



faysalbank

فيسال

2013

HALF YEAR

ENDED JUNE 30, 2013

UNAUDITED FINANCIAL STATEMENTS

CONTENTS

Corporate Information	2
Directors' Review	3
Auditors' Report	9
Statement of Financial Position	10
Profit and Loss Account	11
Statement of Comprehensive Income	12
Statement of Changes in Equity	13
Cash Flow Statement	14
Notes to the Financial Statements	15

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Fuelling your passions with energy,
that know no limits and are afraid of
nothing.



ابنِ کائنات لگا دو ٹکڑے کیسا

گر بازی عشق کی بازی ہے
جو چاہو لگا دو ڈر کیسا

CORPORATE INFORMATION

Board of Directors

Syed Naseem Ahmad	Chairman
Naved A. Khan	President & CEO
Graham Roderick Walker	Director
Farooq Rahmatullah	Director
Shahid Ahmad	Director
Lt. Gen. Muhammad Maqbool (Retd)	Director
Mohamed Abdulrahman Mohamed Husain Bucheeri	Director
Imtiaz Ahmad Pervez	Director

Audit Committee (AC)

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

Board Risk Management Committee (BRMC)

Syed Naseem Ahmad	Member
Naved A. Khan	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

DIRECTORS' REVIEW

On behalf of the Board of Directors, I am pleased to present Financial Statements of Faysal Bank Limited for the half year ended June 30, 2013.

ECONOMIC UPDATE

Majority of the macroeconomic indicators displayed signs of stability and improvement in HY'13, most noticeable were inflation and current account balance. Both of these economic indicators depicted vast year on year improvement. Nevertheless, main challenges remain the disconcerting balance of payments position, high fiscal deficit and its financing mix. This in turn took its toll on GDP growth which remained lackluster at 3.7%. However, with the change of government there is a sense of urgency towards improving economic performance.

Inflationary pressures remained subdued during FY'13 and CPI inflation was recorded at 7.4% against 11% in FY'12. This encouraging performance tilted the SBP's bias towards supporting growth and subsequently discount rate was further brought down by 50 bps to 9% in June '13. Furthermore, in the federal budget the GOP announced a three year CPI target of 8% p.a. In order to achieve this ambitious target the newly elected government needs to prioritize tackling a weakening external account and rising debt levels in the economy to ensure that inflationary expectations remain anchored with the medium term aims.

The performance of the current account has witnessed a vast improvement wherein it has recorded a deficit of USD 2.299 billion vs. 4.658 billion during the same period last year. This contraction has been aided largely by the receipt of USD 1.8 billion in Coalition Support Fund, a marginal improvement in the trade balance and growth in overseas Pakistanis' remittances. Though the size of the deficit is rather small but due to a deteriorating balance of Payments position (largely due to IMF repayments and drying up of FDI) funding even a small deficit has become a challenge. This subsequently led to a draw down from foreign exchange reserves which declined to USD 11.0 billion as of 30th June '13 vs. USD 15.3 billion at the onset of FY '13.

Besides precarious Balance of Payments position, other main challenge facing Pakistan's economy is the fiscal deficit which is expected to miss the full year deficit target of 4.7% by a wide margin. The deficit financing is likely to end up in the vicinity of 8.5% due to a short fall in tax collection, above target expenditures for subsidies related to the energy sector, partial settlement of circular debt and dismal performance of PSEs.

Going forward economy has to confront energy shortages, security and deteriorating balance of payments position. The GOP has already successfully completed staff level talks with the IMF reaching a broad consensus on the outline and prerequisites which should pave the way for a USD 5.3 billion IMF Extended Fund Facility in September '13. These prerequisites include settlement of circular debt, fiscal framework, rationalization of electricity tariff, tax reforms, privatization of PSEs and certain SBP actions. A successful entry into this program would also pave way for the resumption of program loans by multilateral agencies such as the World Bank, Asian Bank and ADB and have a positive impact on FX reserve accumulation and will spare more funds for the private sector funding requirements.

DIRECTORS' REVIEW

PERFORMANCE UPDATE FOR THE HALF YEAR OF 2013

Corporate and Investment Banking

The first-half of the current financial year was yet another challenging period, nevertheless the Investment Banking Department (IBD) was able to arrange and negotiate a wide range of tailor made financial solutions, ranging from structured & project finance to debt restructuring & advisory services, for the Bank's corporate client base.

During the period, Investment Banking managed several unique first-of-its kind transactions, some of the notable transaction are highlighted below:

- FBL in the capacity of Lead Advisor and Arranger successfully achieved execution of Financing Documents for PKR 4,370 million Long Term Syndicated Facility to set-up Pakistan's first dedicated Coal and Clinker Terminal (project finance)
- FBL successfully closed an underwriting arrangement for issuance of Tier-II sub-debt IPO issue of a reputable and large commercial bank
- FBL structured and concluded for the re-profiling a PKR 2.5 billion syndicated permanent working capital facility extended to the first agri-corporate farming entity owned by one of the largest sugar and allied groups of the country
- The Bank was jointly mandated as Lead Advisor to arrange PKR 22 billion for expansion Isomerization and PHDS up gradation project of one of the largest and most reputable refineries in the Country
- FBL continued to act as Financial Advisor for setting up of an IPP which shall undertake coal conversion of two RFO based electricity generating units comprising of 560 mw owned by the largest Utility company of Karachi
- FBL was mandated and undertook the role of Financial Advisor to re-profile and restructure the outstanding debt of one of the largest spinning and weaving Group
- FBL has been mandated a sell side advisory role for a real estate transaction
- The Bank was jointly mandated as Lead Advisor to arrange PKR 10 billion (inclusive of green shoe) for a large utility in the power sector
- The Bank was jointly mandated as Lead Advisor and Arranger for acquisition financing of Cement plant (leveraged buy-out)
- The Bank was solely mandated to Advise and Arrange PKR 1,200 million for a large textile Group, based in Faisalabad, to finance purchase of Air Jet Looms and associated machinery in setting up a weaving unit (backward integration)
- FBL undertook the role of Financial Advisor to re-profile and restructure the outstanding debt and was mandated to arrange for the sale of assets of one of the largest Denim manufacturer
- FBL was mandated to act as the manager to offer for an acquisition of a bank and has successfully closed the transaction

DIRECTORS' REVIEW

Retail Banking

Branch Banking continued its focus on mobilizing Current and Saving Accounts (CASA) improving its mix from 60.9% in December 2012 to 68.8% in June 2013. This strategy is resulting in a reduction in cost of deposits which reduced by 151 bps during the last six months thus positively contributing to the margins of the bank.

Consumer Finance overall strategy is to aggressively grow book size in select profitable segments while prudently managing NPLs and cost. The consumer lending market has rallied in 2013 and the Bank just in the last 12 months has increased its portfolio in unsecured line extended by the market of over PKR 10 billion whereas, uptake in the auto market has slowed down in Q2 due to the recent regulators changes around duties and taxation.

