

BUILD YOURSELF A CHARACTER

معاف زندگی میں سیرتِ فولاد پیدا کر

2012  
THIRD QUARTER  
ENDED SEPTEMBER 30, 2012  
UNAUDITED FINANCIAL STATEMENTS

# Contents

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

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

## Board of Directors

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

## Audit Committee (AC)

Lt. Gen. Muhammad Maqbool (Retd)	Chairman
Graham Roderick Walker	Member
Hassan Mohammed Mahmood Hassan	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 Financial Statements of Faysal Bank Limited for the quarter and nine months ended September 30, 2012.

### ECONOMIC UPDATE

FY'13 started with a significant shift in the policy bias towards jump starting economic growth. This policy bias was prompted by a multiplicity of considerations; an anemic GDP growth of 3.7% in FY'12 was too low against an estimated 6% required to absorb new entrants into the work force and a protracted cycle of high interest rates subsequent to joining the IMF program in 2009 had lead to the crowding out of private sector credit which was destroying private investment and therefore the medium term productive capacity of the economy. As for forward looking measures the external current account deficit was expected to be moderate and there was a high probability of meeting the 9.5% CPI target set forth by the SBP. These considerations prompted the SBP to aggressively slash the policy rate by a cumulative 200 bps in the first two monetary policy decisions of FY'13 to bring it to 10%. The Ministry of Finance on its part displayed strong will to curtail its borrowings from the SBP and as of 28th September '13 they had retired PKR 360 billion worth of SBP borrowings.

The improvement in the current account balance during the first two months of FY '13 was especially encouraging for the policy makers. It was positive for the first two months by USD 919 million vs. a deficit of 261 million during the same preiod last year, owing largely to receipt of the CFS flows of USD 1.21 Billion. Given the rigidities in our trade account and over reliance on cotton and oil prices, sustaining this performance in the remainder of FY'13 is going to be a challenge. The GOP aims to curtail FY'13 current account deficit within 1.5% of GDP vs 1.9% in FY '13 which is largely contingent upon; receipt of \$800 million outstanding from Etisalat and successful auctioning of 3G licenses.

The lax fiscal policy and its financing mix are a source of primary concern as the fiscal deficit for FY '12 was recorded at 7.8% against a target of 5.1%. This trend is again threatening to spill over in FY '13 whereby July-August'13 deficit is estimated at 0.8% of GDP and from here on containing the deficit to the annual target of 4.7% of GDP is going to be a herculean task. IMF expects this number to be close to 8%, due to unaccounted subsidies. To further complicate matters external sources of financing have virtually dried up and the brunt of the financing requirement is falling on the banking sector which is borrowing approx PKR 600 billion from SBP OMO's to fund T-Bill subscriptions. If these fiscal issues are not addressed in time, the strong inter-linkages between fiscal vulnerabilities and financial stability may tend to spill over to other sectors, disrupting productive economic activities.

The most heartening economic development of 1st QTR FY'13 has been the sharp deceleration witnessed in CPI which was recorded at 9.14% against 11.47% during FY'12. This improved performance was mainly due to; lower base effect, downward revision in gas prices and moderation in aggregate demand. The SBP now expects full year FY'12 CPI in the range of 9.5% which implies an uptick in inflation in H2-FY'12. The main reasons for this assessment are; an increase in administered prices of energy and wheat, rising international oil prices and impact of exchange rate pass through (which is especially vulnerable due to IMF re-payments worth USD 2.4 billion in remainder FY '13).

Going forward key challenges facing Pakistan's economy emanate from long standing structural bottlenecks which have continued to depress growth. GDP growth for FY'13 is contingent upon; the availability of electricity and gas for the industry, improved law and order situation and availability of affordable private sector credit. On the fiscal front, public finances need to be strengthened through increased revenue mobilization, elimination of un-targeted subsidies and restructuring of Public Sector Enterprises.

### **BANK'S PERFORMANCE:**

During the period the focus was on mobilization of core deposits and growth in commercial and consumer lending segments. Key developments during the period under review are outlined below:-

#### **Customer Franchise**

##### ***Corporate and Investment Banking***

Keeping in view the lack of new private investment in the economy, the performance of the Investment Banking Group was commendable, successfully concluding various transactions. Some of the significant ones are listed below:

- FBL, as a sole advisor and arranger successfully closed arrangement of local currency financing equivalent to USD 43.7 million to set-up Pakistan's first dedicated coal and clinker terminal.
- FBL in the capacity of joint lead advisor and arranger closed local currency financing mandate of up to PKR 3 billion for a wind power project to be constructed in Gharo, Sind.
- FBL successfully arranged PKR 1 billion syndicated acquisition financing for a local sugar mill to acquire assets of another semi operative sugar mill based in Punjab.
- FBL acted as joint lead advisor and arranger in successful closure of PKR 6 billion syndicated term finance facility for a leading mobile operator.
- FBL was mandated as joint lead advisor and arranger to arrange PKR 0.6 billion commercial paper for a microfinance bank.
- FBL has been assigned and mandated the role of financial advisor to re-profile and restructure the outstanding debt of manufacturer of home appliances and power equipment a local electrical appliances manufacturer. The quantum of debt to be re-profiled amounts to PKR 4.55 billion.
- FBL, acting as restructuring agent, performed the second restructuring of a textile and chemicals manufacturer. FBL also undertook restructuring of overdue markup / profit under the debt to asset swap transaction. The transaction involved settlement of overdue mark-up of PKR 3.5 billion through issuance of 5 years Privately Placed, Callable, Secured, Zero Coupon Term Finance Certificates.
- FBL was mandated as advisor for re profiling of terms of a PKR 2.5 billion syndicated permanent working capital facility extended to the first agriculture corporate farming entity.

