



The will to go beyond

Third Quarter

Ended September 30, 2011  
Unaudited Financial Statements

faysabank 

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Registered Office  
Faysal House, ST-2, Shara-e-Faisal, Karachi  
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## 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 nine months ended September 30, 2011.

## Economic Update

The first quarter of Fiscal Year 2012 (FY '12) witnessed a sense of urgency amongst the economic policy makers towards jump starting economic activity after a weak Gross Domestic Product (GDP) growth of 2.4% in FY'11. The State Bank of Pakistan (SBP) on its part slashed the policy rate by a cumulative 200 bps and the Ministry of Finance adhered to zero net borrowing from the SBP and displayed resolve towards solving PKR 400 billion circular debt issue. This cohesive action is aimed towards facilitating private sector credit on one end and addressing the issue of energy shortages on the other in order to free up the productive capacity and re-igniting economic growth.

The fiscal position of the Government of Pakistan (GOP) which remained disconcerting throughout FY'11 (especially during the first half) has also witnessed an improvement in the 1st quarter of FY'12 wherein it is expected to post a deficit of 1.1% broadly in line with the annual deficit target of 4%. Although the financing mix is still skewed towards bank borrowings, the element of incremental financing from the SBP (i.e. monetization of the deficit) has been kept close to zero which bodes well for macroeconomic stability. This is a welcome development as the excessive growth in the Money Supply is viewed as the major culprit by the SBP for the stubbornness displayed in inflation, and hence their protracted hawkish interest rate stance.

The current account deficit in the first two months of FY'12 has continued to improve recording a meager deficit of USD 189 million vs. 1,016 million during the corresponding period last year. This is mainly due to an improved balance of trade and robust increase in workers' remittances which during July-September '11 were up by 24.6% to USD 3.297 billion against the same period last year. Despite these improvements the SBP reserves declined by approximately USD 1.1 billion during the first quarter of FY'12 to USD 17.35 billion, attributable mainly to a substantially higher oil import bill and dry up in financial flows. The most heartening economic development of FY'12 yet has been the sharp deceleration in CPI witnessed during the 1st quarter (July-Sept) which was recorded at 11.5% against 13.7% during FY'11. This improvement is attributable to multiple factors; change in the base year for calculations, adherence by the GOP to SBP borrowing targets and the hawkish stance of the SBP in FY'11 which helped curtail the second round effects of inflation. Going forward there is a high probability that SBP will comfortably achieve its FY'12 CPI target of 12% - subscribing to this view the central bank slashed the discount rate by 200 bps to 12% in the first two monetary policies of FY'12 (50 bps in July and another 150 bps in October, 2011). Hence we may be fairly confident of a continuation of this accommodative monetary policy stance in the short term. The threats to CPI inflation which may warrant a change in the SBP's policy bias are now more "medium term" in nature i.e. their stated goal of achieving CPI inflation within 9.5% and 8% in FY'13 and '14 respectively. To fully ascertain the broader implications the attainment of these objectives will have on the interest rate trajectory going forward, it is worthwhile to understand the academic theory which forms the basis of "inflation targeting". This approach uses monetary policy to

create a path for aggregate demand that is consistent with the inflation goal hence keeping the spending multiplier close to zero – it's a superficially neat piece of symmetry. Hence if CPI is witnessed within 9.5% and 8% in FY'13 and '14 respectively, it is plausible that we may see interest rates revert back to single digits.

Going forward key challenges facing Pakistan's economy still emanate from long standing structural issues. The fiscal front remains challenged on one hand by resource constraints (the tax to GDP continues to hover below 10%) and on the other hand the dismal performance of the Public Sector Enterprises is taking a considerable toll on public finances. Besides the fiscal front; energy shortages, precarious law and order situation and the rapid deterioration witnessed in our major trading partner's economies (i.e. USA and Europe) are also cause for concern. The growth prospects of Pakistan's economy are dependant largely upon the prognosis and subsequent action which will decide the path the economy has to embark upon. One thing is certain - Pakistan's economy with its burgeoning debt is at the ebb of austerity measures and is in dire need of a jolt to rejuvenate economic activity. In other words the future strategy can either entail borrowing further or try and earn our way out of a debt trap. This is a feat our economy performed rather well during most part of the previous decade, wherein our debt stock remained largely unchanged but the economy grew at a brisk pace and hence as a proportion of GDP our debt stock hit a fairly sustainable level. The overwhelming focus on inflation targeting and deficit curtailment from the onset of the current IMF program, at times in the face of a paradoxical fiscal policy (i.e. deficit monetization), has resulted in a protracted cycle of high interest rates which led to a stifling of private sector credit and consequently resulted in dismal economic growth. Hence the 200 bps downward rate shock given by the SBP in the 1st quarter of FY'12 may point towards a policy resolve towards correcting this "credit disruption" and if aided by a coherent fiscal policy may pave the path for a more sustainable growth path.