In the second half of the year we will continue to invest in the product suite and customer engagement while building further cost efficiencies and targeting a save of 15% through process reengineering and structural changes. Besides continued growth in Cards and BTF, Bank has launched Personal Installment Loan in Q1 this year.

With the aim of providing more touch points to the customers the bank launched "mobile banking" service with the name of "Mobot". This covers features like balance enquiry, interbank funds transfer, mini statement and utility bills payment etc. The bank also plans to launch internet banking during the year.

Islamic Banking

Barkat Islamic Banking continued its strategy to consolidate the existing potential of Islamic network by launching Islamic Banking Windows in conventional branches through fully trained conventional banking team. Islamic Banking aims to meet aggressive growth targets by bank as it gets more points of sale and sales force by leveraging on existing infrastructure of conventional bank. As a result of these efforts, Islamic branches deposit has increased to PKR 22.5 billion as at June 2013 as compared to PKR 19.541 billion as on December 2012 showing a healthy growth of 15%. Pakistan's first Shariah Compliant Barkat China Union Pay card was also launched for Islamic banking customers.

Launch of Upgraded Version of Core Banking System

Bank has successfully launched upgraded version of "Symbols 8.5" during the first quarter of 2013. This has enabled the Bank to provide with ease a wider range of products and services, across the network and electronic banking channels. New system provides a unified platform to all the branches through integration of all auxiliary systems. The migration and implementation is the result of hard work, coordination and immense support from all stakeholders within business, operations, IT and support functions.

Corporate Brand Promotion

As part of the efforts to build equity of the Faysal Bank brand, the Bank continued with its sponsorship of domestic cricket. The derived benefits of the tournament were Brand Building, Marketing mileage and Customer Engagement. The event was promoted through FM radio spots, newspaper advertisements, outdoor communication, and Faysal Cricket Face book page.

DIRECTORS' REVIEW

During the live television transmission, Faysal Bank's Promise: Faysal Bank – Bank on Ambition, Products portfolios and services were continuously advertised. The event was once again a huge success in terms of the quality of cricket displayed on the ground, the fan following in the stadium and through mass media channels, and the projection that Faysal Bank brand achieved.

Marketing – Business Brands

In line with its initiative to introduce innovative and hassle-free banking solutions, Faysal Bank launched Mobit – Faysal Mobile Banking, which gives customers the convenience of controlling their finances while on the go.

The launch comprised of a communication campaign with advertisements in leading newspapers, FM radio spots and branding at all branches across Pakistan. Web banners were also placed at prominent websites.

Financial Perspective

In the first half year of 2013 the Bank has started a comprehensive Transfer Pricing System for transferring interest rate and currency risk of business units to the Asset and Liability Management Desk and thus bringing FBL Transfer Pricing policy, at par with international best practices for management of spread earnings. The Bank is utilizing the TP system for acquiring appropriate rate hedge which is assisting in effective product profitability analysis.

Organizational Development

HR Policy Road Shows, a 2013 initiative was conducted in different regions. Purpose of these sessions was to enhance working knowledge and understanding of key HR policies & procedures across the Bank and also to receive candid feedback about HR's facilitative and responsiveness.

Three new online Computer Based Trainings (CBTs) on Bancassurance, Islamic Banking / Products and Online Western Union / Faysal Rapid Cash were launched in 2013. Now Bank offers total of seven CBTs through which over 1,900 employees were trained. Symbols 8.5 training was conducted Pan-Pakistan for the Operations staff for smooth transition to new core banking software. Four new induction programs were developed for various business segments. Similarly, Islamic Banking Principles & Products Training for Branch Banking team was conducted Pan Pakistan to prepare staff for the introduction of Islamic Banking window operations via the conventional branches.

Training sessions also conducted on customer service, Risk & Control for Branch Operations etc. Over 4700 participants have been trained in the first six months of 2013.

DIRECTORS' REVIEW

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Faysal Bank's CSR focus remains thematic on education, health and poverty alleviation. During the second quarter, ended June 2013, total amount of PKR 7.6 million was donated to various non-profit organizations through WAQF Faysal. The beneficiaries of quarter included:

Health

- Blood donation drive in collaboration with Fatmid was conducted.
- Sindh Institute for Urology and Transplantation (SIUT): for operational expenses.
- Burns Centre: for operational expenses.
- Child Aid Association: for anti-cancer and anti-biotic medicines for cancer patients.
- Al-Mehrab Tabbi Imdad: for operational expenses.
- Karwan-e-Hayat: for operational expenses.

Education

- Ida Rieu Welfare Association: for funding education of blind and deaf students.
- Our Lady of Fatima Church: towards organizing a "Fund Raising Mela".

FINANCIAL HIGHLIGHTS

A summary of operating profit as shown in the financial statements is given below:-

	June 30, 2013	June 30, 2012
	Rs in Million	
Operating profit	1,402	1,008
(Provision) / Reversal for non performing advances	(673)	(299)
(Provision) / Reversal for diminution in value of investments	195	2
	(478)	(297)
Profit before tax	924	711
Provision for taxation	(169)	(206)
Profit after tax	755	505
Earnings per share – Rupees	0.81	0.55

DIRECTORS' REVIEW

Profit after tax for the period ended June 30, 2013 amounted to PKR 755 million, which is 50% higher than comparable period last year. This significant improvement in profitability is the result of the Bank's focus on asset growth and mobilization of low cost core deposits in the last couple of years which, despite a reduction of 500 bps in discount rates since July 2011, has significantly improved its earning.

The non funded revenue streams of the Bank remained diversified across the branch banking, consumer asset and corporate portfolios. The fee based revenue levels remained consistent in the half year and the bank earned non markup income of PKR 2.24 billion as against PKR 2.27 billion during the corresponding period last year.

Administrative costs remained an area of focus and measures were taken to bring it down without affecting operations. Business units concentrated on building efficiencies in processes, better utilization of premises and cutting down on power costs. The optimization of technology infrastructure and network supporting all applications has also resulted in cost savings for the Bank. The overall administrative costs were PKR 5.14 billion for the half year in 2013 as compared to PKR 5.30 billion in the same period of last year representing net saving of PKR 160 million, despite 8% inflation and higher energy cost.

The non performing loans and advances of the Bank have improved and stand at PKR 26.586 billion as compared to PKR 27.549 billion as at December 31, 2012. The net provisioning against non performing advances charged to the current year profit and loss was PKR 478 million as against PKR 297 million in the corresponding period last year. The increase in the provision requirement is mainly due to subjective provisioning, additional provisioning upon downgrading and withdrawal of FSV benefit during the period.