Further FBL became the first financial institution to register under the newly introduced Debt Securities Trustee Regulations 2012.

### **Retail Banking**

Following RBS acquisition, the bank continued to rationalize overlap of conventional branches and during the nine months period 17 branches were relocated to new high potential areas. We continued to open branches in smaller cities, supporting our Agri/SME strategy. New towns added in the Faysal Bank network are Yazman Mandi, Ahmed Pur Sharqia (East), Gojra, Liaquatpur, Renala Khurd, Larkana, Rawat, Ghotki and Pattoki.

*Barkat Islamic Banking* continued its growth strategy by increasing foot print across Pakistan from 45 branches to 51 branches in 22 cities making the branch network second largest amongst conventional banks.

With the addition of 37 machines during the year, the bank's ATM network has increased to 254 across the country.

The Branches contributed strongly to Bancassurance business and secured (Auto) sales through branches also registered a good trend. Efforts are underway to equip branch banking team to cross sell other consumer asset products as well.

Faysal Bank has partnered with China UnionPay and has launched the UnionPay Debit card in Pakistan. FBL is the first bank not only in Pakistan but also in South Asia, Middle East and North Africa to issue UnionPay cards. China UnionPay is the fastest growing payment association in the world, with 2.8 billion cards in circulation globally. Faysal Bank has enhanced its infrastructure to support UnionPay Debit cards at over 240 ATMs and 9,000 POS terminals locally and over 1.5 million ATMs and 5 million POS terminals internationally. Faysal Bank is also the only bank in Pakistan with the status of a founder member. We expect this new partnership to provide tremendous benefits to both the bank and Pakistan's growing consumer market.

### **Risk Management**

During the quarter, decline in rate of inflation increased likelihood of meeting the 9.5% inflation target for FY 13 which provided room to the regulator for further easing of monetary stance. The steps taken by the State Bank of Pakistan, aimed at spurring growth in the economy, bode well for the economy in general; however, banks will have to face challenges like shrinking banking spreads and dwindling returns on investments. Going forward, banks are expected to return to the intermediary role resulting in increased flow of loanable funds to the private sector. In this backdrop, our focus remains cautious growth of advances portfolio of the bank while strictly adhering to internal risk parameters.

During the quarter, in line with the State Bank of Pakistan's revised guidelines in relation to Stress Testing, the Bank has implemented revised framework by enhancing the scope of the stress tests at portfolio level across various business lines. Implemented stress tests have been designed to capture increasing complexity of financial system and systematic risks such as parallel / non-parallel shifts in yield curve.

On operational risk management framework, the Bank has revised the Key Risk Indicators (KRIs) framework based on the industry best practices. As a result, KRIs have been implemented across major operational risk categories to strengthen operational risk monitoring and control. The Bank has also conducted operational risk scenario analysis in order to evaluate the impact of catastrophic events or so called "tail events".

#### People

HR's efforts are focused on providing relevant, need-based learning interventions to the staff. Towards this end, Learning & Development launched a 6 day intensive communication skills workshop for Risk Management, Islamic Banking, Retail Banking and Financial Control Unit. This workshop aimed to develop broader critical thinking skills of the participants and worked on improving their written and verbal communication skills.

Subsequent to the successful launch of 'Compliance Essentials' through Computer Based Training (CBT) methodology, Learning & Development launched its second CBT initiative, 'ATM Maintenance and Guidelines' targeting Branch Managers, Operation Managers, Tellers, Branch Service Officers and Area Support Managers. This online training aims to further improve functioning of ATMs and ensures uninterrupted and efficient service to customers.

#### Processes

During the quarter the bank's IT team successfully completed network rationalization and data centers consolidation projects which will not only lead to operational efficiency but will also result in cost saving.

#### CORPORATE BRAND PROMOTION

With the objective of further enhancing brand identity, Faysal Bank launched its first ever Corporate Brand campaign which gave the Bank its official tag line 'Bank on Ambition'. Following the Corporate Campaign, the Barkat Islamic Banking campaign was launched across all major Television and Radio channels. Another major promotional activity for the Corporate Brand was successful holding of the Faysal Bank T20 Cup 2011-12 Super 8 Tournament in Rawalpindi.

The focus has now shifted on building Product Brands. Towards this end, a nationwide 360 degree marketing effort was undertaken to launch Faysal Business First – Current Account in June 2012. All relevant marketing vehicles including Television, Newspapers, Outdoor, Online / Social Media, and Branch Branding were utilised to reach the target audience in a holistic manner. Another successful marketing launch has been that of China UnionPay Debit Card in August 2012. Faysal Bank is the first bank, not only in Pakistan, but also in the South Asia, Middle East and North Africa region to issue UnionPay Cards. The campaign launch was kicked off with an elegant press event where the cards were unveiled in a unique fashion, followed by advertising through Newspapers, Radio and Branch Branding media.

## CORPORATE SOCIAL RESPONSIBILITY

Faysal Bank's CSR endeavours are focused on areas of education, health and poverty alleviation. During the nine months ended September 30, 2012 an aggregate amount of Rs. 8.8 million was donated to various non profit organizations through Waqf Faisal.

