion during the same period last year. This stellar performance is attributable to an export growth of 27.4% (largely aided by higher cotton prices), sluggish manufacturing and consumer demand (reflected in 14.5% growth in imports) and robust increase in workers' remittances which were up by 25% over FY'10 at USD 10.096 billion. This improved external position enabled the SBP to build reserves and keep the USD/PKR parity in check. For the week ended 2nd July'11 Pakistan's foreign exchange reserves were \$18.25 billion – an all time high.

CPI inflation during FY'11 was recorded at 13.9% which was well within the SBP post-flood estimate of 14.5%. The real challenge for the economic managers on this front is the stubbornness exhibited in CPI inflation which even after the dissipation of the flood induced element remains downward sticky and is projected at 12% for FY'12. There is a multiplicity of factors in play here; a lagged impact of GOP borrowings from the SBP, expected rise in administered prices (e.g. fuel, gas and electricity) and recent rally in international commodity prices. The threat due to monetary hangover was swiftly addressed by the SBP in first half of FY'11 by a cumulative hike in the discount rate by 150bps, but the monetary policy has little influence over the rise in administered prices though it could curtail its second round effects. The broader challenge to price stability comes from the output gap which is not allowing enough flexibility in aggregate supply and warrants a more cohesive policy response.

Going forward the key challenges facing Pakistan's economy are; stubbornness in the inflation outlook, structural bottlenecks (e.g. energy shortages), a mounting debt burden, weak economic

growth and private investment and a meager resource envelope. In order to aptly address these issues the GOP needs to increase the Tax to GDP ratio, reform loss making PSE's and eliminate untargeted subsidies which would afford it the fiscal space to enable much needed increase in public investment and social spending and deter crowding out of private sector investment in order to address the output gap.

An attempt at fiscal prudence has been made in the Federal budget for FY'12 wherein the fiscal deficit has been targeted at 4% of GDP, most of which would be financed through domestic sources and with no incremental borrowing from the SBP – which is quite heartening for the inflation outlook. The government has also targeted an increased tax-to-GDP ratio at 10.3% and has allocated a massive PKR 730 billion for PSDP which would give the economy the much needed counter-cyclical stimulus.

### **Bank's Performance:**

An acquisition that has started to deliver - Already.

In 2010 RBS incurred a pre-tax loss of PKR 2,937 mln whereas FBL's profit before tax was PKR 851 mln, as such pre-tax loss of the two banks on combined basis was over PKR 2 bln. However, Post acquisition of RBS Pakistan franchise, in contrast to this loss FBL has posted a profit before tax of PKR 1.2 bln for the period Jan - June 2011 - a delta of more than PKR 3 bln within six months of acquisition of the RBS Pakistan. And prospects for remainder of the year look even brighter with increase in business volumes across all business lines. The banking sector in Pakistan is witnessing an M&A deal that is showing signs of success in a relatively short span of time.

### **Timing:**

We timed the acquisition right. We acquired the franchise at the bottom of the cycle as opposed to the peak as is the case in many M&A transactions locally as well as globally. This was reflected in the acquisition price.

### **Acquisition rationale:**

We knew the RBS franchise well and the potential that it could unlock for us in terms of synergies through products, people, systems, clients and distribution network.

### **Execution / successful integration:**

This is where most M&A storied get off track. Execution and subsequent integration are make or break. Within six months we have been able to integrate relatively seamlessly across all critical areas including:

- Policies and procedures (comprehensive exercise was conducted and all policies and procedures bank wide and adopted the best in class).

- Regarding technology, disengagement and replacement of the RBS Global back-end system has been achieved and Alternative Delivery Channel (ADC) platforms have been consolidated and upgraded, resulting not only in alignment but also in enhancement in the range of services provided to the customers.
- All products across businesses have been evaluated and aligned ensuring availability of the entire product on a combined basis to our clients. We have also aligned client portfolios and existing relationship strategies have been redefined with risk processes fine-tuned to ensure facilitation of business in an efficient manner.
- Various critical in-house training sessions have been conducted to ensure that all staff are aware and comprehend the revised policies, procedures and systems. Physical relocation of staff has also been accomplished.

Key developments during the period under review are outlined below:-

## Processes

A comprehensive exercise was conducted on a bank wide level whereby policies and procedure were reviewed and revised with the purpose of adopting best practices prevailing in both the banks and the industry.

In addition to disengagement and replacement of RBS Global back-end system the bank also implemented an internationally acclaimed end-to-end derivative system for handling its derivative portfolio.

## Human Resources

The HR function conducted in-house training session in coordination with all segments to ensure that staff is aware of the new products, policies, procedures and systems. Physical relocation of majority of staff in view of their new responsibilities was also completed. Following the acquisition, with an objective of increasing staff engagement, awareness and bonding various functions and sports events were held.

## Retail Banking

Post RBS merger there was a need for alignment of product and services offered to the customers by the two entities. After carrying out a detailed analysis of asset and liability products features, these were aligned. The foremost objective during this exercise was to ensure that the customers on both sides are offered a complete suite of products to cater to their varying needs. Subsequently a rebranding exercise of the product collaterals was carried out for combined product suite. The schedule of charges was also aligned.

Remaining devoted to the mission of providing innovative financial services to customers, the bank has started offering takaful, Islamic mode of insurance under its "Faysal Aik Faisala" Bancassurance product suite to serve the Islamic banking customer base.

With an enhanced branch network at its disposal, the bank is concentrating on increasing proportion of individual current and saving accounts in the deposit mix. This strategy will positively impact the cost of deposit, reduce reliance on large institutional deposits and will further improve bank's liquidity profile.

### Islamic Banking

The bank is aggressively following the expansion plan for its Islamic Banking business. Some of the key achievements of Islamic Banking business during the half year ended June 30, 2011 are as follows:-

- During 2011 Barkat Islamic Banking has more than doubled its footprint from 13 to 30 branches in 14 cities. The bank is rationalizing the overlap of conventional branches by relocating them to other areas while utilizing their current premises for Islamic branches or as a second option choosing new sites.
- FBL participated in PKR 500 million Syndicated Diminishing Musharaka transaction to a government entity engaged in supply of natural resources by partnering with corporate banking expertise.
- Islamic Banking has been given a new and distinct brand identity through its branch fascias which will lend equity to the Barkat brand.