CREDIT RATING

JCR-VIS Credit Rating Company Limited (JCR) and Pakistan Credit Rating Agency Limited (PACRA) have re-affirmed the following entity ratings based on the financial statements for the year ended December 31, 2012:

Long-Term	AA
Short-Term	A1+

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

ACKNOWLEDGEMENT

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

Karachi:

President & CEO

Dated: August 27, 2013

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE MEMBERS

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Faysal Bank Limited as at June 30, 2013 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, 2013 and 2012 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2013.

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, 2013 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

Engagement Partner: **Noman Abbas Sheikh**

Dated: August 28, 2013

Karachi

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2013

Note	Un-audited June 30, 2013	Audited December 31, 2012 Restated
	----- Rupees '000 -----	

ASSETS

Cash and balances with treasury banks		24,182,485	24,508,852
Balances with other banks	9	1,367,646	1,209,313
Lendings to financial institutions		-	-
Investments	10	104,454,656	87,995,224
Advances	11	174,886,049	172,299,205
Operating fixed assets	12	10,494,784	10,859,963
Deferred tax assets - net		4,371,101	4,395,728
Other assets	13	11,605,187	11,839,474
		<u>331,361,908</u>	<u>313,107,759</u>

LIABILITIES

Bills payable		4,859,863	4,244,494
Borrowings		50,706,573	35,568,109
Deposits and other accounts	14	242,803,811	240,712,826
Sub-ordinated loans		3,745,500	4,195,001
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		7,318,938	7,365,998
		<u>309,434,685</u>	<u>292,086,428</u>
		<u>21,927,223</u>	<u>21,021,331</u>

NET ASSETS

REPRESENTED BY

Share capital	9,273,508	9,273,508
Reserves	6,246,650	6,309,083
Unappropriated profit	<u>3,984,393</u>	<u>3,189,727</u>
	19,504,551	18,772,318
Surplus on revaluation of assets - net of tax	<u>2,422,672</u>	<u>2,249,013</u>
	<u>21,927,223</u>	<u>21,021,331</u>

CONTINGENCIES AND COMMITMENTS

15

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2013

Note	Quarter ended		Half year ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
		Restated		Restated
----- Rupees '000 -----				
Mark-up / return / interest earned	6,808,361	7,268,222	13,390,998	14,044,926
Mark-up / return / interest expensed	<u>4,620,898</u>	<u>4,922,359</u>	<u>8,913,343</u>	<u>9,977,551</u>
Net mark-up / interest income	2,187,463	2,345,863	4,477,655	4,067,375
Provision / (reversal of provision) against non-performing loans and advances - net	11.2 139,094	(1,074)	641,020	320,256
Provision for consumer loans (general) - net	11.3 46,197	7,826	57,685	5,485
Provision against off balance sheet obligations	-	-	6,981	-
(Reversal of provision) / provision for diminution in the value of investments - net	10.6 (164,238)	93,374	(194,551)	(2,498)
Recoveries against written-off debts	(232)	(2,650)	(33,047)	(26,288)
	20,821	97,476	478,088	296,955
Net mark-up / interest income after provisions	<u>2,166,642</u>	<u>2,248,387</u>	<u>3,999,567</u>	<u>3,770,420</u>
Non mark-up / interest income				
Fee, commission and brokerage income	673,666	495,594	1,071,542	914,664
Dividend income	280,863	110,141	427,263	309,041
Income from dealing in foreign currencies	177,517	128,235	374,053	300,593
(Loss) / gain on sale of securities	(31,564)	15,364	201,822	323,741
Unrealised (loss) / gain on revaluation of investments classified as held for trading - net	(12,848)	(93,661)	(17,210)	23,495
Other income	106,644	246,065	182,792	405,448
Total non mark-up / interest income	<u>1,194,278</u>	<u>901,738</u>	<u>2,240,262</u>	<u>2,276,982</u>
	3,360,920	3,150,125	6,239,829	6,047,402
Non mark-up / interest expenses				
Administrative expenses	2,610,200	2,768,648	5,143,167	5,302,593
Other provisions - net	71,824	1,204	90,770	19,113
Other charges	73,799	7,656	82,102	14,614
Total non mark-up / interest expenses	<u>2,755,823</u>	<u>2,777,508</u>	<u>5,316,039</u>	<u>5,336,320</u>
	605,097	372,617	923,790	711,082
Extraordinary / unusual items	-	-	-	-
Profit before taxation	<u>605,097</u>	<u>372,617</u>	<u>923,790</u>	<u>711,082</u>
Taxation - Current	240,723	133,806	349,035	208,335
Taxation - Prior years	(40,000)	21,853	(90,309)	21,853
Taxation - Deferred	(87,695)	(21,652)	(89,590)	(24,565)
	113,028	134,007	169,136	205,623
Profit after taxation	<u>492,069</u>	<u>238,610</u>	<u>754,654</u>	<u>505,459</u>
----- Rupees -----				
Earnings per share	16 0.53	0.26	0.81	0.55

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2013

	For the quarter ended		For the half year ended	
	June 30, 2013	June 30, 2012 Restated	June 30, 2013	June 30, 2012 Restated
	----- Rupees '000 -----			
Profit after tax for the period	492,069	238,610	754,654	505,459
<i>Items that may not be reclassified to profit and loss account</i>				
Components of comprehensive income reflected in equity				
Remeasurements of post employment obligations - net of tax	-	11,855	-	23,710
Comprehensive income transferred to equity	492,069	250,465	754,654	529,169
<i>Items that may be reclassified to profit and loss account</i>				
Components of comprehensive income not transferred to equity				
- Surplus on revaluation of available for sale securities - net	893,761	350,303	361,097	365,974
- Deferred tax liability on revaluation of available for sale securities - net	(358,911)	(60,003)	(154,607)	(128,839)
	534,850	290,300	206,490	237,135
Total comprehensive income for the period	<u>1,026,919</u>	<u>540,765</u>	<u>961,144</u>	<u>766,304</u>

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2013

Share capital	Reserves						Unappropriated profit	Total
	Capital				Statutory reserve	Total		
	Reserve for issue of bonus shares	Share premium	Non-distributable Capital Reserve (NCR) - gain on bargain purchase (note 17)	Reserve arising on amalgamation				
----- Rupees '000 -----								
8,243,118	-	10,131	3,169,399	23,952	3,387,649	6,591,131	2,959,178	17,793,427
-	-	-	-	-	-	-	(4,327)	(4,327)
8,243,118	-	10,131	3,169,399	23,952	3,387,649	6,591,131	2,954,851	17,789,100
-	-	-	(62,433)	-	-	(62,433)	-	(62,433)
-	-	-	(73,259)	-	-	(73,259)	-	(73,259)
-	-	-	-	-	-	-	529,169	529,169
-	-	-	-	-	-	-	60,746	60,746
8,243,118	-	10,131	3,033,707	23,952	3,387,649	6,455,439	3,544,766	18,243,323
-	1,030,390	-	-	-	-	1,030,390	(1,030,390)	-
1,030,390	(1,030,390)	-	-	-	-	(1,030,390)	-	-
-	-	-	(62,434)	-	-	(62,434)	-	(62,434)
-	-	-	-	-	-	-	941,467	941,467
-	-	-	-	-	284,576	284,576	(284,576)	-
-	-	-	-	-	-	-	18,460	18,460
-	-	-	(368,498)	-	-	(368,498)	-	(368,498)
9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,189,727	18,772,318
-	-	-	(62,433)	-	-	(62,433)	-	(62,433)
-	-	-	-	-	-	-	754,654	754,654
-	-	-	-	-	-	-	40,012	40,012
9,273,508	-	10,131	2,540,342	23,952	3,672,225	6,246,650	3,984,393	19,504,551