## FINANCIAL HIGHLIGHTS

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

	September 2012	September 2011
	PKR in million	
Operating profit	2,470	1,794
(Provision) / Reversal for non performing advances	(613)	66
(Provision) / Reversal for diminution in value of investments	(140)	16
	(753)	82
Profit before tax	1,717	1,876
Provision for taxation	(589)	(583)
Profit after tax	1,128	1,293
Earning per share – Rupees	1.37	1.57

Growth in advances led to an increase of Rs. 250 million in markup income. However, net markup income of Rs. 6,552 million for the nine months ended September 30, 2012 was 4.8% lower than the corresponding period of last year primarily due to a discount rate cut of 350 bps by SBP since July '11.

During nine months the bank earned non markup income of PKR 4.19 billion as against PKR 3.17 billion during last year, showing an increase of more than PKR 1 billion. This increase was mainly on account of gain realized on government securities and better equity market performance this year.

Targeted cost reduction activities have kept administrative expenses to the last year's level despite opening of 37 new branches since January 2011, prevailing inflation and high energy and fuel prices. The bank has identified cost reduction as a key area of focus and will continue to explore opportunities for further cost reduction.

Profit after tax for the nine months period ended September 30, 2012 amounts to PKR 1.13 billion which translates into EPS of PKR 1.37.



## CREDIT RATING

JCR-VIS Credit Rating Company Limited (JCR) and Pakistan Credit Rating Agency Limited (PACRA) had re-affirmed the following entity ratings based on the financial statements for the year ended December 31, 2011:

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 30, 2012

**Unconsolidated Condensed Interim  
Financial Statements  
for the nine months ended September 30, 2012**

# FAYSAL BANK LIMITED

## Condensed Interim Statement of Financial Position

As at September 30, 2012

		Un-audited September 30, 2012	Audited December 31, 2011
	Note	Rupees '000	
<b>ASSETS</b>			
Cash and balances with treasury banks		19,249,830	18,445,108
Balances with other banks	9	2,841,448	4,685,718
Lendings to financial institutions		-	-
Investments	10	77,223,564	93,409,187
Advances	11	174,835,388	148,161,995
Fixed assets		10,794,577	10,849,607
Deferred tax assets - net		4,742,647	5,188,126
Other assets	13	11,013,754	11,828,085
		300,701,208	292,567,826
<b>LIABILITIES</b>			
Bills payable		4,218,968	3,075,642
Borrowings		36,476,789	39,696,986
Deposits and other accounts	14	227,140,059	214,614,731
Sub-ordinated loans		4,194,717	4,395,197
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		7,402,894	11,572,111
		279,433,427	273,354,667
<b>NET ASSETS</b>		<u>21,267,781</u>	<u>19,213,159</u>
<b>REPRESENTED BY</b>			
Share capital		8,243,118	8,243,118
Reserves		6,322,149	6,591,131
Unappropriated profit		4,146,921	2,959,178
		18,712,188	17,793,427
Surplus on revaluation of assets		2,555,593	1,419,732
		<u>21,267,781</u>	<u>19,213,159</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	15		

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

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

For the quarter and nine months ended September 30, 2012

Note	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Rupees '000				
Mark-up / return / interest earned	7,549,617	7,588,609	21,594,543	21,344,667
Mark-up / return / interest expensed	5,065,331	5,146,262	15,042,882	14,459,304
Net mark-up / interest income	2,484,286	2,442,347	6,551,661	6,885,363
Provision / (reversal) against non-performing loans and advances - net	11.2 310,390	17,110	630,646	(8,750)
Provision / (reversal) for consumer loans - general	11.3 5,522	(24,151)	11,007	(67,612)
Provision / (reversal) for diminution in the value of investments - net	10.5 142,157	(245,024)	139,659	(16,343)
Bad debts written off directly	(2,060)	41,781	(28,348)	10,865
	456,009	(210,284)	752,964	(81,840)
Net mark-up / interest income after provisions	2,028,277	2,652,631	5,798,697	6,967,203
<b>Non mark-up / interest income</b>				
Fee, commission and brokerage income	474,622	474,871	1,389,286	1,413,995
Dividend income	80,769	338,133	389,810	552,021
Income from dealing in foreign currencies	241,450	190,619	542,043	614,486
Gain on sale of securities	654,236	(813,389)	977,977	(326,778)
Unrealised gain on revaluation of investments classified as held for trading	25,734	(164,365)	49,229	21,884
Other income	441,430	491,320	846,878	891,149
Total non mark-up / interest income	1,918,241	517,189	4,195,223	3,166,757
	3,946,518	3,169,820	9,993,920	10,133,960
<b>Non mark-up / interest expenses</b>				
Administrative expenses	2,913,552	2,629,380	8,216,401	8,202,315
Other provisions / (reversals) - net	5,383	2,688	24,496	48,764
Other charges	21,020	(62,744)	35,634	7,225
Total non mark-up / interest expenses	2,939,955	2,569,324	8,276,531	8,258,304
	1,006,563	600,496	1,717,389	1,875,656
Extraordinary / unusual Items	-	-	-	-
<b>Profit before taxation</b>	1,006,563	600,496	1,717,389	1,875,656
Taxation - Current	379,483	411,845	587,728	597,290
Taxation - Prior years	-	2,887	21,853	280,640
Taxation - Deferred	4,035	(313,102)	(20,530)	(294,888)
	383,518	101,630	589,051	583,042
<b>Profit after taxation</b>	623,045	498,866	1,128,338	1,292,614

----- Rupees -----

<b>Earnings per share</b>	16	0.76	0.61	1.37	1.57
---------------------------	----	------	------	------	------