### Corporate and Investment Banking

Faysal Bank's Corporate and Investment Banking Group remained active throughout the period, concluding existing and winning several new transactions. The prominent achievements are highlighted below:-

- FBL acted as Lead Arranger for a project finance transaction for Pakistan's first wind power project.
- FBL was mandated to arrange local currency portion of a Project Finance Facility to establish Pakistan's first coal, clinker and cement terminal at Port Qasim Authority. The terminal will be established by a leading terminal operating company in Pakistan in collaboration with International Finance Corporation.
- FBL was mandated to co-arrange Syndicated Term Finance Facility to setup a new sugar plant at Deharki in Ghotki District (Sindh) being sponsored by one of the most progressive industrial groups in Pakistan.
- FBL was mandated as Lead Financial Advisor and Arranger to a Syndicated Working Capital facility up to PKR 2.5 billion for a Corporate Farming Enterprise.

## Risk Management

Integration agenda spearheaded the 2011 first half for Risk Management Group (RMG). With the induction of specialized Retail Risk Management Unit in RMG, a structured approach has been inculcated to manage the Consumer Finance business.

The Corporate portfolio was realigned with the merger of ex-RBS. As part of this realignment, an exercise was conducted to identify and re-allocate customers to business segments. Existing relationship strategies were redefined and the risk process was fine-tuned to assist business in a more efficient manner.

Well developed SME & Agri Risk Management structure, operating through extended regional presence is facilitating overall Bank's growth objective while ensuring that credit quality is not compromised.

As part of the bank-wide exercise, Market, Liquidity, and Operational Risk Policies have been revised after a thorough review of the prevalent policy and procedural framework at ex-RBS Pakistan and Faysal Bank with the objective of adopting best of both and industry best practices.

End-to-end derivatives system was implemented to measure the different risk type associated with derivative products. More importantly, limits are being monitored on real time basis to ensure that risks are within appetite.

Risk Policy Unit stands formally set-up within RMG in support of the Chief Risk Officer's holistic Risk oversight role, as envisioned in the Bank's Integrated Risk Management Framework. The Unit led the initiative of drawing up the RMG Business Continuity Plan (BCP), as part of the post-acquisition cross-pollination of Best practices from RBS in the merged entity. As a vital component of the Risk continuum, the Risk Policy Unit has strengthened monitoring of exposures across all Risk areas supported by purpose-built MIS Reports ensuring alignment with BOD's strategic direction on the one hand & compliance with SBP risk management requirements & guidelines on the other hand.

## Corporate Social Responsibility

During the previous year the bank had entered into a 3 year contract with the Pakistan Cricket Board, becoming the official sponsor of domestic cricket. During the current period domestic cricket's last event for the 2010-2011 season, the Faysal Bank Super 8 T20 Cup was held in Faisalabad. The event generated tremendous interest in the public; citizens of Faisalabad and its environs thronged the stadium in tens of thousands, while millions followed the games on TV and social media.



## Financial Highlights

	June 2011	June 2010
	Rs. in million	
Operating profit	1,404	2,162
(Provision) / Reversal for non performing advances	100	(609)
(Provision) / Reversal for diminution in value of investments	(229)	6
	(129)	(603)
Profit before tax	1,275	1,559
(Provision) / Reversal for taxation	(481)	175
Profit after tax	794	1,734
Earning per share – Rupees	1.08	2.85

Profit after tax for corresponding period last year includes an amount of Rs. 1.473 billion on account of gain on settlement of NIT units. The summary of financial results without this amount is as follows:

	June 2011	June 2010
	Rs. in million	
Operating profit	1,404	724
(Provision) / Reversal for non performing advances	100	(609)
(Provision) / Reversal for diminution in value of investments	(229)	(151)
	(129)	(760)
Profit before tax	1,275	(36)
(Provision) / Reversal for taxation	(481)	297
Profit after tax	794	261
Earning per share – Rupees	1.08	0.35

Acquisition of RBS had a positive impact on the growth in advances and deposits volumes. It not only provided an upfront boost to the balance sheet strength but also provided opportunities for organic growth through expanded branch network and product suite. The positive impact of this can be seen in a Rs. 1.8 billion or 67% increase in net margins.

Non markup income for the half year increased to Rs. 2.7 billion registering impressive growth of 30% over the corresponding previous period. This performance is even more commendable when we consider that the previous year included a one off capital gain of Rs. 1.5 billion on settlement of NIT LOC units. The driving factors for this increase were Bancassurance income, equity market gains, income from derivatives and fee based income from branch banking.

Induction of a dedicated team with a sharp focus on recoveries from non performing portfolio has resulted in net reversal of provisions amounting to Rs. 100 million during the period as against a net charge of Rs. 609 million during the previous period.

During the current half year administrative expenses increased to Rs. 5.6 billion as against Rs. 2.5 billion last year. This increase primarily represents cost of ex-RBS operations. Inflation, salary increase, high fuel cost and IT related cost are other contributing factors for the increase. A detailed expenses reduction strategy is in place to control expenses and improve cost efficiency ratio in line with the industry.

Profit after tax was Rs. 794 million as against Rs. 261 million last year after excluding one off capital gain of Rs. 1.47 billion on settlement of NIT LOC units.

### **Credit Rating:**

JCR-VIS Credit Rating Company Limited (JCR) and Pakistan Credit Rating Agency Limited (PACRA) had re-affirmed the following entity ratings based on the financial statements for the year ended December 31, 2010.

Long-Term      AA

Short-Term    A1+

"Stable" outlook has been assigned to the ratings by both the agencies.

### **Acknowledgment:**

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

On behalf of the Board of Directors

Istanbul, Turkey  
Dated: July 18, 2011

President & CEO

### Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Faysal Bank Limited** as at June 30, 2011 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the half year then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2011.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

### A.F. Ferguson & Co.

Chartered Accountants

Dated: July 25, 2011

Karachi.