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2013

	June 30, 2013	June 30, 2012 Restated
	----- Rupees '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	923,790	711,082
Less: dividend income	(427,263)	(309,041)
	<u>496,527</u>	<u>402,041</u>
Adjustments for non-cash and other items:		
Depreciation	399,123	496,388
Amortisation	60,185	65,127
Workers' Welfare Fund	26,185	14,507
Provision against non-performing loans and advances - net	641,020	320,256
Provision for consumer loans (general) - net	57,685	5,485
Reversal of provision for diminution in value of investments - net	(194,551)	(2,498)
Provision for other assets	90,770	19,113
Provision against off balance sheet obligations	6,981	-
Unrealised loss / (gain) on revaluation of investments classified as held for trading	17,210	(23,495)
Net profit on disposal of property and equipment	(15,452)	(9,956)
Charge for defined benefit plan	47,071	54,107
Amortisation of prepaid employee benefits	94,380	93,924
Recoveries against written-off debts	(33,047)	(26,288)
	<u>1,197,560</u>	<u>1,006,670</u>
	<u>1,694,087</u>	<u>1,408,711</u>
(Increase) / decrease in operating assets		
Held for trading securities	2,174,037	4,641,356
Advances	(3,252,502)	(21,032,446)
Other assets	<u>374,890</u>	<u>(433,184)</u>
	<u>(703,575)</u>	<u>(16,824,274)</u>
Increase / (decrease) in operating liabilities		
Bills payable	615,369	452,360
Borrowings	14,427,471	(15,165,602)
Deposits and other accounts	2,090,985	21,881,179
Other liabilities	<u>(58,427)</u>	<u>(1,396,989)</u>
	<u>17,075,398</u>	<u>5,770,948</u>
	<u>18,065,910</u>	<u>(9,644,615)</u>
Income tax paid	(598,667)	(507,707)
Contribution to gratuity fund	<u>(47,071)</u>	<u>(54,363)</u>
Net cash generated from / (used in) operating activities	<u>17,420,172</u>	<u>(10,206,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	(18,553,489)	7,940,086
Net investment in held to maturity securities	458,458	837,189
Dividend income received	424,595	306,005
Investment in operating fixed assets	(193,779)	(482,520)
Proceeds realised on disposal of operating fixed assets	19,051	16,855
Net cash (used in) / generated from investing activities	<u>(17,845,164)</u>	<u>8,617,615</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of sub-ordinated loan	(449,501)	(200,320)
Dividends paid	<u>(4,534)</u>	<u>(3,873)</u>
Net cash used in financing activities	<u>(454,035)</u>	<u>(204,193)</u>
Decrease in cash and cash equivalents	<u>(879,027)</u>	<u>(1,793,263)</u>
Cash and cash equivalents at beginning of the period	25,693,981	23,010,563
Cash and cash equivalents at end of the period	<u>24,814,954</u>	<u>21,217,300</u>

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

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 provisions of the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is mainly engaged in Corporate, Commercial and Consumer banking activities. The Bank has a network of 267 branches (December 31, 2012: 265); including 52 Islamic banking branches (December 31, 2012: 52).

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 66.78% (December 31, 2012: 66.78%) 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, Investment Banks and Insurance Companies.

- 1.2 Based on the financial statements of the Bank for the year ended December 31, 2012, 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+'.

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 have 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 un-audited statement of financial position of Islamic banking branches is disclosed in note 20 to this condensed interim financial information.

3 STATEMENT OF COMPLIANCE

- 3.1 This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan. The approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, or the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFASs notified under the Companies Ordinance, 1984 or the directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFASs notified under the Companies Ordinance, 1984 or the requirements of the said directives issued by the SECP and SBP 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 also 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 IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their condensed interim financial information in line with the format prescribed under BSD Circular Letter No. 2 dated May 12, 2004. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in this condensed interim financial information is based on the requirements laid down by the SBP.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

- 3.4 The 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.
- 3.5 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, 2012.
- 3.6 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current period
- Presentation of Items of other comprehensive income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendment requires that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment does not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The impact of this change has been incorporated in this condensed interim financial information.
 - The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants of Pakistan. IFAS 3 shall be followed by the Bank for the purpose of preparation of financial statements for the year ending December 31, 2013 while accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard is effective from June 12, 2013 and has no impact on this condensed interim financial information. The standard would result in certain new disclosures in the annual financial statements for the year ending December 31, 2013.
 - IAS 19 (revised) 'Employee benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The impact relating to change in IAS 19 is given in note 6.1 to this condensed interim financial information.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in 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 fixed assets are carried at revalued amounts and certain investments and derivative contracts have been marked to market and are carried at fair value. In addition, obligation in respect of staff retirement benefit is carried at present 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 is 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, 2012, except for the change as disclosed in note 6.1.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

6.1 Change in accounting policy and disclosure

IAS 19 (revised) 'Employee benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The standard requires "remeasurements" to be recognised in the Statement of Financial Position immediately, with a charge or credit to other comprehensive income in the periods in which they occur. The Bank has applied the standard retrospectively in accordance with the transitional provision of the standard and comparative figures have been restated. The effects have been summarised below:

	December 31, 2012	December 31, 2011
	----- Rupees '000 -----	
Impact on Statement of Financial Position		
Increase / (decrease) in other assets	66,810	(6,657)
(Decrease) / Increase in deferred tax asset	(23,384)	2,330
Impact on Statement of Changes in Equity		
Increase / (decrease) in unappropriated profit		
- Cumulative effect - prior years	(4,327)	(4,327)
- Impact for the year ended December 31, 2012	47,753	-
	(Un-audited)	
	Quarter ended June 30, 2012	Half year ended June 30, 2012
	----- Rupees '000 -----	
Impact on condensed interim profit and loss account		
Decrease in Administrative expenses	(128)	(256)
Increase in Taxation - Current	45	90
Increase in other comprehensive income		
Remeasurements of post employment obligations	11,855	23,710
Earning per share (Rupees) *	-	-

* The impact of restatement has no material impact on the EPS of the Bank.

** There was no impact of change in accounting policy on the condensed interim cash flow statement.

The Bank intends to have an actuarial valuation for 2013 conducted at the year end. Hence, the resulting impact on this condensed interim financial information is not quantifiable and is also considered immaterial by the management.