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

Condensed Interim Statement of Comprehensive Income (Un-audited)  
For the quarter and nine months ended September 30, 2012

	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees in '000			
<b>Profit for the period</b>	623,045	498,866	1,128,338	1,292,614
<b>Components of comprehensive income not reflected in equity</b>				
Surplus / (deficit) on revaluation of securities classified as available for sale	1,440,137	218,510	1,806,111	(262,739)
Deferred tax liability / (asset) on revaluation of securities classified as available for sale	(482,007)	(162,077)	(610,846)	41,851
	958,130	56,433	1,195,265	(220,888)
<b>Total comprehensive income for the period</b>	<b>1,581,175</b>	<b>555,299</b>	<b>2,323,603</b>	<b>1,071,726</b>

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

## Condensed Interim Cash Flow Statement (Un-audited) For the nine months ended September 30, 2012

	September 30, 2012	September 30, 2011
	Rupees '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,717,389	1,875,656
Less: dividend income	(389,810)	(552,021)
	<u>1,327,579</u>	<u>1,323,635</u>
<b>Adjustments for non-cash and other items:</b>		
Depreciation	722,190	791,307
Amortisation	79,823	88,061
Provision / (reversal) against non-performing loans and advances - net	630,646	(8,750)
Provision / (reversal) for consumer loans - general	11,007	(67,612)
Provision / (reversal) for diminution in value of investments	139,659	(16,343)
Provision for other assets	24,496	48,764
Unrealised gain on revaluation of investments classified as held for trading	(49,229)	(21,884)
Gain on disposal of operating fixed assets	(7,364)	(261,049)
Charge for defined benefit plan	81,712	90,715
Bad debts written off directly	(28,348)	-
Workers' Welfare Fund	4,788	20,812
	<u>1,609,380</u>	<u>664,021</u>
	<u>2,936,959</u>	<u>1,987,656</u>
<b>(Increase) / decrease in operating assets</b>		
Held for trading securities	4,121,770	2,309,755
Advances	(27,556,439)	(14,716,410)
Other assets (excluding advance taxation and charge for defined benefit plan)	<u>822,278</u>	<u>(1,104,153)</u>
	<u>(22,612,391)</u>	<u>(13,510,808)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	1,143,326	105,007
Borrowings	(3,163,654)	(6,534,898)
Deposits and other accounts	12,525,328	11,269,128
Other liabilities	<u>(4,169,990)</u>	<u>(710,675)</u>
	<u>6,335,010</u>	<u>4,128,562</u>
	<u>(13,340,422)</u>	<u>(7,394,590)</u>
Income tax paid	(611,362)	(660,650)
Contribution to gratuity fund	<u>(81,712)</u>	<u>(90,715)</u>
<b>Net cash used in operating activities</b>	<u>(14,033,496)</u>	<u>(8,145,955)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment in available for sale securities	12,834,309	5,100,141
Net investment in held to maturity securities	945,225	322,501
Dividend income received	354,361	510,778
Investment in operating fixed assets	(899,893)	(835,005)
Proceeds realised on disposal of operating fixed assets	16,197	348,867
<b>Net cash generated from investing activities</b>	<u>13,250,199</u>	<u>5,447,282</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of sub-ordinated loan	(200,480)	(200,480)
Dividends paid	772	(13,357)
<b>Net cash used in financing activities</b>	<u>(199,708)</u>	<u>(213,837)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(983,005)</u>	<u>(2,912,510)</u>
Cash and cash equivalents at beginning of the period	23,010,563	23,150,426
<b>Cash and cash equivalents at end of the period</b>	<u><u>22,027,558</u></u>	<u><u>20,237,916</u></u>

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

## Condensed Interim Statement of Changes In Equity (Un-audited) For the nine months ended September 30, 2012

	Share capital	Proposed shares to be issued on amalgamation	Reserves						Unappropriated profit	Total	
			Capital				Statutory reserve	Revenue			Total
			Reserve for issue of bonus shares	Share premium	Non-distributable capital reserve - gain on bargain purchase	Reserve arising on amalgamation		Capital market reserve			
Rupees '000											
	7,309,094	28,253	-	-	3,299,146	23,952	4,031,590	-	7,354,688	1,950,843	16,642,878
ended	-	-	-	-	-	-	-	-	1,292,614	1,292,614	
	18,122	(28,253)	-	10,131	-	-	-	-	10,131	-	-
p -	-	-	-	-	(98,530)	-	-	-	(98,530)	-	(98,530)
	7,327,216	-	-	10,131	3,200,616	23,952	4,031,590	-	7,266,289	3,243,457	17,836,962
	-	-	915,902	-	-	-	-	-	915,902	(915,902)	-
	915,902	-	(915,902)	-	-	-	-	-	(915,902)	-	-
	-	-	-	-	(31,217)	-	-	-	(31,217)	-	(31,217)
	-	-	-	-	-	-	-	-	-	(12,318)	(12,318)
	-	-	-	-	-	-	256,059	-	256,059	(256,059)	-
	-	-	-	-	-	-	(900,000)	-	(900,000)	900,000	-
	8,243,118	-	-	10,131	3,169,399	23,952	3,387,649	-	6,591,131	2,959,178	17,793,427
	-	-	-	-	(93,650)	-	-	-	(93,650)	-	(93,650)
ended	-	-	-	-	-	-	-	-	-	1,128,338	1,128,338
	-	-	-	-	-	-	-	-	-	59,405	59,405
	-	-	-	-	(175,332)	-	-	-	(175,332)	-	(175,332)
	8,243,118	-	-	10,131	2,900,417	23,952	3,387,649	-	6,322,149	4,146,921	18,712,188

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)  
For the nine months ended September 30, 2012

## 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 263 branches (2011: 257); including 51 Islamic banking branches (2011: 45).