**Unconsolidated Condensed Interim  
Financial Statements  
for the half year ended June 30, 2011**

# FAYSAL BANK LIMITED

## Condensed Interim Statement of Financial Position

As at June 30, 2011

	Note	Un-audited June 30, 2011	Audited December 31, 2010
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks		15,816,493	17,428,924
Balances with other banks	9	3,601,941	5,727,909
Lendings to financial institutions		-	-
Investments	10	101,768,136	86,418,549
Advances	11	142,639,729	133,706,769
Fixed assets		8,419,679	8,726,406
Deferred tax assets - net		5,201,225	5,017,202
Other assets		10,161,623	10,295,164
		<u>287,608,826</u>	<u>267,320,923</u>
<b>LIABILITIES</b>			
Bills payable		2,962,715	3,218,859
Borrowings		48,826,250	34,635,904
Deposits and other accounts	13	203,134,287	195,315,204
Sub-ordinated loans		4,395,075	4,595,395
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		11,323,616	13,037,791
		<u>270,641,943</u>	<u>250,803,153</u>
<b>NET ASSETS</b>		<u>16,966,883</u>	<u>16,517,770</u>
<b>REPRESENTED BY</b>			
Share capital		7,327,216	7,309,094
Proposed shares to be issued on amalgamation		-	28,253
Reserves		7,297,505	7,354,688
Unappropriated profit		2,744,591	1,950,843
		<u>17,369,312</u>	<u>16,642,878</u>
Deficit on revaluation of assets - net of tax		<u>(402,429)</u>	<u>(125,108)</u>
		<u>16,966,883</u>	<u>16,517,770</u>

### CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

# FAYSAL BANK LIMITED

## Condensed Interim Profit and Loss Account (Un-audited)

For the quarter and half year ended June 30, 2011

Note	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Rupees in '000				
Mark-up / return / interest earned	7,076,956	4,384,676	13,756,058	8,705,201
Mark-up / return / interest expensed	4,794,508	2,936,545	9,313,042	6,037,517
Net mark-up / interest income	2,282,448	1,448,131	4,443,016	2,667,684
Provision / (reversal) against non-performing loans and advances - net	11.2 (501,168)	331,056	(25,860)	628,981
Reversal of provision for consumer loans - general	11.3 (50,747)	(17,554)	(43,461)	(19,586)
Provision / (reversal) for diminution in the value of investments	10.5 227,414	182,757	228,681	(6,348)
(Recovery) of / Bad debts bad debts written off	8,415	-	(30,916)	-
	(316,086)	496,259	128,444	603,047
Net mark-up / return / interest income after provisions	2,598,534	951,872	4,314,572	2,064,637
<b>Non mark-up / return / interest income</b>				
Fee, commission and brokerage income	522,795	216,223	939,124	468,079
Dividend income	88,450	50,648	213,888	171,251
Income from dealing in foreign currencies	234,134	103,421	423,867	239,996
Gain / (loss) on sale of securities	338,942	(451,133)	486,611	1,251,545
Unrealised (loss) / gain on revaluation of investments classified as held for trading	(82,754)	(62,233)	186,249	(154,955)
Other income	164,906	27,871	399,829	66,875
Total non mark-up / return / interest income / (loss)	1,266,473	(115,203)	2,649,568	2,042,791
	3,865,007	836,669	6,964,140	4,107,428
<b>Non mark-up / return / interest expenses</b>				
Administrative expenses	2,808,516	1,324,726	5,572,935	2,538,458
Other provisions - net	48,746	-	46,076	-
Other charges	62,741	39,960	69,969	39,960
Total non mark-up / return / interest expenses	2,920,003	1,364,686	5,688,980	2,578,418
	945,004	(528,017)	1,275,160	1,529,010
Extraordinary / unusual items	-	-	-	-
<b>Profit before taxation</b>	945,004	(528,017)	1,275,160	1,529,010
Taxation - Current period	92,279	(39,768)	185,445	293,310
- Prior years	277,753	(254,920)	277,753	(239,872)
- Deferred	22,482	(281,515)	18,214	(258,207)
	392,514	(576,203)	481,412	(204,769)
<b>Profit after taxation</b>	552,490	48,186	793,748	1,733,779
----- Rupees -----				
<b>Basic and diluted earnings per share</b>	15 0.75	0.07	1.08	2.37

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Half year ended June 30, 2011

# FAYSAL BANK LIMITED

Condensed Interim Statement of Comprehensive Income (Un-audited)  
For the quarter and half year ended June 30, 2011

	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	----- 'Rupees in '000 -----			
<b>Profit for the period</b>	552,490	48,186	793,748	1,733,779
<b>Components of comprehensive income not reflected in equity</b>				
Deficit on revaluation of available for sale securities	(247,412)	(212,802)	(481,249)	(1,869,005)
Deferred tax asset / (liability) on revaluation of available for sale securities	(121,491)	21,556	203,928	227,704
	(368,903)	(191,246)	(277,321)	(1,641,301)
<b>Total comprehensive income / (loss) for the period</b>	<u>183,587</u>	<u>(143,060)</u>	<u>516,427</u>	<u>92,478</u>

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

**PRESIDENT & CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

# FAYSAL BANK LIMITED

## Condensed Interim Cash Flow Statement (Un-audited) For the half year ended June 30, 2011

	June 30, 2011	June 30, 2010
	Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,275,160	1,558,601
Less: dividend income	(213,888)	(171,251)
	<u>1,061,272</u>	<u>1,387,350</u>
<b>Adjustments for:</b>		
Depreciation	533,803	261,137
Amortisation	60,745	57,006
(Reversal) / provision against non-performing loans and advances - net	(25,860)	628,981
Reversal against consumer loans - general	(43,461)	(19,586)
Provision / (reversal) for diminution in value of investments	228,681	(6,348)
Provision against other assets	46,076	-
Unrealised (gain) / loss on revaluation of investments classified as held for trading	(186,249)	154,955
Gain on sale of operating fixed assets	(8,821)	(24,639)
Workers' Welfare Fund	41,791	29,591
	<u>646,705</u>	<u>1,081,097</u>
	<u>1,707,977</u>	<u>2,468,447</u>
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	-	8,522,428
Held for trading securities	358,141	458,394
Advances	(8,863,639)	(2,127,192)
Other assets (excluding advance taxation)	(210,202)	155,502
	<u>(8,715,700)</u>	<u>7,009,132</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	(256,144)	334,912
Borrowings	14,190,346	(15,275,346)
Deposits and other accounts	7,819,083	12,714,040
Other liabilities (excluding current taxation)	(1,215,686)	130,273
	<u>20,537,599</u>	<u>(2,096,121)</u>
	<u>13,529,876</u>	<u>7,381,458</u>
Income tax paid	(631,709)	(1,850,459)
<b>Net cash generated from operating activities</b>	<u>12,898,167</u>	<u>5,530,999</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investment in available for sale securities	(16,417,945)	(4,201,389)
Net investment in held to maturity securities	186,536	(940,174)
Dividends received	183,213	175,662
Investment in operating fixed assets	(405,656)	(217,843)
Proceeds realised on disposal of operating fixed assets	32,771	165,963
<b>Net cash used in investing activities</b>	<u>(16,421,081)</u>	<u>(5,017,781)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments of sub-ordinated loan	(200,320)	(200)
Dividends paid	(8,758)	(455)
<b>Net cash used in financing activities</b>	<u>(209,078)</u>	<u>(655)</u>
<b>(Decrease) / increase in cash and cash equivalents</b>	<u>(3,731,992)</u>	<u>512,563</u>
Cash and cash equivalents at beginning of the period	23,150,426	9,235,997
<b>Cash and cash equivalents at end of the period</b>	<u>19,418,434</u>	<u>9,748,560</u>