7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, 2012.

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, 2012.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

9 BALANCES WITH OTHER BANKS

In Pakistan

- Current accounts

855,517

677,630

Outside Pakistan

- Current accounts
- Deposit account

382,572

366,529

129,557

165,154

1,367,646

1,209,313

10 INVESTMENTS

10.1 Investments by type

Held for trading securities

- Market Treasury Bills
- Pakistan Investment Bonds
- Fully paid up ordinary shares / certificates of closed end mutual funds

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
4,334,479	7,290,934
655,038	546,307
673,687	-
5,663,204	7,837,241

Available for sale securities

- Market Treasury Bills
- Pakistan Investment Bonds
- Ijara Sukuk Bonds
- Units of open end mutual funds
- Faysal Balanced Growth Fund
- Faysal Income Growth Fund
- Faysal Savings Growth Fund
- Faysal Islamic Savings Growth Fund
- Faysal Money Market Fund
- Faysal Asset Allocation Fund
- Faysal Money Market Fund
- Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds
- Fully paid up preference shares
- Term finance certificates

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
22,509,514	16,403,998
20,934,173	19,579,271
17,781,965	17,112,183
7,480	80,374
70,919	200,000
122,411	407,411
100,000	100,000
-	1,100,000
10,491	300,000
350,000	-
2,908,905	3,968,636
222,652	122,652
970,342	1,019,120
65,988,852	60,393,645
29,517,628	16,451,346
95,506,480	76,844,991

Held to maturity securities

- Term finance certificates
- Sukuk Bonds

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
2,409,327	2,637,030
1,982,293	2,213,048
4,391,620	4,850,078

Associate

- Fully paid up ordinary shares of Faysal Asset Management Limited

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
45,000	45,000

Subsidiary

- Fully paid up ordinary shares of Faysal Management Services (Private) Limited

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
-	108,000

Investments at cost

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
76,088,676	73,233,964
29,517,628	16,451,346
105,606,304	89,685,310

- Less: Provision for diminution in the value of investments
- Investments (net of provisions)

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
(2,125,235)	(2,319,786)
73,963,441	70,914,178
103,481,069	87,365,524

- Surplus / (deficit) on revaluation of held for trading securities - net
- Surplus / (deficit) on revaluation of available for sale securities - net

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
(12,974)	4,236
822,956	432,643
163,605	192,821
986,561	625,464

Total investments at market value

Un-audited June 30, 2013	Audited December 31, 2012
Held by Bank	Held by Bank
Given as collateral	Given as collateral
Total	Total
74,773,423	71,351,057
29,681,233	16,644,167
104,454,656	87,995,224

- 10.2 These include Pre IPO investment of Rs 500 million made in the unlisted term finance certificates (TFCs) of Dewan Cement Limited. The State Bank of Pakistan through its letter BPRD/BLRD-3/DMG/2011-1035 had advised the Banks to maintain provision at least at the level of 90% in five quarters (commencing from December 31, 2010) by December 31, 2011. The Bank, as per the above directive, had availed the relaxation and maintained a provision of Rs 450 million against this investment. Had the provision been made as per the time based criteria specified in the Prudential Regulations issued by the SBP, the provision for diminution in the value of investments for the period ended June 30, 2013 would have been higher by Rs 50 million (December 31, 2012: Rs 50 million) and the profit before taxation for the period ended June 30, 2013 would have been lower by Rs 50 million (December 31, 2012: Rs 50 million).

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

- 10.3 This includes term finance certificates of Rs 51.48 million (2012: Rs 51.48 million) in respect of Azgard Nine Limited. The impact of relaxation availed by the Bank for maintaining provision against this investment is disclosed in note 11.2.1 to this condensed interim financial information.
- 10.4 This includes term finance certificates and Sukuk Bonds of Rs 999.172 million (2012: Rs 999.172 million) and Rs 500 million (2012: Rs 500 million) respectively issued by Agritech Limited. The impact of relaxation availed by the Bank for maintaining the provision against these investments is disclosed in note 11.2.1 to this condensed interim financial information.
- 10.5 This includes 8,868,843 shares of Agritech Limited acquired at the rate of Rs. 35 each as part of debt share swap agreement with Azgard Nine Limited. The impact of relaxation availed by the Bank against these shares is disclosed in note 11.2.1 to this condensed interim financial information.

	Un-audited June 30, 2013	Audited December 31, 2012
	----- Rupees '000 -----	
10.6 Particulars of provision for diminution in the value of investments		
Opening balance	2,319,786	1,905,084
Charge for the period / year	330,685	921,683
Reversals during the period / year	(525,236)	(506,981)
	(194,551)	414,702
Closing balance	2,125,235	2,319,786

- 10.7 On October 1, 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL) [a subsidiary of the Bank in which the Bank has 60% shareholding] decided to voluntarily wind up the company and accordingly, resolved to initiate proceedings of winding up by the members of FMSL under the Companies Ordinance, 1984. An Official Assignee was appointed by the Court in 2012 to distribute the net assets of the Company. The Official Assignee of FMSL has realised assets [held in the form of cash equivalents of the Company] and has distributed cash to respective shareholders in February 2013.

	Note	Un-audited June 30, 2013	Audited December 31, 2012
		----- Rupees '000 -----	
11 ADVANCES			
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1 & 11.2.2	178,727,753	178,073,391
Net investment in finance lease – in Pakistan		8,353,848	7,050,189
		187,081,601	185,123,580
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		4,353,930	3,455,602
Payable outside Pakistan		2,130,079	2,149,893
		6,484,009	5,605,495
Margin financing / reverse repo transactions		117,200	122,200
Gross advances		193,682,810	190,851,275
Provision against non-performing advances	11.1	(18,455,257)	(18,268,251)
Provision against consumer loans - general	11.3	(341,504)	(283,819)
		(18,796,761)	(18,552,070)
Advances - net of provision		174,886,049	172,299,205

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

- 11.1 Advances includes Rs. 26,587 million (December 31, 2012: Rs. 27,549 million) which have been placed under non-performing status as detailed below:

Category of classification	June 30, 2013 (Un-audited)								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Other Assets Especially									
Mentioned (Agri financing)	253,815	-	253,815	-	-	-	-	-	-
Substandard	2,413,828	-	2,413,828	351,253	-	351,253	351,253	-	351,253
Doubtful	1,740,065	-	1,740,065	624,007	-	624,007	624,007	-	624,007
Loss	22,178,960	-	22,178,960	17,479,997	-	17,479,997	17,479,997	-	17,479,997
	<u>26,586,668</u>	<u>-</u>	<u>26,586,668</u>	<u>18,455,257</u>	<u>-</u>	<u>18,455,257</u>	<u>18,455,257</u>	<u>-</u>	<u>18,455,257</u>