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, 2011, 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** 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 the preparation of consolidated financial statements of the Bank and its subsidiary company namely 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 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 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 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, IFAS notified by the SECP 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, IFAS notified by the SECP 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.
- 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, 2011.

#### **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 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, 2011.

#### **6 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.

#### **7 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, 2011.

#### **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, 2011.

#### **9 BALANCES WITH OTHER BANKS**

	Un-audited September 30, 2012	Audited December 31, 2011
	Rupees '000	
In Pakistan		
- Current accounts	1,841,269	1,872,679
Outside Pakistan		
- Current accounts	801,077	424,981
- Deposit account	199,102	2,388,058
	<u>2,841,448</u>	<u>4,685,718</u>

# FAYSAL BANK LIMITED

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

### 10 INVESTMENTS

#### 10.1 Investments by type

Note	Un-audited September 30, 2012			Audited December 31, 2011		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees '000 -----						
<b>Held for trading securities</b>						
Market Treasury Bills	1,084,569	-	1,084,569	2,645,477	-	2,645,477
Pakistan Investment Bonds	321,504	-	321,504	16,058	-	16,058
Fully paid up ordinary shares / certificates of closed end mutual funds	39,708	-	39,708	921,136	-	921,136
Ijara Sukuk Bonds	268,620	-	268,620	2,253,500	-	2,253,500
	1,714,401	-	1,714,401	5,836,171	-	5,836,171
<b>Available for sale securities</b>						
Market Treasury Bills	15,166,659	18,306,650	33,473,309	29,611,270	21,834,936	51,446,206
Pakistan Investment Bonds	10,863,652	-	10,863,652	13,355,470	-	13,355,470
Ijara Sukuk Bonds	18,330,834	-	18,330,834	7,039,259	-	7,039,259
Units of open ended mutual funds						
- National Investment (Unit) Trust	-	-	-	2,200,000	-	2,200,000
- NIT Income Fund	-	-	-	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	407,411	-	407,411	208,228	-	208,228
- Faysal Islamic Savings Growth Fund	100,000	-	100,000	425,000	-	425,000
- Faysal Money Market Fund	1,100,000	-	1,100,000	1,100,000	-	1,100,000
- JS Large Capital Fund	-	-	-	27,888	-	27,888
- JS KSE 30 Index Fund	-	-	-	3,702	-	3,702
- Al-Meezan Mutual Fund	-	-	-	35,263	-	35,263
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	5,577,405	-	5,577,405	6,250,378	-	6,250,378
Fully paid up preference shares	146,281	-	146,281	414,368	-	414,368
Term finance certificates	1,086,668	-	1,086,668	1,364,107	-	1,364,107
	53,059,284	18,306,650	71,365,934	62,365,307	21,834,936	84,200,243
<b>Held to maturity securities</b>						
Term finance certificates	2,749,511	-	2,749,511	3,545,546	-	3,545,546
Commercial paper	120,964	-	120,964	-	-	-
Sukuk Bonds	2,090,676	-	2,090,676	2,360,830	-	2,360,830
	4,961,151	-	4,961,151	5,906,376	-	5,906,376
<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	108,000	-	108,000	108,000	-	108,000
<b>Investments at cost</b>	59,887,836	18,306,650	78,194,486	74,260,854	21,834,936	96,095,790
Less: Provision for diminution in the value of investments	(2,044,743)	-	(2,044,743)	(1,905,084)	-	(1,905,084)
<b>Investments (net of provisions)</b>	57,843,093	18,306,650	76,149,743	72,355,770	21,834,936	94,190,706
Surplus / (deficit) on revaluation of held for trading securities - net	10,578	-	10,578	(38,651)	-	(38,651)
Surplus / (deficit) on revaluation of available for sale securities - net	811,733	251,510	1,063,243	(798,937)	56,069	(742,868)
<b>Total investments</b>	58,665,404	18,558,160	77,223,564	71,518,182	21,891,005	93,409,187

# FAYSAL BANK LIMITED

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

- 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 September 30, 2012 would have been higher by Rs 50 million (December 31, 2011: Rs 50 million) and the profit before taxation for the period ended September 30, 2012 would have been lower by Rs 50 million (December 31, 2011: Rs 50 million).
- 10.3** These include term finance certificates and Sukuk Bonds of Rs 1,117.661 million (2011: Rs 1,117.661 million) and Rs 500 million (2011: Rs 500 million) respectively issued by Agritech Limited and Azgard Nine Limited. As explained in note 11.2.1 to this condensed interim financial information, the management in anticipation of SBP granting extension to withhold provisioning on these exposures has not made any provision in these interim financial statements in respect of these investments. Had the provision been made against these investments profit before taxation for the quarter and nine months ended September 30, 2012 would have been lower by Rs 1,236.579 million.
- 10.4** On October 1, 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL) has decided to voluntarily wind up the company and accordingly they have resolved to initiate the proceedings of winding up by the members under the Companies Ordinance, 1984.