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR



Condensed Interim Statement of Changes In Equity (Un-audited)  
For the half year ended June 30, 2011

	Share capital	Proposed shares to be issued on amalgamation	Reserves					Unappropriated profit	Total	
			Capital		Reserve arising on amalgamation	Statutory reserve	Revenue			
			Reserve for issue of bonus shares	Share premium			Non-Distributable Capital Reserve-gain on bargain purchase (note 16)			Capital market reserve
Balance as at January 1, 2010	6,090,911	-	-	-	-	3,640,514	389,542	4,030,056	1,980,231	12,101,198
Profit after tax for the half year ended June 30, 2010	-	-	-	-	-	-	-	-	1,733,779	1,733,779
Transfer to unappropriated profit	-	-	-	-	-	-	(389,542)	(389,542)	389,542	-
Balance as at June 30, 2010	6,090,911	-	-	-	-	3,640,514	-	3,640,514	4,103,552	13,834,977
Transfer to reserve for issue of bonus shares	-	-	1,218,183	-	-	-	-	1,218,183	(1,218,183)	-
Bonus shares issued	1,218,183	-	(1,218,183)	-	-	-	-	(1,218,183)	-	-
Proposed shares to be issued on amalgamation	-	28,253	-	-	-	-	-	-	-	28,253
Reserve arising on acquisition and amalgamation of non-controlling interest in the RBS	-	-	-	-	23,952	-	-	23,952	-	23,952
Gain on bargain purchase	-	-	-	3,299,146	-	-	-	3,299,146	-	3,299,146
Loss after tax for the half year ended December 31, 2010	-	-	-	-	-	-	-	-	(543,450)	(543,450)
Transfer to statutory reserve	-	-	-	-	-	391,076	-	391,076	(391,076)	-
Balance as at December 31, 2010	7,309,094	28,253	-	3,299,146	23,952	4,031,590	-	7,354,688	1,950,843	16,642,878
Profit after tax for the half year ended June 30, 2011	-	-	-	-	-	-	-	-	793,748	793,748
Shares issued upon amalgamation	18,122	(28,253)	-	10,131	-	-	-	-	10,131	-
Amortisation of customer relationship - net of deferred tax	-	-	-	(67,314)	-	-	-	(67,314)	-	(67,314)
Balance as at June 30, 2011	7,327,216	-	-	10,131	3,231,832	23,952	4,031,590	7,297,505	2,744,591	17,369,312

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

**PRESIDENT & CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

## 1. STATUS AND NATURE OF BUSINESS

- 1.1** Faysal Bank Limited (the Bank) 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 Corporate, Commercial and Consumer banking activities. The Bank has a network of 242 branches (2010: 226); including 30 Islamic banking branches (2010: 13); and operates 2 sub-branches (2010: 2).

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

Ithmaar Bank B.S.C., a Bahrain based retail bank, is the parent company of the Bank, holding, directly and indirectly through subsidiaries 66.94% of the shareholding of the Bank. Dar Al-Maal Al-Islami Trust (DMI), (ultimate parent of the Bank) is the holding company of Ithmaar Bank B.S.C. The DMI group owns and operates an international network of Islamic banks and investment and insurance companies.

- 1.2** Based on the financial statements of the Bank for the year ended December 31, 2010, the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited have determined the Bank's long-term rating as 'AA' and the short term rating as 'A1+'.  
**1.3** As disclosed in the financial statements for the year ended December 31, 2010, the Bank completed the process of acquisition and subsequent amalgamation of Pakistan operations of Royal Bank of Scotland (RBS) on December 31, 2010 and with effect from that date all the properties, assets and liabilities and the rights and obligations stand amalgamated and vested into the Bank. The corresponding figures of profit and loss account in this condensed interim financial information represents the results of Faysal Bank Limited prior to this amalgamation.  
**1.4** The Securities and Exchange Commission of Pakistan (SECP) vide letter EMD/233/12/2002-55 dated July 15, 2011 has granted exemption to the bank from preparation of consolidated financial statements in relation to the subsidiary, Faysal Management Services (Private) Limited with effect from June 30, 2011. The letter from SECP specifies that this exemption is subject to the following:
- (i) Financial highlights (Statement of financial position and profit and loss account) of the subsidiary and nature of auditor's opinion on subsidiary's accounts must be disclosed in the annual financial statements of the Bank; and
  - (ii) It must be disclosed at conspicuous place in the annual financial statements of the Bank that annual audited financial statements of the subsidiary shall be available for inspection at registered office of the Bank, and would be available to the members on request without any cost.

## 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 this condensed interim financial information as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

The condensed interim financial information of the Islamic banking branches has been consolidated in this condensed interim financial information for reporting purposes only. Inter branch transactions and balances have been eliminated. In accordance with the directives issued by the SBP, the statement of financial position of Islamic banking branches is disclosed in note 19 to this condensed interim financial information.

## 3. STATEMENT OF COMPLIANCE

- 3.1** This condensed interim financial information has been prepared in accordance with 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, and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP), the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, or the

# FAYSAL BANK LIMITED

## Notes to and forming part of the Condensed Interim Financial Statements (Un-audited) For the half year ended June 30, 2011

directives issued by the SECP and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives issued by the SECP and SBP shall prevail.

- 3.2** The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of this condensed interim financial information. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3** The disclosures made in this condensed interim financial information have been limited based on the format prescribed by the State Bank of Pakistan through BSD Circular Letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34, "Interim Financial Reporting". They do not include all of the information required for the full annual financial statements and this condensed interim financial information should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2010.
- 3.4** SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on Revaluation of Available for sale (AFS) Securities only, may be included in the 'Statement of Comprehensive Income'. However, it should continue to be shown separately in the statement of financial position below equity. Accordingly, the above requirements have been adopted in the preparation of this condensed interim financial information.

#### **4. BASIS OF MEASUREMENT**

This condensed interim financial information has been prepared under the historical cost convention except that certain investments and derivative financial instruments have been marked to market and are carried at fair value.

#### **5. FUNCTIONAL AND PRESENTATION CURRENCY**

Items included in this condensed interim financial information are measured using the currency of the primary economic environment in which the Bank operates. This condensed interim financial information are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

#### **6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010.

#### **7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The basis and the methods used for critical accounting estimates and judgments adopted in this condensed interim financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010.

#### **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, 2010.

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

**Un-audited**  
**June 30,**  
**2011**  
**Audited**  
**December 31,**  
**2010**  
**Rupees in '000**

## 9. BALANCES WITH OTHER BANKS

In Pakistan		
- Current accounts	859,439	558,987
Outside Pakistan		
- Current accounts	369,860	2,676,894
- Deposit accounts	2,372,642	2,492,028
	<u>3,601,941</u>	<u>5,727,909</u>

## 10. INVESTMENTS

### 10.1 Investments by type

Note	Un-audited June 30, 2011			Audited December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in '000						
<b>Held for trading securities</b>						
Market Treasury Bills	1,970,680	-	1,970,680	2,497,865	-	2,497,865
Pakistan Investment Bonds	2,576	-	2,576	-	-	-
Fully paid up ordinary shares / certificates of closed end mutual funds	1,185,420	-	1,185,420	718,952	-	718,952
Ijara Sukuk Bonds	-	-	-	300,000	-	300,000
	3,158,676	-	3,158,676	3,516,817	-	3,516,817
<b>Available for sale securities</b>						
Market Treasury Bills	32,062,576	31,279,595	63,342,171	44,273,115	10,724,483	54,997,598
Pakistan Investment Bonds	9,611,029	-	9,611,029	8,587,713	-	8,587,713
Ijara Sukuk Bonds	5,651,786	-	5,651,786	1,461,287	-	1,461,287
Units of open ended mutual funds						
- National Investment (Unit) Trust LOC Holders' Fund	-	-	-	420,009	-	420,009
- National Investment (Unit) Trust	2,000,000	-	2,000,000	-	-	-
- NIT Income Fund	50,000	-	50,000	50,000	-	50,000
- 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	208,230	-	208,230	208,230	-	208,230
- Faysal Islamic Savings Growth Fund	100,000	-	100,000	100,000	-	100,000
- Faysal Money Market Fund	100,000	-	100,000	100,000	-	100,000
- PICIC Income Fund	-	-	-	100,000	-	100,000
- AKD Income Fund	-	-	-	826	-	826
- First Habib Income Fund	-	-	-	2,043	-	2,043
- HBL Income Fund	-	-	-	6,064	-	6,064
- IGI Income Fund	-	-	-	2,046	-	2,046
- JS Large Capital Fund	27,888	-	27,888	27,888	-	27,888
- JS KSE 30 Index Fund	3,702	-	3,702	3,709	-	3,709
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	7,095,767	-	7,095,767	5,629,153	-	5,629,153
Fully paid up preference shares	414,368	-	414,368	415,969	-	415,969
Term finance certificates	1,515,076	-	1,515,076	1,589,537	-	1,589,537
	59,120,796	31,279,595	90,400,391	63,257,963	10,724,483	73,982,446
Balance carried forward	62,279,472	31,279,595	93,559,067	66,774,780	10,724,483	77,499,263

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

Note	Un-audited June 30, 2011			Audited December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in '000						
Balance brought forward	62,279,472	31,279,595	93,559,067	66,774,780	10,724,483	77,499,263
<b>Held to maturity securities</b>						
Term finance certificates	10.3 7,783,939	-	7,783,939	7,765,875	-	7,765,875
Sukuk Bonds	10.3 2,502,896	-	2,502,896	2,707,496	-	2,707,496
	10,286,835	-	10,286,835	10,473,371	-	10,473,371
<b>Associate</b>						
Fully paid up ordinary shares of						
- Faysal Asset Management Limited	45,000	-	45,000	45,000	-	45,000
<b>Subsidiary</b>						
Fully paid up ordinary shares of						
- Faysal Management Services (Private) Limited	10.4 108,000	-	108,000	108,000	-	108,000
<b>Investments at cost</b>	72,719,307	31,279,595	103,998,902	77,401,151	10,724,483	88,125,634
Less: Provision for diminution in the value of investments	10.5 (1,724,282)	-	(1,724,282)	(1,495,601)	-	(1,495,601)
<b>Investments (net of provisions)</b>	70,995,025	31,279,595	102,274,620	75,905,550	10,724,483	86,630,033
Surplus on revaluation of held for trading securities - net	205,132	-	205,132	18,883	-	18,883
(Deficit) / surplus on revaluation of available for sale securities - net	(717,009)	5,393	(711,616)	(193,500)	(36,867)	(230,367)
<b>Total investments</b>	70,483,148	31,284,988	101,768,136	75,730,933	10,687,616	86,418,549

**10.2** An amount of Rs 168.202 million has been recognised in the condensed interim profit and loss account on account of redemption of these units.

**10.3** The investment portfolio includes investment made by the bank in the term finance certificates and Sukuk Bonds of Agritech Limited amounting to Rs 999.200 million and Rs 500 million respectively. The impact of relaxation availed by the Bank in respect of provision against these investments is disclosed in note 11.2.1 to this condensed interim financial information.

**10.4** On October 1, 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL) has decided to voluntarily wind up the company and accordingly they have resolved to initiate the proceedings of winding up by members under the Companies Ordinance, 1984.