Category of classification	December 31, 2012 (Audited)								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Other Assets Especially									
Mentioned (Agri financing)	190,656	-	190,656	-	-	-	-	-	-
Substandard	2,038,178	-	2,038,178	369,360	-	369,360	369,360	-	369,360
Doubtful	2,552,484	-	2,552,484	796,566	-	796,566	796,566	-	796,566
Loss	22,768,411	-	22,768,411	17,102,325	-	17,102,325	17,102,325	-	17,102,325
	<u>27,549,729</u>	<u>-</u>	<u>27,549,729</u>	<u>18,268,251</u>	<u>-</u>	<u>18,268,251</u>	<u>18,268,251</u>	<u>-</u>	<u>18,268,251</u>

- 11.2 Particulars of provision against non-performing advances

	Un-audited June 30, 2013	Audited December 31, 2012
	Rupees '000	
Opening balance	18,268,251	17,062,123
Charge for the period / year	1,569,267	3,064,747
Reversals during the period / year	(928,247)	(2,100,846)
Net charge	641,020	963,901
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve	-	441,757
	641,020	1,405,658
Amounts written-off	(454,014)	(199,530)
Closing balance	<u>18,455,257</u>	<u>18,268,251</u>

- 11.2.1 This includes classified advances of Rs 426.043 million and Rs 156.251 million disbursed to Agritech Limited (AGL) and Azzgard Nine Limited (ANL) respectively. In addition, as disclosed in note 10.3 and 10.4 the Bank has also made investments in term finance certificates and Sukuk of Rs 1,050.652 million and Rs 500 million respectively issued by AGL and ANL. During 2012 the existing lenders (including the Bank) had restructured the outstanding facilities of ANL loans under a debt to asset swap arrangement. Under the arrangement the ANL's existing debt was partially swapped with the company's entire shareholding in AGL. As per the arrangement the Bank acquired 8,868,843 shares of AGL representing 2.26% shares of AGL's paid-up capital from ANL for the total sale consideration of Rs 310.410 million at an agreed price of Rs 35 per share (market value as at the date of acquisition was Rs 12.56 per share). Subsequent to this arrangement, the Bank has incurred impairment loss of Rs 207.71 million representing the difference between the acquisition cost and market value of shares as at June 30, 2013.

In accordance with the requirements of approved accounting standards as applicable in Pakistan the Bank was required to maintain a provision of Rs. 1,944.52 million as at June 30, 2013 against the non-performing outstanding facilities of AGL and ANL and impairment loss on acquired shares of AGL.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

Full provision has not been maintained by the Bank as the SBP has given the relaxation to the Bank in making the provisioning against outstanding facilities of AGL and ANL. The Bank is now required to make the provisions against the outstanding exposures in the following phased manner:

- In respect of AGL, at least 30%, 40%, 50%, 60%, 75%, 85% and 100% of the required provision as at June 30, 2013, September 30, 2013, December 31, 2013, March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014 respectively against outstanding facilities; and
- In respect of ANL, at least 10%, 25%, 50%, 75% and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 respectively against outstanding facilities.

Following the relaxation provided by the SBP, the Bank has recorded total provision of Rs 568.15 million (December 31, 2012: Rs. 423.394 million) in respect of outstanding exposure of AGL and ANL and recorded impairment loss of Rs 62.31 million (December 31, 2012: Rs. 20.69 million) as at June 30, 2013.

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower by Rs 1,314.06 million and the provision against advances and investments would have been higher by Rs 318.14 million and Rs 995.92 million respectively.

- 11.2.2** This includes classified advances of Rs 323.28 million disbursed to Gulistan Textile Mills Limited as at June 30, 2013. In accordance with the requirements of the Prudential Regulations issued by the SBP, the Bank was required to maintain a provision of Rs 193.071 million against this customer. The SBP through its letter no. BPRD/BRD-04/FAYSAL/2013/1695 dated February 13, 2013 has provided relaxation to banks to create provision against classified exposure of Gulistan Group companies (including Gulistan Textile Mills Limited) in a phased manner and maintain atleast 25%, 50%, 75% and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013 respectively. In view of this relaxation, the Bank has recorded provision amounting to Rs 167 million after taking the impact of the aforementioned relaxation.

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower and provision against advances would have been higher by Rs 26.1 million.

- 11.2.3** As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs. 3,785.8 million (December 31, 2012: Rs. 3,876.8) [Rs 3,553.2 million (December 31, 2012: Rs 3,775.7 million) relating to advances and Rs. 232.6 million (December 31, 2012: Rs.101.1 million) relating to investments] while determining the provisioning requirement against non-performing financing (including investments) as at June 30, 2013. The additional profit arising from availing the FSV benefit - net of tax as at June 30, 2013 which is not available for distribution as either cash or stock dividend to shareholders amounted to approximately Rs 2,460.8 million (December 31, 2012: Rs 2,519.9 million).

11.3 Particulars of provision against consumer loans - general

	Un-audited June 30, 2013	Audited December 31, 2012
	----- Rupees '000 -----	
Opening balance	283,819	259,212
Charge during the period / year	<u>57,685</u>	<u>24,607</u>
Closing balance	<u>341,504</u>	<u>283,819</u>

- 11.3.1** General provision against consumer loans represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio of consumer loans and 5 percent of the unsecured regular portfolio of consumer loans as per the requirements of the Prudential Regulations issued by the SBP.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

		Un-audited For the half year ended	
		June 30, 2013	June 30, 2012
		----- Rupees '000 -----	
12	OPERATING FIXED ASSETS		
12.1	Additions to operating fixed assets - cost		
	Leasehold property and improvements	71,980	69,561
	Office furniture, fixtures, equipment and computers	361,560	51,467
	Vehicles	38,199	7,719
	Capital work-in-progress	-	447,620
12.2	Additions to Intangibles		
	Software	387,490	-
12.3	Disposals of operating fixed assets - cost		
	Leasehold property and improvements	3,554	-
	Office furniture, fixtures, equipment and computers	13,684	381
	Vehicles	4,904	14,964

13 OTHERASSETS

These include non-banking assets acquired in satisfaction of claims amounting to Rs 2,513.688 million (December 31, 2012: 2,240.298 million) classified as held for sale. A formal plan to dispose of these properties is in place and it is expected that the process of sale of these properties will be completed in the near future.