	Note	Un-audited September 30, 2012	Audited December 31, 2011
<b>10.5 Particulars of provision for diminution in the value of investments</b>		<b>Rupees '000</b>	
Opening balance		1,905,084	1,495,601
Charge for the period / year		547,529	695,824
Reversals during the period / year		(407,870)	(286,341)
		139,659	409,483
Closing balance		2,044,743	1,905,084
<b>11 ADVANCES</b>			
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1	180,811,386	156,045,856
Net investment in finance lease – in Pakistan		6,745,831	6,684,270
		187,557,217	162,730,126
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		3,399,328	1,563,551
Payable outside Pakistan		1,844,720	1,061,453
		5,244,048	2,625,004
Margin financing / reverse repo transactions		125,200	128,200
Gross advances		192,926,465	165,483,330
Provision against non-performing advances	11.1	(17,820,858)	(17,062,123)
Provision against consumer loans - general	11.3	(270,219)	(259,212)
Advances - net of provision		174,835,388	148,161,995

- 11.1** Advances includes Rs. 27,611 million (December 31, 2011: Rs. 26,044 million) which have been placed under non-performing status as detailed below:

September 30, 2012 (Un-audited)									
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees '000									
<b>Category of classification</b>									
Other Assets Especially									
Mentioned (Agri financing)	242,179	-	242,179	-	-	-	-	-	-
Substandard	1,839,054	-	1,839,054	296,822	-	296,822	296,822	-	296,822
Doubtful	2,975,160	-	2,975,160	831,682	-	831,682	831,682	-	831,682
Loss	22,554,588	-	22,554,588	16,692,354	-	16,692,354	16,692,354	-	16,692,354
	27,610,981	-	27,610,981	17,820,858	-	17,820,858	17,820,858	-	17,820,858

December 31, 2011 (Audited)									
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees '000									
<b>Category of classification</b>									
Other Assets Especially									
Mentioned (Agri financing)	194,859	-	194,859	-	-	-	-	-	-
Substandard	2,415,055	-	2,415,055	302,021	-	302,021	302,021	-	302,021
Doubtful	2,501,583	-	2,501,583	557,278	-	557,278	557,278	-	557,278
Loss	20,932,622	-	20,932,622	16,202,824	-	16,202,824	16,202,824	-	16,202,824
	26,044,119	-	26,044,119	17,062,123	-	17,062,123	17,062,123	-	17,062,123

**11.2 Particulars of provision against non-performing advances**

Note	September 30, 2012 (Un-audited)			December 31, 2011 (Audited)		
	Specific	General (excluding consumer loan)	Total	Specific	General (excluding consumer loan)	Total
Rupees '000						
Opening balance	17,062,123	-	17,062,123	17,163,067	-	17,163,067
Charge for the period / year	2,100,974	-	2,100,974	2,750,540	-	2,750,540
Reversals during the period / year	(1,470,328)	-	(1,470,328)	(2,420,452)	-	(2,420,452)
Net charge	630,646	-	630,646	330,088	-	330,088
Provision against non-performing loans and advances directly charged to equity and adjusted against						
Non-Distributable Capital Reserve	17	269,741	-	269,741	-	-
Amounts written off		(141,652)	-	(141,652)	(431,032)	-
Closing balance	17,820,858	-	17,820,858	17,062,123	-	17,062,123

- 11.2.1** This includes classified advances of Rs 409.172 million and Rs 350.101 million disbursed to Agritech Limited and Azgard Nine Limited respectively. The financing facilities disbursed to Agritech Limited and Azgard Nine Limited have been restructured / agreed to be restructured as a result of financial difficulties / repayment problems being faced by these companies. The State Bank of Pakistan vide its letter no. BSD/BRP-1/5388/2012 dated May 2, 2012 had allowed extension for withholding provisioning against the exposure of Agritech Limited and Azgard Nine Limited till June 30, 2012. The Bank has applied to SBP for further extension for withholding

# FAYSAL BANK LIMITED

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

provisioning on these exposures which is pending. The management in anticipation of SBP granting extension to withhold provisioning on these exposures has not made any provision in these interim financial statements in respect of these exposures.

Had the provision against loans and advances been made profit before taxation for the quarter and nine months ended September 30, 2012 would have been lower by Rs 611.589 million.

- 11.2.2** The additional profit arising from availing the benefit of forced sale value (net of tax) while determining the provisioning requirements against classified loans and advances as at September 30, 2012 which is not available either for cash or stock dividend to shareholders amounted to approximately Rs 2,495.477 million (December 31, 2011: 2,590.464 million).

	Un-audited September 30, 2012	Audited December 31, 2011
	Rupees '000	
<b>11.3 Particulars of provision against consumer loans - general</b>		
Opening balance	259,212	336,573
(Charge) / Reversals during the period / year	11,007	(77,361)
Closing balance	<u>270,219</u>	<u>259,212</u>

- 11.4** 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.

	Un-audited Nine months ended	
	September 30, 2012	September 30, 2011
	Rupees '000	
<b>12 FIXED ASSETS</b>		
<b>12.1 Additions to operating fixed assets - cost</b>		
Leasehold property and improvements	107,695	160,042
Office furniture, fixtures, equipment and computers	139,502	255,160
Vehicles	14,507	1,092
Capital work-in-progress	759,871	380,781

### 12.2 Additions to Intangibles

Software	-	37,930
----------	---	--------

### 12.3 Disposals of operating fixed assets - cost

Freehold land	-	61,904
Office furniture, fixtures, equipment and computers	457	1,391
Vehicles	20,369	66,865

## 13 OTHER ASSETS

This includes non-banking assets acquired in satisfaction of claims amounting to Rs 2,307.552 million (December 31, 2011: 1,879.327 million) classified as held for sale.

# FAYSAL BANK LIMITED

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

## 14 DEPOSITS AND OTHER ACCOUNTS

	Un-audited September 30, 2012	Audited December 31, 2011
	Rupees '000	
Fixed deposits	97,310,086	97,908,269
Saving deposits	73,065,700	66,404,338
Current accounts – Remunerative	1,349,784	954,746
Current accounts – Non-remunerative	53,233,044	47,204,322
Margin accounts	2,181,445	2,143,056
	<u>227,140,059</u>	<u>214,614,731</u>

## 15 CONTINGENCIES AND COMMITMENTS

### 15.1 Direct credit substitutes

#### Contingent liability in respect of guarantees favouring:

i) Government	-	-
ii) Banking companies and other financial institutions	533,275	3,275
iii) Others	-	-
	<u>533,275</u>	<u>3,275</u>

#### Acceptances

i) Government	-	-
ii) Banking companies and other financial institutions	-	-
iii) Others	7,538,450	9,875,957
	<u>7,538,450</u>	<u>9,875,957</u>

### 15.2 Transaction-related contingent liabilities

Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:

i) Government	10,167,440	10,391,648
ii) Banking companies and other financial institutions	381,805	2,810,032
iii) Others	4,081,842	1,431,547
	<u>14,631,087</u>	<u>14,633,227</u>

### 15.3 Trade-related contingent liabilities

#### Letters of credit

i) Government	4,951,658	3,968,244
ii) Banking companies and other financial institutions	-	-
iii) Others	14,025,189	14,650,767
	<u>18,976,847</u>	<u>18,619,011</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>33,549,215</u>	<u>32,976,476</u>

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.

- iv) Income tax assessments of the Bank have been finalised upto the tax year 2011 (Accounting year 2010).

# FAYSAL BANK LIMITED

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

The tax department and the Bank have disagreements on various matters for tax years from 1994 to 2011. These include disallowance on certain matters that include initial depreciation on leases, provision for bad debts, bad debts written off, taxability of dividend, excess perquisites and certain other allocation of expenses 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 2,126.110 million. The management of the Bank is confident that the decision in respect of these matters will be decided in the Bank's favour and accordingly no provision has been made in these financial statements in respect of this liability.

### 15.5 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, 2012	Audited December 31, 2011
	Rupees '000	
<b>15.6 Commitments in respect of forward exchange contracts</b>		
Purchase		
- Customers	1,730,851	1,898,402
- Banks	17,976,470	24,112,367
	19,707,321	26,010,769
Sale		
- Customers	213,800	289,437
- Banks	9,054,128	6,503,424
	9,267,928	6,792,861
<b>15.7 Commitments for the acquisition of operating fixed assets</b>	256,569	147,586
<b>15.8 Commitments in respect of repo transactions</b>		
Repurchase	18,579,272	21,948,460
Resale	286,477	271,781
<b>15.9 Other Commitments</b>		
Interest rate swaps and cross currency swaps (notional principal)	26,842,521	39,741,708

### 16 EARNINGS PER SHARE

	Un-audited			
	For the quarter ended		For the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees in '000			
Profit after tax for the period	623,045	498,866	1,128,338	1,292,614
	Number of shares in thousands			
Weighted average number of ordinary shares	824,312	824,312	824,312	824,312
	Rupees			
Earnings per share - basic	0.76	0.61	1.37	1.57

- 16.1** Diluted earnings per share has not been presented as the Bank does not have any convertible instruments in issue at September 30, 2012 and September 30, 2011 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.

During the current period, the Bank has adjusted Rs 175.332 million - net of tax (gross of Rs 269.741 million) against this reserve which represents provision relating to acquired portfolio of RBS identified in the recent inspection being carried out by the SBP. In addition, amortisation (net of tax) of intangible asset during the current period amounting to Rs 93.650 million (Year ended December 31, 2011: Rs 129.747 million) has also been adjusted against this reserve.

**18 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
- 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
	----- Rupees '000 -----				
<b>For the nine months ended September 30, 2012</b>					
Total income - net	124,736	1,028,158	7,254,379	2,339,611	10,746,884
Total expenses	(26,898)	(777,683)	(6,399,028)	(1,825,886)	(9,029,495)
Net income	97,838	250,475	855,351	513,725	1,717,389
<b>As at September 30, 2012</b>					
Segment assets (Gross)	-	87,775,790	65,561,233	167,971,426	321,308,449
Segment non performing loans	-	-	14,815,488	12,795,493	27,610,981
Segment provision required against loans	-	-	(13,018,329)	(5,072,748)	(18,091,077)
Segment liabilities	(6,000)	(73,127,119)	(54,468,569)	(151,831,739)	(279,433,427)
Segment return on assets (ROA) (%) *	-	0.22%	0.73%	0.23%	
Segment cost of funds (%) *	-	12.35%	6.86%	10.60%	



# FAYSAL BANK LIMITED

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

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
<b>For the nine months ended September 30, 2011</b>					
<b>Rupees '000</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)
Net income / (loss)	139,248	1,155,772	(553,504)	1,134,140	1,875,656
<b>For the year ended December 31, 2011</b>					
Total income - net	187,400	1,043,963	8,497,921	3,547,439	13,276,723
Total expenses	(41,729)	(523,359)	(10,309,239)	(924,305)	(11,798,632)
Net income / (loss)	145,671	520,604	(1,811,318)	2,623,134	1,478,091
<b>As at December 31, 2011</b>					
Segment assets (Gross)	-	93,137,280	61,603,043	157,500,848	312,241,171
Segment non performing loans	-	-	5,507,984	20,536,135	26,044,119
Segment provision required against loans	-	-	(2,286,174)	(15,035,161)	(17,321,335)
Segment liabilities	(13,994)	(35,461,389)	(191,942,987)	(45,936,297)	(273,354,667)
Segment return on assets (ROA) (%)	-	0.66%	4.85%	1.70%	
Segment cost of funds (%)	-	13.03%	7.20%	11.45%	