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

Your Bank continued to deliver solid performance over the third quarter 2011. After adjusting one off gain on settlement of NIT units of PKR 1.473 billion earned in 2010, nine months profit after tax at PKR 1,293 million was significantly higher than last year corresponding profit of PKR 335 million. Earnings Per Share (EPS) on this basis at PKR 1.76 were also remarkably higher than EPS of PKR 0.46 last year.

In the face of challenging external environment we have remained on target on all our key initiatives including Integration Agenda and strengthening of our core businesses post RBS acquisition - we remain committed to ensuring that this acquisition unlocks synergies that translate into superior returns to all our stakeholders.

The integration agenda continued to remain in focus during the period post RBS acquisition. The following major integration related activities were completed during the period:

- A comprehensive exercise was conducted whereby policies and procedures were aligned and best practices adopted.

- Disengagement and replacement of the RBS Global back-end technology platform was achieved and Alternative Delivery Channel (ADC) platforms were consolidated and upgraded.
- The entire products suite was evaluated and aligned ensuring that the products offered cater to the varying needs of our clients.
- The HR function conducted in-house training sessions to ensure that all staff are aware and comprehend the revised policies, procedures and systems. Following the acquisition, with an objective of increasing staff engagement, awareness and bonding various functions and sports events were held.

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. The bank has started to balance its front and back offices by recruiting sales staff. This strategy is starting to yield results in the form of mobilization of core deposits.

The bank is aggressively following the expansion plan for its Islamic Banking business. Barkat Islamic Banking has increased its footprint from 13 to 43 branches during the year. 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. The bank has launched Barkat Auto Finance whereby customers are offered car financing facility under diminishing musharaka arrangement.

The Country's slow economic progress - caused primarily by budgetary imbalances; a widening circular debt crisis; unsustainable energy deficit and an ever-worsening law & order situation - has severely hampered industrial & corporate growth so far in 2011. Against this backdrop, the bank focused its efforts to minimize the fallout of provisioning of the Bank's corporate portfolio. Furthermore, your bank constantly monitored emerging trends and offered new and innovative products and solutions to this end. Through these efforts, we have created real and lasting value for stakeholders and customers.

As a result, the following key transactions were completed during the Period under review (Jan to Sept 2011):-

- FBL was assigned the restructuring mandate of a fertilizer unit – a subsidiary of one of the country's largest value-added denim producers. The quantum of debt re-profiled totaled PKR 22,000 million, with close to 70 creditor institutions involved. With dedicated and focused efforts, the restructuring arrangement was completed in Aug 2011.
- FBL was mandated to act as Lead Advisor and Arranger for a PKR 2,500 mln permanent Syndicate Working Capital Financing facility to be extended to the first corporate farming enterprise established in Pakistan – a group entity of a leading established industrial group. The financial close took place in Aug 2011.
- FBL, in its capacity as Joint Lead Advisor and Arranger, managed to arrange a debt syndicate facility of PKR 11,023 mln for the Country's first ever Wind Farm project.

- FBL was mandated as Joint Lead Advisor and Arranger for a PKR 10,000 mln 5-year Syndicated Long Term Finance Facility for a Gas Distribution Company. The transaction was successfully closed during the period under review.
- The Bank acted as Joint Lead Arranger to arrange syndicated financing of PKR 2,400 mln for one of the country's leading Industrial Sugar Groups in order to set-up a 8,000 tpd sugar manufacturing facility. Deal closure was achieved in Jun 2011.
- In the first half of 2011, FBL was mandated to act as sole Advisor and Arranger to meet the local-currency funding requirement equivalent to USD 35 mln to set-up Pakistan's first dedicated Coal and Clinker Terminal.
- FBL has been jointly mandated to arrange LCY Financing of up to PKR 3,000 mln by a well respected Group of Companies who intends to establish two Wind Power Projects. The rest of the funding is being arranged by multilaterals.
- One of the leading Industrial Cement Group's of the Southern region has jointly mandated FBL to arrange financing for a Wind Power Project. Total funding requirement is PKR 10,000 mln to set-up the Wind Farm
- FBL has been exclusively mandated by a leading industrial Group to arrange acquisition finance for the asset purchase of an operational sugar mill. The assets once acquired shall be transferred into a new corporate entity.
- During the second quarter of 2011, FBL was mandated to act as one of the underwriters to the recently concluded Public Offering by the food product subsidiary of the largest fertilizer conglomerate in the country. FBL was underwriter for 11 mln shares out of the total offering of 27 mln shares.
- FBL is making continuous effort on the Equity Advisory front. Since Mid-year 2011, FBL has marketed 3 potential M&A options – an industrial conglomerate; a fertilizer complex and an infrastructure project – to private equity and corporate investors and will continue to pursue these transactions in coming months.
- With a view to introduce new investment products into the Pakistan capital markets, FBL has also been aggressively pursuing the issuance of a first-of-its-kind structured product based on asset securitization. To this end, we have made significant progress with the State Bank on obtaining the required regulatory consents and approvals to ensure the feasibility of the structured product.

On the HR front the following initiatives were taken during the period under review:

- The CEO's Club was launched in June 2011. This is a in house tailored program to recognize top performers from across the bank with incentive for sustainable top performance. Inaugural events of the CEO's Club were held in Karachi and Lahore with strong participation from the senior management.

- To further strengthen the performance culture, Mid-year review Cycle was also concluded, with an emphasis on objectives and deliverables during the first half of 2011 and strengthening of the remaining 6 months expectations.
- All HR processes were re-engineered and explicitly documented for quality services and clarity. Going forward this well laid out document will be the basic template for all service related processes.
- At the technology front, e-learning solution was configured and launched. This program assists in providing content based trainings to staff. This software runs via Human Resource Management System to ensure faster delivery and broader access at substantially reduced cost.

## Corporate Social Responsibility

From the Board of Directors' allocated fund of Rs. 50 million for flood relief, Faysal Bank partnered with The Citizens Foundation to establish and run two schools in the flood-affected areas of Mianwali and Khushab. In addition, food ration packs were distributed to the people affected by this year's floods in Sindh.

Faysal Bank also sponsored 6 athletes from Special Olympics Pakistan, to participate in the Special Olympic World Summer Games, held in Athens, Greece this year. In an overall splendid performance, our sponsored athletes also brought back a Gold and 2 Silver medals amongst them.

## Corporate Brand Promotion

The first event of the current domestic cricket season, the Faysal Bank T20 Cup 2011-12, was held in Karachi in September-October 2011. The tournament generated tremendous public enthusiasm and response in the city. The National Stadium was jam-packed for many of the matches, while millions followed the games live on TV, Radio and social media.

## Financial Highlights

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

	<b>September 2011</b>	September 2010
	<b>Rs. in million</b>	
Operating profit	<b>1,794</b>	2,578
(Provision) / Reversal for non performing advances	<b>66</b>	(941)
(Provision) / Reversal for diminution in value of investments	<b>16</b>	7
	<b>82</b>	(933)
Profit before tax	<b>1,876</b>	1,645
(Provision) / Reversal for taxation	<b>(583)</b>	163
Profit after tax	<b>1293</b>	1,808
Earning per share – Rupees	<b>1.76</b>	2.47



As explained earlier 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. A summary of financial results ignoring this one off amount in 2010 is as follows:

	<b>September 2011</b>	September 2010
	<b>Rs. in million</b>	
Operating profit	<b>1,794</b>	1,141
(Provision) / Reversal for non performing advances	<b>66</b>	(941)
(Provision) / Reversal for diminution in value of investments	<b>16</b>	(150)
	<b>82</b>	(1,091)
Profit before tax	<b>1,876</b>	50
(Provision) / Reversal for taxation	<b>(583)</b>	285
Profit after tax	<b>1,293</b>	335
Earning per share – Rupees	<b>1.76</b>	0.46

Net markup income of the bank for the current nine months increased by Rs. 2.91 billion or 73% over the corresponding previous period. This increase is primarily attributable to the increase in advances and deposits volume resulting from RBS acquisition.

Despite adverse stock market conditions in the current quarter, non markup income for the nine months period increased by Rs. 736 million over last year. This increase is mainly on account of higher Bancassurance income, 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 and additional FSV benefit allowed by SBP during the quarter has resulted in reversal of provisions amounting to Rs. 66 million during the period as against a net charge of Rs. 941 million during the previous period.

Administrative expenses increased to Rs. 8.3 billion as against Rs. 3.8 billion last year. This increase primarily represents cost of ex-RBS operations and integration. A detailed expenses reduction strategy is in place to improve cost efficiency ratio in line with the industry.

Profit after tax was Rs. 1,293 million as against Rs. 335 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) have 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.

**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  
President & CEO

Karachi  
Dated: October 25, 2011

**Unconsolidated Condensed Interim  
Financial Statements  
for the nine months ended September 30, 2011**

**FAYSAL BANK LIMITED**  
 Condensed Interim Statement of Financial Position  
 As at September 30, 2011

	Note	Un-audited September 30, 2011	Audited December 31, 2010
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks		16,239,731	17,428,924
Balances with other banks	9	4,063,803	5,727,909
Lendings to financial institutions		-	-
Investments	10	78,461,640	86,418,549
Advances	11	148,499,541	133,706,769
Fixed assets		8,452,574	8,726,406
Deferred tax assets - net		5,406,995	5,017,202
Other assets		10,641,980	10,295,164
		<u>271,766,264</u>	<u>267,320,923</u>
<b>LIABILITIES</b>			
Bills payable		3,323,866	3,218,859
Borrowings		28,101,006	34,635,904
Deposits and other accounts	13	206,584,332	195,315,204
Sub-ordinated loans		4,394,915	4,595,395
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		11,871,179	13,037,791
		<u>254,275,298</u>	<u>250,803,153</u>
<b>NET ASSETS</b>		<u>17,490,966</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		7,266,289	7,354,688
Unappropriated profit		3,243,457	1,950,843
		<u>17,836,962</u>	<u>16,642,878</u>
Deficit on revaluation of assets - net of tax		<u>(345,996)</u>	<u>(125,108)</u>
		<u>17,490,966</u>	<u>16,517,770</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	14		

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 nine months ended September 30, 2011

Note	Quarter ended		Nine months ended		
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	
	Rupees in '000				
Mark-up / return / interest earned	7,588,609	4,653,088	21,344,667	13,358,289	
Mark-up / return / interest expensed	5,146,262	3,345,322	14,459,304	9,382,839	
Net mark-up / interest income	2,442,347	1,307,766	6,885,363	3,975,450	
(Reversal) / provision against non-performing loans and advances - net	11.2	17,110	374,370	(8,750)	1,003,351
Reversal of provision for consumer loans - general	11.3	(24,151)	(42,599)	(67,612)	(62,185)
Reversal of provision for diminution in the value of investments	10.4	(245,024)	(1,141)	(16,343)	(7,489)
Bad debts written off		41,781	-	10,865	-
		(210,284)	330,630	(81,840)	933,677
Net mark-up / return / interest income after provisions		2,652,631	977,136	6,967,203	3,041,773
<b>Non mark-up / return / interest income</b>					
Fee, commission and brokerage income		474,871	203,618	1,413,995	671,697
Dividend income		338,133	84,693	552,021	255,944
Income from dealing in foreign currencies		190,619	99,333	614,486	339,329
Gain / (loss) on sale of securities		(813,389)	(113,716)	(326,778)	1,137,829
Unrealised (loss) / gain on revaluation of investments classified as held for trading		(164,365)	86,145	21,884	(68,810)
Other income		491,320	27,547	891,149	94,422
Total non mark-up / return / interest income		517,189	387,620	3,166,757	2,430,411
		3,169,820	1,364,756	10,133,960	5,472,184
<b>Non mark-up / return / interest expenses</b>					
Administrative expenses		2,629,380	1,278,817	8,202,315	3,817,275
Other provisions - net		2,688	-	48,764	-
Other charges		(62,744)	(260)	7,225	10,109
Total non mark-up / return / interest expenses		2,569,324	1,278,557	8,258,304	3,827,384
		600,496	86,199	1,875,656	1,644,800
Extraordinary / unusual items		-	-	-	-
<b>Profit before taxation</b>		600,496	86,199	1,875,656	1,644,800
Taxation - Current period		411,845	62,179	597,290	385,080
- Prior years		2,887	-	280,640	(239,872)
- Deferred		(313,102)	(49,777)	(294,888)	(307,984)
		101,630	12,402	583,042	(162,776)
<b>Profit after taxation</b>		498,866	73,797	1,292,614	1,807,576
----- Rupees -----					
<b>Basic and diluted earnings per share</b>	15	0.68	0.10	1.76	2.47

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

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DIRECTOR

# FAYSAL BANK LIMITED

Condensed Interim Statement of Comprehensive Income (Un-audited)  
For the quarter and nine months ended September 30, 2011

	Quarter ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	----- 'Rupees in '000 -----			
<b>Profit for the period</b>	498,866	73,797	1,292,614	1,807,576
<b>Components of comprehensive income not reflected in equity</b>				
Deficit on revaluation of available for sale securities	218,510	(207,783)	(262,739)	(2,076,788)
Deferred tax asset / (liability) on revaluation of available for sale securities	(162,077)	71,095	41,851	298,799
	56,433	(136,688)	(220,888)	(1,777,989)
<b>Total comprehensive income / (loss) for the period</b>	<u>555,299</u>	<u>(62,891)</u>	<u>1,071,726</u>	<u>29,587</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 nine months ended September 30, 2011

	September 30, 2011	September 30, 2010
	Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,875,656	1,644,800
Less: dividend income	(552,021)	(255,944)
	<u>1,323,635</u>	<u>1,388,856</u>
<b>Adjustments for:</b>		
Depreciation	791,307	386,989
Amortisation	88,061	84,783
(Reversal) / provision against non-performing loans and advances - net	(8,750)	1,003,351
Reversal against consumer loans - general	(67,612)	(62,185)
Provision / (reversal) for diminution in value of investments	(16,343)	(7,489)
Provision against other assets	48,764	-
Unrealised (gain) / loss on revaluation of investments classified as held for trading	(21,884)	68,810
Gain on sale of operating fixed assets	(261,049)	(24,833)
Workers' Welfare Fund	20,812	-
	<u>573,306</u>	<u>1,449,426</u>
	1,896,941	2,838,282
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	-	13,438,613
Held for trading securities	2,309,755	(174,406)
Advances	(14,716,410)	(4,329,492)
Other assets (excluding advance taxation)	(1,104,153)	(653,495)
	<u>(13,510,808)</u>	<u>8,281,220</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	105,007	469,517
Borrowings	(6,534,898)	(20,563,217)
Deposits and other accounts	11,269,128	8,803,124
Other liabilities (excluding current taxation)	(710,675)	442,752
	<u>4,128,562</u>	<u>(10,847,824)</u>
	(7,485,305)	271,678
Income tax paid	(660,650)	(1,834,686)
<b>Net cash generated from operating activities</b>	<u>(8,145,955)</u>	<u>(1,563,008)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investment in available for sale securities	5,100,141	3,549,811
Net investment in held to maturity securities	322,501	(847,029)
Dividends received	510,778	236,686
Investment in operating fixed assets	(835,005)	(505,979)
Proceeds realised on disposal of operating fixed assets	348,867	167,750
<b>Net cash used in investing activities</b>	<u>5,447,282</u>	<u>2,601,239</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments of sub-ordinated loan	(200,480)	(200)
Dividends paid	(13,357)	(477)
<b>Net cash used in financing activities</b>	<u>(213,837)</u>	<u>(677)</u>
<b>(Decrease) / increase in cash and cash equivalents</b>	<u>(2,912,510)</u>	<u>1,037,554</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>20,237,916</u>	<u>10,273,551</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 Statement of Changes In Equity (Un-audited) For the nine months ended September 30, 2011

Share capital	Proposed shares to be issued on amalgamation	Reserves							Unappropriated profit	Total	
		Capital				Statutory reserve	Revenue				
		Reserve for issue of bonus shares	Share premium	Non-Distributable Capital Reserve-gain on bargain purchase (note 16)	Reserve arising on amalgamation		Capital market reserve	Total			
Rupees in '000											
<b>Balance as at January 1, 2010</b>	6,090,911	-	-	-	-	-	3,640,514	389,542	4,030,056	1,980,231	12,101,198
Profit after tax for the nine months ended September 30, 2010	-	-	-	-	-	-	-	-	-	1,807,576	1,807,576
Transfer to unappropriated profit	-	-	-	-	-	-	-	(389,542)	(389,542)	389,542	-
<b>Balance as at September 30, 2010</b>	<b>6,090,911</b>	-	-	-	-	-	<b>3,640,514</b>	-	<b>3,640,514</b>	<b>4,177,349</b>	<b>13,908,774</b>
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 period ended October to December 31, 2010	-	-	-	-	-	-	-	-	-	(617,247)	(617,247)
Transfer to statutory reserve	-	-	-	-	-	-	391,076	-	391,076	(391,076)	-
<b>Balance as at December 31, 2010</b>	<b>7,309,094</b>	<b>28,253</b>	-	-	<b>3,299,146</b>	<b>23,952</b>	<b>4,031,590</b>	-	<b>7,354,688</b>	<b>1,950,843</b>	<b>16,642,878</b>
Profit after tax for the nine months ended September 30, 2011	-	-	-	-	-	-	-	-	-	1,292,614	1,292,614
Shares issued upon amalgamation	18,122	(28,253)	-	10,131	-	-	-	-	10,131	-	-
Amortisation of customer relationship - net of deferred tax	-	-	-	-	(98,530)	-	-	-	(98,530)	-	(98,530)
<b>Balance as at September 30, 2011</b>	<b>7,327,216</b>	-	-	<b>10,131</b>	<b>3,200,616</b>	<b>23,952</b>	<b>4,031,590</b>	-	<b>7,266,289</b>	<b>3,243,457</b>	<b>17,836,962</b>

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 nine months ended September 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 255 branches (2010: 226); including 43 Islamic banking branches (2010: 13); and operates 1 sub-branch (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

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 nine months ended September 30, 2011

	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>9. BALANCES WITH OTHER BANKS</b>		
In Pakistan		
- Current accounts	1,123,246	558,987
Outside Pakistan		
- Current accounts	386,170	2,676,894
- Deposit accounts	<u>2,554,387</u>	<u>2,492,028</u>
	<u>4,063,803</u>	<u>5,727,909</u>

## 10. INVESTMENTS

### 10.1 Investments by type

Note	Un-audited			Audited		
	September 30, 2011			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	475,908	-	475,908	2,497,865	-	2,497,865
Pakistan Investment Bonds	236,448	-	236,448	-	-	-
Fully paid up ordinary shares / certificates of closed end mutual funds	494,706	-	494,706	718,952	-	718,952
Ijara Sukuk Bonds	-	-	-	300,000	-	300,000
	1,207,062	-	1,207,062	3,516,817	-	3,516,817
<b>Available for sale securities</b>						
Market Treasury Bills	31,913,333	13,271,827	45,185,160	44,273,115	10,724,483	54,997,598
Pakistan Investment Bonds	10,429,517	-	10,429,517	8,587,713	-	8,587,713
Ijara Sukuk Bonds	3,337,741	-	3,337,741	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
- Al-Meezan Mutual Fund	35,263	-	35,263	-	-	-
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	5,320,960	-	5,320,960	5,629,153	-	5,629,153
Fully paid up preference shares	414,368	-	414,368	415,969	-	415,969
Term finance certificates	1,389,102	-	1,389,102	1,589,537	-	1,589,537
	<u>55,610,478</u>	<u>13,271,827</u>	<u>68,882,305</u>	<u>63,257,963</u>	<u>10,724,483</u>	<u>73,982,446</u>
Balance carried forward	56,817,540	13,271,827	70,089,367	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 nine months ended September 30, 2011

Note	Un-audited September 30, 2011			Audited December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Balance brought forward	56,817,540	13,271,827	70,089,367	66,774,780	10,724,483
<b>Held to maturity securities</b>						
Term finance certificates	7,733,972	-	7,733,972	7,765,875	-	7,765,875
Sukuk Bonds	2,416,898	-	2,416,898	2,707,496	-	2,707,496
	10,150,870	-	10,150,870	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	10.3	108,000	-	108,000	-	108,000
<b>Investments at cost</b>	<b>67,121,410</b>	<b>13,271,827</b>	<b>80,393,237</b>	<b>77,401,151</b>	<b>10,724,483</b>	<b>88,125,634</b>
Less: Provision for diminution in the value of investments	10.4	(1,479,258)	-	(1,479,258)	-	(1,495,601)
<b>Investments (net of provisions)</b>	<b>65,642,152</b>	<b>13,271,827</b>	<b>78,913,979</b>	<b>75,905,550</b>	<b>10,724,483</b>	<b>86,630,033</b>
Surplus on revaluation of held for trading securities - net		40,767	-	40,767	18,883	-
(Deficit) / surplus on revaluation of available for sale securities - net		(541,983)	48,877	(493,106)	(193,500)	(36,867)
<b>Total investments</b>	<b>65,140,936</b>	<b>13,320,704</b>	<b>78,461,640</b>	<b>75,730,933</b>	<b>10,687,616</b>	<b>86,418,549</b>

**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** 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.

10.4 Particulars of provision for diminution in the value of investments	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
Opening balance	1,495,601	1,140,082
Charge for the period / year	259,003	531,941
Reversals during the period / year	(275,346)	(244,686)
	(16,343)	287,255
Provision against investments transferred from amalgamated entity	-	68,264
Closing balance	1,479,258	1,495,601

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 30, 2011

11. ADVANCES	Rupees in '000	
	Un-audited September 30, 2011	Audited December 31, 2010
Loans, cash credits, running finances, etc. – in Pakistan	155,748,201	140,249,441
Net investment in finance lease – in Pakistan	7,164,367	8,689,093
	<u>162,912,568</u>	<u>148,938,534</u>
Bill discounted and purchased (excluding government treasury bills)		
Payable in Pakistan	1,308,589	645,235
Payable outside Pakistan	1,031,549	1,284,440
	<u>2,340,138</u>	<u>1,929,675</u>
Margin financing / reverse repo transactions	247,200	338,200
Gross advances	<u>165,499,906</u>	<u>151,206,409</u>
Provision against non-performing advances	11.2 (16,731,404)	(17,163,067)
Provision against consumer loans - general	11.3 & 11.4 (268,961)	(336,573)
Advances - net of provision	<u>148,499,541</u>	<u>133,706,769</u>

11.1 Advances include Rs 24.977 billion (December 31, 2010: Rs 24.708 billion) which have been placed under non-performing status as detailed below:

Category of classification	September 30, 2011 (Un-audited)				
	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
Other Assets Especially Mentioned (Agri financing)	281,866	-	281,866	-	-
Substandard	2,413,344	-	2,413,344	349,092	349,092
Doubtful	2,609,078	-	2,609,078	677,065	677,065
Loss	19,673,004	-	19,673,004	15,705,247	15,705,247
	<u>24,977,292</u>	<u>-</u>	<u>24,977,292</u>	<u>16,731,404</u>	<u>16,731,404</u>
	December 31, 2010 (Audited)				
	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
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

	September 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	1,845,273	-	1,845,273
Reversals during the period	(1,854,023)	-	(1,854,023)
	(8,750)	-	(8,750)
Amounts written-off	(422,913)	-	(422,913)
Closing balance	<u>16,731,404</u>	<u>-</u>	<u>16,731,404</u>

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 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	<u>17,163,067</u>	<u>-</u>	<u>17,163,067</u>

11.2.1 The SBP vide BSD circular No. 1 of 2011 dated October 21, 2011 has revised Forced Sale Value (FSV) benefit of eligible collaterals held against non-performing loans for calculating provisioning requirement. These instructions are applicable with effect from September 30, 2011. The bank has taken a provisional benefit of PKR 500 million on the basis of revised instructions. The accumulated additional profit arising from availing the FSV benefit is PKR 1,882.087 (net of tax) at September 30, 2011 (December 31, 2010: 1,466.175 million). This amount as per SBP instructions is not available for distribution as cash or stock dividend to shareholders.

	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
Opening balance	336,573	190,075
Reversals during the period / year	(67,612)	(89,730)
General provision against consumer loans transferred from amalgamated entity	-	236,228
Closing balance	<u>268,961</u>	<u>336,573</u>

### 11.3 Particulars of provision against consumer loans - general

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.

	Un-audited Nine months ended	
	September 30, 2011	September 30, 2010
Rupees in '000		
<b>12. FIXED ASSETS</b>		
<b>12.1 Additions to operating fixed assets - cost</b>		
Leasehold property and improvements	160,042	56,149
Office furniture, fixtures, equipment and computers	255,160	127,791
Vehicles	1,092	21,773
Capital work-in-progress	380,781	279,197
<b>12.2 Additions to Intangibles</b>		
Software	37,930	21,069
<b>12.3 Disposals of operating fixed assets - cost</b>		
Leasehold property and improvements	-	72
Freehold land	61,904	-
Office furniture, fixtures, equipment and computers	1,391	13,338
Vehicles	66,865	198,775

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 30, 2011

	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>13. DEPOSITS AND OTHER ACCOUNTS</b>		
Fixed deposits	97,341,041	91,361,292
Saving deposits	64,072,404	61,531,285
Current accounts	43,102,942	40,017,566
Margin accounts	2,067,945	2,405,061
	<u>206,584,332</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	4,598,497	1,659,850
	4,598,497	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	10,326,764	7,748,465
ii) Banking companies and other financial institutions	1,940,788	11,774,727
iii) Others	3,174,697	4,938,603
	15,442,249	24,461,795
<b>14.3 Trade-related contingent liabilities</b>		
<b>Letters of credit favoring:</b>		
i) Government	6,045,116	3,067,558
ii) Banking companies and other financial institutions	-	-
iii) Others	16,323,998	10,893,659
	22,369,114	13,961,217
<b>14.4 Other Contingencies</b>		
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>33,055,253</u>	<u>26,959,996</u>

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 30, 2011

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.

	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>14.7 Commitments in respect of forward exchange contracts</b>		
Purchase		
- Customers	2,890,640	1,043,656
- Banks	22,897,153	23,244,880
	25,787,793	24,288,536
Sale		
- Customers	1,279,420	-
- Banks	5,702,479	5,224,327
	6,981,899	5,224,327
<b>14.8 Commitments for the acquisition of operating fixed assets</b>	243,498	82,108
<b>14.9 Commitments in respect of repo transactions</b>		
Repurchase	13,391,655	10,699,230
Resale	381,774	421,320
<b>14.10 Other Commitments</b>		
Interest rate swaps and cross currency swaps (notional principal)	42,212,527	53,231,890

#### 15. BASIC / DILUTED EARNINGS PER SHARE

	Un-audited			
	For the quarter ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	Rupees in '000			
Profit / (loss) after taxation	498,866	73,797	1,292,614	1,807,576
	Number of shares in thousands			
Weighted average number of ordinary shares	732,721	730,909	732,721	730,909
	Rupees			
Basic and diluted earnings per share	0.68	0.10	1.76	2.47



# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 30, 2011

## 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 151,585 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.

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Total
----- Rupees in '000 -----					
<b>For the nine months ended September 30, 2011</b>					
Total income - net	213,317	1,881,646	4,516,811	3,440,346	10,052,120
Total expenses	(74,069)	(725,874)	(5,070,315)	(2,306,206)	(8,176,464)
Profit before taxation	<u>139,248</u>	<u>1,155,772</u>	<u>(553,504)</u>	<u>1,134,140</u>	<u>1,875,656</u>
<b>As at September 30, 2011</b>					
Segment assets (Gross)	-	92,424,531	64,199,225	133,861,454	290,485,209
Segment non performing loans	-	678,243	10,488,752	13,810,297	24,977,292
Segment provision required against loans	-	(46,869)	(6,258,030)	(10,695,466)	(17,000,365)
Segment liabilities	(21,514)	(30,479,849)	(179,341,979)	(44,431,956)	(254,275,298)
Segment return on assets (ROA) (%)	<u>-</u>	<u>13.05%</u>	<u>9.80%</u>	<u>13.55%</u>	
Segment cost of funds (%)	<u>-</u>	<u>4.98%</u>	<u>6.12%</u>	<u>6.25%</u>	
<b>For the nine months ended September 30, 2010</b>					
Total income - net	79,879	974,193	3,344,035	2,007,754	6,405,861
Total expenses	(61,950)	(338,893)	(2,579,131)	(1,781,087)	(4,761,061)
Profit before taxation	<u>17,929</u>	<u>635,300</u>	<u>764,904</u>	<u>226,667</u>	<u>1,644,800</u>
<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	<u>126,726</u>	<u>1,038,218</u>	<u>(1,161,304)</u>	<u>823,414</u>	<u>827,054</u>
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)	(30,063,645)	(176,893,053)	(43,825,235)	(250,803,153)
Segment return on assets (ROA) (%)	<u>-</u>	<u>12.20%</u>	<u>11.20%</u>	<u>13.60%</u>	
Segment cost of funds (%)	<u>-</u>	<u>4.20%</u>	<u>7.70%</u>	<u>6.90%</u>	

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
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## 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:

September 30, 2011 (Un-audited)						
Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies/ Common Directorship	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	1,445,062	1,676,923	-	300,457	8,697,620	211,561
Withdrawals during the period	(1,406,377)	(3,258,163)	(283)	(295,336)	(9,201,246)	(191,117)
<b>Balance at end of the period</b>	<b>116,050</b>	<b>64,208</b>	<b>209</b>	<b>5,600</b>	<b>12,353</b>	<b>38,349</b>
<b>Advances</b>						
Balance at the beginning of the period	50,788	-	-	-	2,014,168	802,195
Disbursement during the period	5,014	-	-	-	7,300,000	-
Repayment during the period	(7,613)	-	-	-	(6,893,600)	(357)
<b>Balance at end of the period</b>	<b>48,189</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,420,568</b>	<b>801,838</b>
December 31, 2010 (Audited)						
Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies/ Common Directorship	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	<b>77,365</b>	<b>1,645,448</b>	<b>492</b>	<b>479</b>	<b>515,979</b>	<b>17,905</b>
<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	-	-	-	-	-
Balance at end of the year	<b>50,788</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,014,168</b>	<b>802,195</b>
September 30, 2011 (Un-audited)						
Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies/ Common Directorship	Strategic Investments	
----- Rupees in '000 -----						
Shares / units purchased during the period	-	-	-	-	1,023,707	-
Shares / units sold during the period	-	-	-	-	688,156	-
Profit paid / accrued	1,324	50,967	-	732	4	713
Profit return / earned	1,840	-	-	-	77,753	148
Remuneration of key management personnel						
- Salaries and other short-term employee benefits	339,371	-	-	-	-	-
- Post-employment benefits	14,710	-	-	-	-	-
Contribution to staff retirement benefits	-	196,169	-	-	-	-
Guarantees issued favoring related parties or on their behalf	-	-	-	-	25,000	-

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September 30, 2010 (Un-audited)					
Directors and Key Management Personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies/ Common Directorship	Strategic Investments
----- Rupees in '000 -----					
Nostro balances with group companies	-	-	-	256	-
Shares / units purchased during the year	-	-	-	1,286,963	-
Shares / units sold during the year	-	-	-	1,444,946	-
Profit paid / accrued	2,555	32,922	3,631	29	70
Profit return / earned	1,294	-	-	70,640	169
Dividend income from subsidiary	-	2,808	-	-	-
Remuneration of key management personnel	-	-	-	-	-
- Salaries and other short-term employee benefits	158,076	-	-	-	-
- Post-employment benefits	9,921	-	-	-	-
Contribution to staff retirement benefits	-	106,701	-	-	-

## 19. ISLAMIC BANKING BUSINESS

The Bank is operating 43 Islamic banking branches (December 31, 2010: 13). The statement of financial position as at September 30, 2011 is as follows:

### 19.1 Statement of Financial Position

	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
<b>ASSETS</b>		
Cash and balances with treasury banks	772,481	404,534
Balances with and due from financial Institutions	153,744	47,588
Investments	3,882,001	2,666,067
Financing and receivables		
- Murabaha	2,136,299	1,614,237
- Ijara	19,738	21,091
- Musharaka	-	-
- Diminishing Musharaka	3,071,312	1,809,843
- Salam	-	-
- Other Islamic Modes	-	-
Other assets	725,597	471,827
	10,761,172	7,035,187
<b>LIABILITIES</b>		
Bills payable	126,944	9,623
Due to financial institutions	-	-
Deposits and other accounts		
- Current Accounts	2,451,979	1,331,527
- Saving Accounts	1,659,069	1,011,063
- Term Deposits	2,980,764	1,413,258
- Others	22,382	12,288
- Deposits from financial institutions - remunerative	1,891,705	1,492,313
- Deposits from financial institutions - non-remunerative	6,888	-
Due to head office	552,000	1,080,500
Other liabilities	277,615	24,919
	9,969,346	6,375,491
<b>NET ASSETS</b>	<b>791,826</b>	<b>659,696</b>
<b>REPRESENTED BY</b>		
Islamic Banking Fund	880,000	880,000
Reserves	-	-
Unappropriated profit / (loss)	(93,175)	(225,003)
	786,825	654,997
Surplus on revaluation of assets- net of tax	5,001	4,699
	791,826	659,696

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	Un-audited September 30, 2011	Audited December 31, 2010
	Rupees in '000	
Remuneration to shariah advisor	<u>1,631</u>	<u>3,503</u>
<b><u>CHARITY FUND</u></b>		
Opening balance	67	-
Charity fund transferred from amalgamated entity	-	(304)
Additions during the period	2,235	371
Payments / utilization during the period	<u>(1,050)</u>	<u>-</u>
Closing balance	<u>1,252</u>	<u>67</u>

## 20. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on October 25, 2011 by the Board of Directors of the Bank.

### 20.1 Non-Adjusting Events

The Board of Directors in its meeting held on October 25, 2011 has proposed a bonus issue of 12.5% (2010: 20%).

## 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