		Un-audited June 30, 2013	Audited December 31, 2012
		----- Rupees '000 -----	
14	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Fixed deposits	74,927,261	92,187,537
	Saving deposits	77,997,669	73,676,936
	Current accounts – Remunerative	2,259,456	1,659,044
	Current accounts – Non-remunerative	74,647,516	60,912,771
	Margin accounts	2,217,590	2,298,894
		<u>232,049,492</u>	<u>230,735,182</u>
	Financial Institutions		
	Remunerative deposits	10,440,588	9,759,282
	Non-remunerative deposits	313,731	218,362
		<u>10,754,319</u>	<u>9,977,644</u>
		<u>242,803,811</u>	<u>240,712,826</u>

15 CONTINGENCIES AND COMMITMENTS

15.1 Direct credit substitutes

Contingent liability in respect of guarantees favouring:

- Banking companies and other financial institutions	<u>1,097,119</u>	<u>966,911</u>
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Acceptances

- Others	<u>9,711,283</u>	<u>11,513,312</u>
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NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

	Un-audited June 30, 2013	Audited December 31, 2012
	----- Rupees '000 -----	
15.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
- Government	8,583,564	8,150,674
- Banking companies and other financial institutions	165,852	60,332
- Others	2,670,964	2,670,724
	<u>11,420,380</u>	<u>10,881,730</u>

15.3 Trade-related contingent liabilities

Letters of credit

- Government	4,597,323	4,841,029
- Others	20,626,555	15,760,764
	<u>25,223,878</u>	<u>20,601,793</u>

15.4 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	<u>2,500,000</u>	<u>2,500,000</u>
ii) Indemnity issued favouring the High Court in the above case	<u>457,543</u>	<u>457,543</u>
iii) Claims against the Bank not acknowledged as debt	<u>32,252,167</u>	<u>33,362,656</u>

These mainly represent counter claims filed by the borrowers for restricting the Bank from disposal of assets (such as mortgaged / pledged assets kept as security), cases where the Bank was proforma defendant for defending its interest in the underlying collateral kept by it at the time of financing and certain cases filed by ex- employees of the Bank for damages sustained by them consequent to the termination from the Bank's employment.

The above also includes an amount of Rs 25,299 million (December 31, 2012: 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 and / or internal assessments, management is confident that the matters will be decided in the Bank's favour and the possibility of any outcome against the Bank is remote and accordingly no provision has been made in this condensed interim financial information.

- (iv) Income tax assessments of the Bank have been finalised upto the tax year 2011 (Accounting year 2010). Return of income for tax year 2012 has been filed.

The department and the Bank have disagreements on various matters for tax years from 1994 to 2011. These include disallowance on initial depreciation of leases, provision for bad debts, bad debts written off, taxability of dividend, excess perquisites and certain other allocation of expenses. The additional tax liability on these matters is Rs. 1,343.382 million.

The Bank and the department have filed appeals with the Commissioner Inland Revenue (Appeals), Appellate Tribunal Inland Revenue and the High Court in the aforementioned matters. The management of the Bank is confident that the decision in respect of these matters will be in the Bank's favour and, accordingly, no provision has been made in this condensed interim financial information in this respect.

15.5 Commitments to extend credits

The Bank makes commitments to extend credit (including to related parties) 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.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

	Un-audited June 30, 2013	Audited December 31, 2012
	----- Rupees '000 -----	
15.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	1,564,841	1,215,250
- Banks	22,192,619	20,816,450
	<u>23,757,460</u>	<u>22,031,700</u>
Sale		
- Customers	419,644	686,361
- Banks	7,523,721	7,310,088
	<u>7,943,365</u>	<u>7,996,449</u>
15.7 Commitments for the acquisition of operating fixed assets	<u>178,329</u>	<u>234,680</u>
15.8 Commitments in respect of repo transactions		
Repurchase	<u>29,630,570</u>	<u>16,646,373</u>
Resale	<u>117,200</u>	<u>289,265</u>
15.9 Other		
Interest rate swaps and cross currency swaps (notional principal)	<u>22,308,150</u>	<u>26,013,457</u>

16 EARNINGS PER SHARE

	----- Un-audited -----			
	For the quarter ended		For the half year ended	
	June 30, 2013	June 30, 2012 Restated	June 30, 2013	June 30, 2012 Restated
	----- Rupees '000 -----			
Profit after tax for the period	<u>492,069</u>	<u>238,610</u>	<u>754,654</u>	<u>505,459</u>
	----- Number of shares in thousands -----			
Weighted average number of ordinary shares	<u>927,351</u>	<u>927,351</u>	<u>927,351</u>	<u>927,351</u>
	----- Rupees -----			
Earnings per share - basic	<u>0.53</u>	<u>0.26</u>	<u>0.81</u>	<u>0.55</u>

- 16.1 Diluted earning per share has not been presented as the Bank does not have any convertible instruments in issue at June 30, 2013 and June 30, 2012 which would have any effect on the earnings per share if the option to convert is exercised.

17 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 assets. The directives of the SBP further specified that any subsequent provision / deficit identified by the Banking Inspection Department (BID) of the SBP in the acquired portfolio of RBS Pakistan will be adjusted against this reserve. The balance amount of reserve after incorporation of the above adjustment as identified by BID and amortisation of intangible asset will be available for distribution only as stock dividend after the prior approval of SBP.

The BID of the SBP finalised inspection of the Bank and issued a final inspection report in 2013. The BID identified an adjustment of Rs 441.757 million which essentially represented the additional provision suggested by the BID in the acquired loans and advances portfolio of the RBS Pakistan. In accordance with the above directive of the SBP

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

the management adjusted the aforementioned amount against the NCR at the time of finalisation of the financial statements of the Bank for the year ended December 31, 2012. As mentioned above, the remaining gain after incorporating the adjustments and amortisation of intangible assets, will be available for distribution with the prior approval of the SBP.

The management of the Bank has written to the SBP seeking its approval for the transfer of bargain purchase gain (net of unamortised balance of intangible assets) amounting to Rs. 1,221.567 million to unappropriated profit which may become available for distribution as stock dividend to the shareholders of the Bank.

Pending approval of the SBP, a portion of the gain on bargain purchase has been shown as part of NCR which may be transferred by the management to unappropriated profit after the approval of the SBP.

18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

The Bank is organised into four major business segments:

- Corporate Finance
- Trading and Sales
- Retail Banking and
- Corporate & 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.

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
June 30, 2013	Rupees '000				
Total income - net	50,017	1,181,721	4,257,604	1,228,575	6,717,917
Total expenses	(20,352)	(149,242)	(4,448,885)	(1,175,648)	(5,794,127)
Net income / (loss)	29,665	1,032,479	(191,281)	52,927	923,790
Segment assets (Gross)	-	100,561,888	87,922,601	164,428,227	352,912,716
Segment non performing loans	-	-	4,196,545	22,390,123	26,586,668
Segment provision required against loans *	-	-	(1,951,186)	(16,504,071)	(18,455,257)
Segment liabilities	-	(85,632,846)	(75,951,609)	(147,850,230)	(309,434,685)
Segment return on assets (ROA) (%) **	-	2.70%	(0.55%)	0.06%	
Segment cost of funds (%) **	-	6.66%	6.01%	8.84%	
June 30, 2012	Restated				
Total income - net	73,637	606,967	4,282,578	1,381,175	6,344,357
Total expenses	(16,762)	(485,155)	(3,992,270)	(1,139,088)	(5,633,275)
Net income	56,875	121,812	290,308	242,087	711,082