\* 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 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 transaction 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:

<b>September 30, 2012 (Un-audited)</b>					
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies (including associated undertakings)
<b>Rupees '000</b>					
<b>Deposits</b>					
Balance at the beginning of the period	105,537	12,500	480	3,140	29,871
Placements during the period	1,791,210	1,162,504	-	361,211	32,813,515
Withdrawals during the period	(1,786,649)	(1,167,542)	(480)	(360,722)	(32,711,768)
Balance at end of the period	110,098	7,462	-	3,629	131,618
<b>Advances</b>					
Balance at the beginning of the period	40,266	-	-	-	2,854,555
Disbursements during the period	11,027	-	-	-	5,630,140
Repayments during the period	(30,566)	-	-	-	(305,522)
Balance at end of the period	20,727	-	-	-	8,179,173

# FAYSAL BANK LIMITED

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

### December 31, 2011 (Audited)

	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies (including associated undertakings)
	Rupees '000				
<b>Deposits</b>					
Balance at the beginning of the year	77,365	1,645,448	492	479	533,884
Placements during the year	1,741,336	2,478,007	500	413,456	53,499,950
Withdrawals during the year	(1,713,164)	(4,110,955)	(512)	(410,795)	(54,003,963)
Balance at end of the year	105,537	12,500	480	3,140	29,871

### Advances

Balance at the beginning of the year	50,788	-	-	-	2,816,363
Disbursements during the year	5,667	-	-	-	1,132,279
Repayments during the year	(16,189)	-	-	-	(1,094,087)
Balance at end of the year	40,266	-	-	-	2,854,555

Balances pertaining to parties that were related at the beginning of the year but ceased to be so related during any part of the current period are not reflected as part of the closing balance. The same are accounted for through the movement presented above.

### September 30, 2012 (Un-audited)

	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies (including associated undertakings)
	Rupees '000				
Shares / Units purchased during the period	-	-	-	-	602,650
Shares / Units sold during the period	-	-	-	-	686,736
Profit paid / accrued	2,435	2,539	-	192	2,699
Profit return / earned	2,160	-	-	-	400,742
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	191,672	-	-	-	-
- Post-employment benefits	9,360	-	-	-	-
Contribution to staff retirement benefits	-	183,596	-	-	-
Guarantees issued favouring related parties or on their behalf	-	-	-	-	29,397
Advisory fee	-	-	-	16,853	-

### September 30, 2011 (Un-audited)

	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies (including associated undertakings)
	Rupees '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	717
Profit return / earned	1,840	-	-	-	77,901
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 favouring related parties or on their behalf	-	-	-	-	25,000

Third quarter ended September 30, 2012

# FAYSAL BANK LIMITED

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

### 20 ISLAMIC BANKING BUSINESS

The Bank is operating 51 Islamic banking branches (2011: 45). The statement of financial position as at September 30, 2012 is as follows:

	Un-audited September 30, 2012	Audited December 31, 2011
	Rupees '000	
<b>ASSETS</b>		
Cash and balances with treasury banks	1,380,605	1,089,800
Balances with and due from financial Institutions	89,765	173,799
Investments	14,605,983	5,586,837
Financing and receivables		
- Murabaha	1,329,775	1,751,249
- Ijara	8,102	11,529
- Musharaka	-	-
- Diminishing Musharaka	3,519,816	3,211,551
- Salam	-	-
- Other Islamic Modes	-	-
Other assets	580,621	826,814
	21,514,667	12,651,579
<b>LIABILITIES</b>		
Bills payable	216,611	109,401
Due to financial institutions	1,000,000	-
Deposits and other accounts		
- Current Accounts	5,346,704	3,995,751
- Saving Accounts	3,830,985	2,341,187
- Term Deposits	5,351,591	3,577,293
- Others	39,691	23,151
- Deposits from financial institutions - remunerative	2,039,207	1,018,868
- Deposits from financial institutions - non-remunerative	8,320	21,235
Due to head office	2,449,479	577,834
Other liabilities	179,972	181,862
	20,462,560	11,846,582
<b>NET ASSETS</b>	1,052,107	804,997
<b>REPRESENTED BY</b>		
Islamic Banking Fund	880,000	880,000
Reserves	-	-
Unappropriated profit / (loss)	50,544	(94,727)
	930,544	785,273
Surplus / (Deficit) on revaluation of assets- net of tax	121,563	19,724
	1,052,107	804,997
<b>Remuneration to shariah advisor</b>	1,885	2,171
<b>CHARITY FUND</b>		
Opening balance	1,778	67
Additions during the period / year	777	2,761
Payments / utilization during the period / year	(2,330)	(1,050)
Closing balance	225	1,778

**21 DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorised for issue on October 30, 2012 by the Board of Directors of the Bank.

**21.1 Non Adjusting Events**

The Board of Directors in its meeting held on October 30, 2012 has proposed a bonus issue of 12.5% (2011:12.5%)

**22 GENERAL**

**22.1** 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.

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

**PRESIDENT & CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

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

111 06 06 06  
[www.faysalbank.com](http://www.faysalbank.com)