	Un-audited June 30, 2011	Audited December 31, 2010
Rupees in '000		
<b>10.5 Particulars of provision for diminution in the value of investments</b>		
Opening balance	1,495,601	1,140,082
Charge for the period / year	408,034	531,941
Reversals during the period / year	(179,353)	(244,686)
	228,681	287,255
Provision against investments transferred from amalgamated entity	-	68,264
Closing balance	1,724,282	1,495,601

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

## 11. ADVANCES

	Note	Un-audited June 30, 2011	Audited December 31, 2010
Rupees in '000			
Loans, cash credits, running finances, etc. – in Pakistan		149,004,461	140,249,441
Net investment in finance lease – in Pakistan		7,376,494	8,689,093
		<u>156,380,955</u>	<u>148,938,534</u>
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		1,376,045	645,235
Payable outside Pakistan		1,586,289	1,284,440
		2,962,334	1,929,675
Margin financing / reverse repo transactions		337,200	338,200
Gross advances		<u>159,680,489</u>	<u>151,206,409</u>
Provision against non-performing advances	11.2	(16,747,648)	(17,163,067)
Provision against consumer loans - general	11.3 & 11.4	(293,112)	(336,573)
Advances - net of provision		<u>142,639,729</u>	<u>133,706,769</u>

11.1 Advances include Rs 24.500 billion (December 31, 2010: Rs 24.708 billion) which have been placed under non-performing status as detailed below:

June 30, 2011 (Un-audited)					
Domestic	Overseas	Total	Provision required	Provision held	
Rupees in '000					
Category of classification					
Other Assets Especially					
Mentioned (Agri financing)	257,833	-	257,833	-	-
Substandard	2,952,381	-	2,952,381	450,559	450,559
Doubtful	1,793,433	-	1,793,433	606,098	606,098
Loss	19,496,562	-	19,496,562	15,690,991	15,690,991
	<u>24,500,209</u>	<u>-</u>	<u>24,500,209</u>	<u>16,747,648</u>	<u>16,747,648</u>
December 31, 2010 (Audited)					
Domestic	Overseas	Total	Provision required	Provision held	
Rupees in '000					
Category of classification					
Other Assets Especially					
Mentioned (Agri financing)	307,671	-	307,671	-	-
Substandard	2,684,583	-	2,684,583	646,290	646,290
Doubtful	2,230,321	-	2,230,321	673,490	673,490
Loss	19,485,183	-	19,485,183	15,843,287	15,843,287
	<u>24,707,758</u>	<u>-</u>	<u>24,707,758</u>	<u>17,163,067</u>	<u>17,163,067</u>

## 11.2 Particulars of provision against non-performing advances

June 30, 2011 (Un-audited)			
Specific	General (excluding consumer loans)	Total	
Rupees in '000			
Opening balance	17,163,067	-	17,163,067
Charge for the period	1,420,992	-	1,420,992
Reversals during the period	(1,446,852)	-	(1,446,852)
	(25,860)	-	(25,860)
Amounts written-off	(389,559)	-	(389,559)
Closing balance	<u>16,747,648</u>	<u>-</u>	<u>16,747,648</u>

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

	December 31, 2010 (Audited)		
	Specific	General (excluding consumer loans)	Total
	Rupees in '000		
Opening balance	6,664,336	184,058	6,848,394
Charge for the year	2,506,791	-	2,506,791
Transfer from / to general provision	184,058	(184,058)	-
Reversals during the year	(600,412)	-	(600,412)
Net charge	2,090,437	(184,058)	1,906,379
Amounts written-off	(829)	-	(829)
Provision against advances transferred from amalgamated entity	8,409,123	-	8,409,123
Closing balance	17,163,067	-	17,163,067

**11.2.1** The State Bank of Pakistan vide its letter no. BSD/BRP-5/X/8787/2011 dated July 6, 2011 has allowed relaxation in maintaining provisioning against the exposure of Agritech Limited till August 31, 2011, to all those banks who have agreed to reschedule / restructure their exposures against the company. Had the exemption not been available, the provision against loans and advances and investments would have been higher by Rs 279.011 million and Rs 749.600 million respectively while the profit before taxation for the current period would have been lower by Rs 1,028.611 million.

**11.2.2** Under the guidelines issued by the SBP, banks have been allowed to avail the benefit of 40% of forced sales value of pledged stocks and mortgaged commercial, residential and industrial properties held as collateral against all non-performing loans for 4 years from the date of classification for calculating provisioning requirement. However, as per the Circular, the additional impact on profitability arising from availing the benefit of forced sales value against pledged stocks and mortgaged residential, commercial and industrial properties would not be available for payment of cash or stock dividend.

The additional profit arising from availing the FSV benefit - net of tax at June 30, 2011 which is not available for either cash or stock dividend to shareholders amounted to approximately Rs 1,506.181 million (December 31, 2010: 1,466.175 million).

	Un-audited June 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>11.3 Particulars of provision against consumer loans - general</b>		
Opening balance	336,573	190,075
Reversals during the period / year	(43,461)	(89,730)
General provision against consumer loans transferred from amalgamated entity	-	236,228
Closing balance	293,112	336,573

**11.4** General provision against consumer loans has been maintained at an amount equal to 1.5% of the fully secured regular portfolio of consumer loans and 5% of the unsecured regular portfolio of consumer loans as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

		Un-audited Half year ended	
		June 30, 2011	June 30, 2010
		Rupees in '000	
<b>12. FIXED ASSETS</b>			
<b>12.1 Additions to operating fixed assets</b>			
Leasehold property and improvements		61,127	35,144
Office furniture, fixtures, equipment and computers		109,138	75,181
Vehicles		463	11,752
Capital work-in-progress		200,939	74,775
<b>12.2 Additions to Intangibles</b>			
Software		33,989	20,991
<b>12.3 Disposals of operating fixed assets</b>			
Office furniture, fixtures, equipment and computers		1,347	3,639
Vehicles		44,754	188,480
		<b>Un-audited June 30, 2011</b>	<b>Audited December 31, 2010</b>
		Rupees in '000	
<b>13. DEPOSITS AND OTHER ACCOUNTS</b>			
Fixed deposits		93,866,027	91,361,292
Saving deposits		62,332,674	61,531,285
Current accounts		44,890,109	40,017,566
Margin accounts		2,045,477	2,405,061
		<u>203,134,287</u>	<u>195,315,204</u>
<b>14. CONTINGENCIES AND COMMITMENTS</b>			
<b>14.1 Direct credit substitutes</b>			
Contingent liability in respect of guarantees favouring:			
i) Government		-	-
ii) Banking companies and other financial institutions		3,275	3,275
iii) Others		-	833,770
		3,275	837,045
Acceptances			
i) Government		-	-
ii) Banking companies and other financial institutions		-	-
iii) Others		9,789,345	1,659,850
		9,789,345	1,659,850
<b>14.2 Transaction-related contingent liabilities</b>			
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:			
i) Government		12,788,433	7,748,465
ii) Banking companies and other financial institutions		1,655,238	11,774,727
iii) Others		2,890,889	4,938,603
		17,334,560	24,461,795



# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

## 14.3 Trade-related contingent liabilities

Un-audited  
June 30,  
2011  
Audited  
December 31,  
2010

Rupees in '000

### Letters of credit favoring:

i) Government	6,489,278	3,067,558
ii) Banking companies and other financial institutions	-	-
iii) Others	12,897,281	10,893,659
	19,386,559	13,961,217

## 14.4 Other Contingencies

i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh. The 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 the above case	457,543	457,543
iii) Claims against the Bank not acknowledged as debt	33,163,806	26,959,996

The above includes an amount of Rs 25,299 million in respect of a suit filed against the Bank for declaration, recovery of monies, release of securities, rendition of account and damages. Based on legal advice, management is confident that the matter will be decided in Bank's favour.

## 14.5 Income tax assessments of the Bank have been finalised upto the tax year 2010 (Accounting year 2009).

The department and the Bank have disagreements on various matters for tax years from 1994 to 2009. These include disallowance on certain matters like initial depreciation on leases, provision for bad debts, bad debts written off, taxability of dividend and capital gain, excess perquisites and certain other matters. The Bank and the department have filed appeals with the CIT (Appeals), ITAT and the High Court in the aforementioned matters. The additional tax liability on these matters is Rs 1,343.382 million. The management of the Bank is confident that the decision in respect of these matters will be in Bank's favour and accordingly no provision has been made in this condensed interim financial information in respect of this liability.

## 14.6 Commitments in respect of forward lending / purchase

The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

## 14.7 Commitments in respect of forward exchange contracts

Un-audited  
June 30,  
2011  
Audited  
December 31,  
2010

Rupees in '000

Purchase		
- Customers	2,590,417	1,043,656
- Banks	23,856,411	23,244,880
	26,446,828	24,288,536
Sale		
- Customers	31,185	-
- Banks	5,050,513	5,224,327
	5,081,698	5,224,327

## 14.8 Commitments for the acquisition of operating fixed assets

120,827 82,108

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the half year ended June 30, 2011

## 14.9 Commitments in respect of repo transactions

Repurchase	31,580,831	10,699,230
Resale	453,859	421,320

## 14.10 Other Commitments

Interest rate swaps and cross currency swaps (notional principal)	46,222,980	53,231,890
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## 15. BASIC / DILUTED EARNINGS PER SHARE

	----- Un-audited -----			
	For the quarter ended		For the half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
----- Rupees in '000 -----				
Profit after taxation	<u>552,490</u>	<u>48,186</u>	<u>793,748</u>	<u>1,733,779</u>
Number of shares in thousands				
Weighted average number of ordinary shares	<u>732,721</u>	<u>730,909</u>	<u>732,721</u>	<u>730,909</u>
----- Rupees -----				
Basic and diluted earnings per share	<u>0.75</u>	<u>0.07</u>	<u>1.08</u>	<u>2.37</u>

## 16. NON-DISTRIBUTABLE CAPITAL RESERVE - GAIN ON BARGAIN PURCHASE

As per the directive of the State Bank of Pakistan (SBP) vide letter BPRD (R&P -02)/625-99/2011/3744 dated March 28, 2011, gain arising on bargain purchase of Pakistan operations of Royal Bank of Scotland (RBS Pakistan) was credited directly into equity as Non-Distributable Capital Reserve. The SBP allowed the Bank the option to adjust amortisation of intangible asset against the portion of reserve which arose on account of such asset. Accordingly, amortisation of intangible asset during the current period amounting to Rs 67,314 thousand has been adjusted against this reserve. The directives of SBP further specified that any subsequent provision/deficit identified by the Banking Inspection Department (BID) of SBP in the acquired portfolio of RBS Pakistan will be adjusted against this reserve. The balance amount of reserve after incorporation of such adjustment as identified by BID and amortisation of intangible asset will be available for distribution only as stock dividend and after the prior approval of SBP. As the SBP has not carried out any inspection so far, this amount is currently not available for distribution.

## 17. 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 with the core functions performed by the business groups.

# FAYSAL BANK LIMITED

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	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Total
	Rupees in '000				
<b>For the half year ended June 30, 2011</b>					
Total income - net	150,513	1,327,654	3,186,975	2,427,442	7,092,584
Total expenses	(52,698)	(516,448)	(3,607,449)	(1,640,829)	(5,817,424)
Profit before taxation	97,815	811,206	(420,474)	786,613	1,275,160
<b>As at June 30, 2011</b>					
Segment assets (Gross)	-	97,556,019	67,763,621	141,322,228	306,641,868
Segment non performing loans	-	665,288	10,288,410	13,546,511	24,500,209
Segment provision required against loans	-	(46,980)	(6,272,900)	(10,720,880)	(17,040,760)
Segment liabilities	(22,899)	(32,441,711)	(190,885,481)	(47,291,852)	(270,641,943)
Segment return on assets (ROA) (%)	-	12.05%	10.90%	12.66%	
Segment cost of funds (%)	-	3.98%	7.12%	6.45%	
<b>For the half year ended June 30, 2010</b>					
Total income - net	69,654	1,020,877	1,919,391	1,700,553	4,710,475
Total expenses	(70,204)	(469,428)	(1,385,911)	(1,255,922)	(3,181,465)
Profit before taxation	(550)	551,449	533,480	444,631	1,529,010
<b>As at December 31, 2010</b>					
Total income - net	208,042	1,835,115	4,405,115	3,355,270	9,803,542
Total expenses	(81,316)	(796,897)	(5,566,419)	(2,531,856)	(8,976,488)
Profit before taxation	126,726	1,038,218	(1,161,304)	823,414	827,054
Segment assets (Gross)	-	91,138,328	63,305,812	131,998,604	286,442,744
Segment non performing loans	-	670,924	10,375,566	13,661,268	24,707,758
Segment provision required against loans	-	(48,245)	(6,441,819)	(11,009,576)	(17,499,640)
Segment liabilities	(21,220)	(30,063,643)	(176,893,053)	(43,825,235)	(250,803,153)
Segment return on assets (ROA) (%)	-	12.20%	11.20%	13.60%	
Segment cost of funds (%)	-	4.20%	7.70%	6.90%	

## 18. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its holding company, associated undertaking, subsidiary company, group companies, retirement benefit plans, directors, key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The particulars of the Bank's investment in its subsidiary company and associated company is given in note 10.1 to this condensed interim financial information.

Banking transactions with the related parties are executed substantially on the same terms, except transactions with directors and key management personnel 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. Details of transactions with the related parties and balances with them as at period end are as follows:

	June 30, 2011 (Un-audited)					
	Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies	Strategic Investments
	Rupees in '000					
<b>Deposits</b>						
Balance at the beginning of the period	77,365	1,645,448	492	479	515,979	17,905
Placements during the period	416,654	766,746	-	171,740	8,725,862	140,392
Withdrawals during the period	(437,668)	(2,143,219)	(142)	(168,319)	(9,227,963)	(146,243)
<b>Balance at end of the period</b>	56,351	268,975	350	3,900	13,878	12,054

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	June 30, 2011 (Un-audited)					
	Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies	Strategic Investments
	Rupees in '000					
<b>Advances</b>						
Balance at the beginning of the period	50,788	-	-	-	2,014,168	802,195
Disbursement during the period	5,404	-	-	-	900,000	-
Repayment during the period	(6,671)	-	-	-	(1,930,543)	(234)
<b>Balance at end of the period</b>	<b>49,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>983,625</b>	<b>801,961</b>

	December 31, 2010 (Audited)					
	Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies	Strategic Investments
	----- Rupees in '000 -----					
<b>Deposits</b>						
Balance at the beginning of the year	39,485	350,367	188,070	399	2,181,528	27,085
Placements during the year	662,295	2,417,003	552,779	249,939	42,632,583	227,712
Withdrawals during the year	(686,384)	(1,768,478)	(740,357)	(249,859)	(44,298,132)	(236,892)
Amalgamation	61,969	646,556	-	-	-	-
Balance at end of the year	77,365	1,645,448	492	479	515,979	17,905

<b>Advances</b>						
Balance at the beginning of the year	33,576	-	-	-	-	802,558
Disbursement during the year	6,000	-	-	-	2,014,168	1,750
Repayment during the year	(148,261)	-	-	-	-	(2,113)
Amalgamation	159,473	-	-	-	-	-
<b>Balance at end of the year</b>	<b>50,788</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,014,168</b>	<b>802,195</b>

June 30, 2011 (Un-audited)						
Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies	Strategic Investments	
Rupees in '000						
Shares / units purchased during the period	-	-	-	686,154	-	
Shares / units sold during the period	-	-	-	536,399	-	
Profit paid / accrued	1,403	21,306	-	324	66,131	572
Profit return / earned	1,214	-	-	-	77,753	102
Remuneration of key management personnel						
- Salaries and other short-term employee benefits	226,835	-	-	-	-	-
- Post-employment benefits	9,851	-	-	-	-	-
Contribution to staff retirement benefits	-	131,160	-	-	-	-
Guarantees issued favoring related parties or on their behalf	-	-	-	-	25,000	-

	June 30, 2010 (Un-audited)					
	Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies	Strategic Investments
	Rupees in '000					
Nostro balances with group companies	-	-	-	-	253	-
Shares / units purchased during the year	-	-	-	-	305,186	-
Shares / units sold during the year	-	-	-	-	359,131	-
Profit paid / accrued	1,753	5,132	3,631	4	100,479	739
Profit return / earned	957	-	-	-	-	99
Dividend income from subsidiary	-	-	2,808	-	-	-
Remuneration of key management personnel						
- Salaries and other short-term employee benefits	100,632	-	-	-	-	-
- Post-employment benefits	6,668	-	-	-	-	-
Contribution to staff retirement benefits	-	70,372	-	-	-	-

# FAYSAL BANK LIMITED

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## 19. ISLAMIC BANKING BUSINESS

The Bank is operating 30 Islamic banking branches (December 31, 2010: 13). The statement of financial position as at June 30, 2011 is as follows:

### 19.1 Statement of Financial Position

	Un-audited June 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>ASSETS</b>		
Cash and balances with treasury banks	636,603	404,534
Balances with and due from financial Institutions	68,598	47,588
Investments	3,577,026	2,666,067
Financing and receivables		
- Murabaha	2,121,508	1,614,237
- Ijara	22,039	21,091
- Musharaka	-	-
- Diminishing Musharaka	2,556,927	1,809,843
- Salam	-	-
- Other Islamic Modes	-	-
Other assets	360,153	471,827
	9,342,854	7,035,187
<b>LIABILITIES</b>		
Bills payable	123,306	9,623
Due to financial institutions	-	-
Deposits and other accounts		
- Current Accounts	1,997,635	1,331,527
- Saving Accounts	1,308,950	1,011,063
- Term Deposits	2,136,345	1,413,258
- Others	8,012	12,288
- Deposits from financial institutions - remunerative	1,966,520	1,492,313
- Deposits from financial institutions - non-remunerative	24,371	-
Due to head office	927,500	1,080,500
Other liabilities	103,857	24,919
	8,596,496	6,375,491
<b>NET ASSETS</b>	746,358	659,696
<b>REPRESENTED BY</b>		
Islamic Banking Fund	880,000	880,000
Reserves	-	-
Unappropriated profit / (loss)	(139,502)	(225,003)
	740,498	654,997
Surplus on revaluation of assets- net of tax	5,860	4,699
	746,358	659,696
<b>Remuneration to shariah advisor</b>	1,995	3,503
<b>CHARITY FUND</b>		
Opening balance	67	-
Charity fund transferred from amalgamated entity	-	(304)
Additions during the period	1,066	371
Payments / utilization during the period	(1,050)	-
Closing balance	83	67

## FAYSAL BANK LIMITED

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For the half year ended June 30, 2011

### 20. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on July 18, 2011 by the Board of Directors of the Bank.

### 21. GENERAL

**21.1** Comparative information has been re-classified and re-arranged in this condensed interim financial information, wherever necessary, to facilitate comparison and to conform with changes in presentation in the current period. Earnings per share for the prior periods have been restated consequent to the issue of bonus shares.

**21.2** Figures have been rounded off to the nearest thousand Rupees, unless otherwise stated.

**PRESIDENT & CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

Registered Office  
Faysal House  
ST-02, Shahrat-e-Faisal,  
Karachi, Pakistan

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