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
December 31, 2012	Restated				
	Rupees '000				
Total income - net	108,563	2,556,457	8,177,684	3,402,420	14,245,124
Total expenses	(59,464)	(787,948)	(8,634,357)	(2,922,742)	(12,404,511)
Net income / (loss)	49,099	1,768,509	(456,673)	479,678	1,840,613
Segment assets (Gross)	-	82,203,790	76,942,114	175,371,755	334,517,658
Segment non performing loans	-	-	4,167,698	23,382,031	27,549,729
Segment provision required against loans *	-	-	(1,859,770)	(16,692,300)	(18,552,070)
Segment liabilities	-	(21,278,382)	(219,863,393)	(50,944,653)	(292,086,428)
Segment return on assets (ROA) (%) **	-	2.66%	1.33%	1.37%	
Segment cost of funds (%)**	-	8.09%	7.21%	10.24%	

* includes general provision

** These percentages have been computed based on average balances.

19 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 associated company is given in note 10.1 to this condensed interim financial information.

Banking transactions with 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 related parties and balances with them as at the period end are as follows:

	June 30, 2013 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Deposits					
Balance at the beginning of the period	126,680	55,800	-	2,053	86,234
Placements during the period	965,646	89,129	-	497,364	105,913
Withdrawals during the period	(949,482)	(95,289)	-	(496,806)	(156,227)
Balance at end of the period	142,844	49,640	-	2,611	35,920
Advances					
Balance at the beginning of the period	39,434	-	-	-	4,440,121
Disbursements during the period	2,397	-	-	-	2,736,810
Repayments during the period	(9,663)	-	-	-	-
Balance at end of the period	32,168	-	-	-	7,176,931
	December 31, 2012 (Audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Deposits					
Balance at the beginning of the year	105,537	12,500	480	3,140	29,871
Placements during the year	2,187,008	1,262,147	-	815,186	48,506,510
Withdrawals during the year	(2,165,865)	(1,218,847)	(480)	(816,273)	(48,450,147)
Balance at end of the year	126,680	55,800	-	2,053	86,234
Advances					
Balance at the beginning of the year	40,266	-	-	-	2,854,555
Disbursements during the year	35,370	-	-	-	4,261,088
Repayments during the year	(36,202)	-	-	-	(2,675,522)
Balance at end of the year	39,434	-	-	-	4,440,121

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

Particulars	June 30, 2013 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Shares / units purchased during the period	-	-	-	-	588,340
Shares / units sold during the period	-	-	-	-	564,506
Government securities purchased during the period	596,816	-	-	-	-
Government securities sold during the period	648,869	160,569	-	-	-
Profit paid / accrued	2,415	3,082	-	132	176
Profit return / earned	1,048	-	-	-	210,027
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	263,889	-	-	-	-
- Post-employment benefits	9,103	-	-	-	-
Contribution to staff retirement benefits	-	115,189	-	-	-
Guarantees issued favouring related parties or on their behalf *	-	-	-	-	29,397

* represents outstanding guarantee

Particulars	June 30, 2012 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Shares / units purchased during the period	-	-	-	-	602,650
Shares / units sold during the period	-	-	-	-	683,635
Government securities purchased during the period	99,942	-	-	-	-
Government securities sold during the period	233,640	-	-	-	-
Profit paid / accrued	2,024	1,351	-	177	2,174
Profit return / earned	1,892	-	-	-	328,028
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	146,162	-	-	-	-
- Post-employment benefits	6,302	-	-	-	-
Contribution to staff retirement benefits	-	122,866	-	-	-
Guarantees issued favouring related parties or on their behalf *	-	-	-	-	25,000

* represents outstanding guarantee

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

20 ISLAMIC BANKING BUSINESS

The Bank is operating 52 Islamic banking branches (2012: 52). The statement of financial position of the Islamic Banking Business as at June 30, 2013 is as follows:

	Note	Un-audited June 30, 2013	Audited December 31, 2012
		----- Rupees '000 -----	
ASSETS			
Cash and balances with treasury banks		1,869,363	1,604,543
Balances with other banks		74,574	83,450
Due from financial institutions		-	-
Investments		16,623,953	14,579,922
Islamic financing and related assets	(a)	7,311,763	5,467,073
Operating fixed assets		100,559	99,242
Deferred tax assets		-	-
Other assets		731,077	312,856
		26,711,289	22,147,086
LIABILITIES			
Bills payable		356,852	203,224
Due to financial institutions		1,778,000	165,000
Deposits and other accounts			
- Fixed deposits		5,131,404	5,240,046
- Saving accounts		6,450,559	5,397,752
- Current accounts		8,576,468	7,489,799
- Margin accounts		162,716	171,769
- Deposits from financial institutions - remunerative		2,157,715	1,240,767
- Deposits from financial institutions - non-remunerative		-	3,505
Due to head office		731,344	884,901
Other liabilities		223,893	246,715
		25,568,951	21,043,478
		<u>1,142,338</u>	<u>1,103,608</u>
NET ASSETS			
REPRESENTED BY			
Islamic banking fund		880,000	880,000
Reserves		-	-
Unappropriated profit	20.1	<u>253,122</u>	<u>157,153</u>
		1,133,122	1,037,153
Surplus on revaluation of assets - net of tax		<u>9,216</u>	<u>66,455</u>
		<u>1,142,338</u>	<u>1,103,608</u>
Remuneration to shariah advisor			
		<u>1,390</u>	<u>2,455</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2013

	Note	Un-audited June 30, 2013	Audited December 31, 2012
		----- Rupees '000 -----	
CHARITY FUND			
Opening balance		1,031	1,778
Additions during the period / year		3,285	1,583
Payments / utilization during the period / year		<u>(3,200)</u>	<u>(2,330)</u>
Closing balance		<u>1,116</u>	<u>1,031</u>
(a) Islamic Financing and Related Assets	(b)	<u>7,311,763</u>	<u>5,467,073</u>
(b) Islamic Mode of Financing			
Murabaha		3,235,041	1,451,159
Ijara		7,495	7,715
Diminishing Musharika		3,635,920	3,511,999
Advance against Murabaha Financing		171,115	265,765
Advance against Murabaha ERF		-	165,000
Advanced against Diminishing Musharika		226,103	62,607
Advance against Ijarah		34,289	-
Others		<u>1,800</u>	<u>2,828</u>
		<u>7,311,763</u>	<u>5,467,073</u>

20.1 The Bank has not taken the impact of restatement due to change in accounting policy (as disclosed in note 6.1) in the statement of financial position of Islamic banking branches as it is not quantifiable and likely to be immaterial.

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 period have been restated consequent to the issue of bonus shares.

21.2 Figures have been rounded off to the nearest thousand rupees unless other wise stated.

22 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on August 27, 2013 by the Board of Directors of the Bank.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR