



faysalbank

بصیرت

2014

THIRD QUARTER
ENDED SEPTEMBER 30, 2014
UNAUDITED FINANCIAL STATEMENTS

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Triumph

Success is a mere milestone for the courageous. Committed to a glorious future, he thrives on the lessons of his past. On his quest for challenge, he's driven by his ambition always.

سامنے رکھتا ہوں اس دور نشاط افزا کو میں
دیکھتا ہوں دوش کے آئینے میں فردا کو میں
اقبال



CORPORATE INFORMATION

Board of Directors

Farooq Rahmatullah	Chairman
Ahmed Abdulrahim Mohamed Abdulla Bucheery	Vice Chairman
Nauman Ansari	President & CEO
Mian Muhammad Younis	Director
Juma Hasan Ali Abul	Director
Imtiaz Ahmad Pervez	Director
Tawfeeq Mohamed Mohamed Rafeea Bastaki	Director
Muhammad Wasif Ijlal	Director

Board Audit & Corporate Governance Committee (BACGC)

Mian Muhammad Younis	Chairman
Ahmed Abdulrahim Mohamed Abdulla Bucheery	Member
Juma Hasan Ali Abul	Member

Board Risk Management Committee (BRMC)

Imtiaz Ahmad Pervez	Chairman
Tawfeeq Mohamed Mohamed Rafeea Bastaki	Member
Nauman Ansari	Member

Recruitment Nomination and Remuneration Committee (RNRC)

Ahmed Abdulrahim Mohamed Abdulla Bucheery	Chairman
Juma Hasan Ali Abul	Member
Farooq Rahmatullah	Member
Nauman Ansari	Member

Board Steering Committee for Conversion of Faysal Bank into Islamic Bank (BSC)

Ahmed Abdulrahim Mohamed Abdulla Bucheery	Chairman
Juma Hasan Ali Abul	Member
Tawfeeq Mohamed Mohamed Rafeea Bastaki	Member
Nauman Ansari	Member

DIRECTORS' REVIEW

On behalf of the Board of Directors, I am pleased to present Financial Statements of Faysal Bank Limited for the nine months ended September 30, 2014.

ECONOMIC UPDATE

The current GDP target of 5.1% looks ambitious and unattainable due to political demonstrations and recent floods. Recent floods, in Punjab alone have inundated 1.2 million hectares of cropped area, especially of rice and sugar cane. The cotton crop will be partially devastated as the water enters South Punjab. If impending losses to Sindh are included then the impact on the GDP growth rate could be more than 1%.

Monetary expansion remained negative in the first quarter of this fiscal year, indicating that limited supply of money can dampen growth prospects. Market believes that the tight monetary policy despite persistent low inflation was the real reason behind the negative monetary expansion which may provide hedge against inflation but may prove as a discouraging factor for economic growth.

The consumer price index (CPI) rose by 7.68% year on year in September, compared with 6.99% in August, according to the Pakistan Bureau of Statistics (PBS). Clearly, the substantial appreciation in the value of the rupee during fiscal year 13/14 has had a favorable impact. Also, international commodities, including oil, prices have been declining. The rupee has started falling again and the inter-bank rate with respect to the dollar has shown a depreciation of 3.7 per cent since the beginning of August. A major area of concern is the recent deterioration in the balance of payments. In the last 12 weeks total reserve declined by USD 1.4 billion from USD 14.63 billion to USD 13.20 billion.

Investor uncertainty stemming from the political protests in August has caused the currency to weaken, but its value against the US dollar is still higher than it was at the beginning of 2014, owing to increase in foreign-exchange inflows during the year. Although continued backing from the IMF and rising workers' remittances will help to support the currency, but several factors will exert downward pressure on its value in the foreseeable future, which includes greater demand for US dollars (stemming from the need to pay for oil imports), making debt payments as and when due, weak GDP growth and the wide fiscal deficit.

Trade figures for August 2014 by the PBS are worrisome. Exports are down by 4%, while imports have shown phenomenal growth of 32%. Consequently, the deficit in the balance of trade has jumped up by a massive 77%. Hopefully, this is an aberration and will not be repeated in coming months.

Unfortunately the floods are expected to contribute to a worsening trade balance. Last time, after the floods of 2010, Pakistan had to make imports of cotton and sugar of almost a billion dollars, mostly from India. Rice exports could also be affected. The Annual Plan has projected a current account deficit of \$2.8 billion in 2014-15; the indications now are of larger number. The two favorable factors namely, lower oil prices and continued buoyancy in home remittances could limit the size of the deficit.

The Fourth Review by the IMF has not yet been completed. This should happen soon if a decline in market confidence is to be avoided. Already, foreign direct investment has dipped and

DIRECTORS' REVIEW

may be further affected with ongoing political agitation and instability.

Pakistan's ability to achieve current fiscal year's budget deficit target of 4.9% also hinges on reforms in the energy and taxation areas. Containing subsidies will be a challenge given overruns in recent years, and success will depend on implementing power sector reforms to raise tariffs enough to meet costs, improve collection, reduce leakage and invest in generation, transmission, and distribution systems.

PERFORMANCE UPDATE

Performance of various business segments is given below:-

Corporate and Investment Banking

The corporate banking continued to play its role of providing finance to promote economic activity in the country. The focus during the quarter was on consolidation of portfolio.

During the period, Investment Banking managed several high profile transactions, some of the notable transactions are highlighted below:

- FBL has successfully closed as Lead Advisor and Arranger a PKR 6.7 billion project financing for setting up of 62.4 MW bagasse based cogeneration power plant in Punjab.
- FBL has successfully closed a jointly mandated PKR 2.3 billion acquisition financing for a pharma group for acquisition of 100% shareholding of another pharma company.
- FBL as a sole Advisor and Arranger closed a mandate of PKR 1,200 million for a large textile Group, based in Faisalabad, to finance purchase of Air Jet Looms and associated machinery for setting up a weaving unit.

Retail Banking Group

Branch Banking's group focus remained on retention and growth of the total deposit book. In this process the bank added PKR 20.42 billion in deposits during the period Jan-Sept 2014 as compared to same period last year. CASA deposit mix stood at 65.7% as of September 2014. During the last one year the Bank managed to increase deposit level from PKR. 246.6 billion to PKR 267.02 billion.

Wealth Management

With the restructured distribution and channel network, enhanced product menus and new business partners all firmly in place, Q3 saw the Wealth Management business enhance its revenue lines. Going forward it will further improve its product menu to cater to our client's needs. The business closed on strong numbers in Q3 in all product segments including Life, Investment and Value Added.

Consumer Finance

The Consumer Finance business continues to build momentum in line with optimizing sales through branches. Our strategic priorities remain penetrating into profitable segments with

DIRECTORS' REVIEW

effective risk management, cost discipline and operating within our regulatory environment. Credit Card and Car Finance products are Bank's flag ship businesses and strive for product innovations, partnership building and portfolio deepening. At a business level we have achieved a 9% growth on revenue while our book too has increased by 9% comparing to the corresponding period.

E-Banking

E-Banking strategic focus has been on innovation and implementation of an effective multi-channel delivery model to drive adhesiveness, maximize channel usage and migrate transactions to low cost and efficient channels; such as Mobit (mobile banking), Debit Card, ATMs and our Contact Center.

Islamic Banking

The Islamic product team has been working closely with the Shariah Scholars, Lawyers and other related stakeholders to offer customized products to their clientele. In line with the same the Istisna Product has been successfully developed and Insha' Allah will be going live shortly in the last quarter of the year 2014.

During 3rd Quarter 2014, Islamic Banking Team worked relentlessly to strengthen its automated pool management system to compliment the growth and comply with regulatory guidelines.

Islamic Banking continues to grow its foot print in 3rd Quarter 2014, and opened its first sub branch at Daska Road Sialkot in July 2014.

Information Technology

The following projects were completed during the quarter:

Faysal Bank is now compliant to the regulatory requirement (FATCA) of SBP. Bank system can now identify the status (US Person, NPFFI, PFFI etc.) of the new customers, review the US status of existing customers for certain indicators (indicia) of US person status etc. and reporting of the same.

SSGC Payments are now automated along with required controls for verification and various recon reports for internal use.

Middle-ware is being developed for integration of various systems across the bank. Initially IT has integrated Bank's 3 major life line banking systems namely: TCSS, iMAL and Symbols, now these are connected with a common Middle-ware. In future, Bank intends to integrate remaining systems.

Virtual Desktop Infra Structure is in progress and 1000+ users have already been migrated. This project is expected to complete by December 2014 and shall assist in reducing cost of the bank.

Oracle HRMS has been successfully upgraded to the latest version and simultaneously integrated with Oracle Financials at substantially reduced cost.

DIRECTORS' REVIEW

Risk Management

The Bank started implementation of its stated strategy to embed the Commercial / SME (CBSME) structure within its branch distribution network. This strategy is expected to bring in distribution efficiency through increased cross-sell to both retail & CBSME customers, enhanced customer reach and improved credit management through better access to customers. Based on this, Commercial Banking and SME teams (both on the front end and within risk function) have been merged under CBSME BU and CBSME Risk respectively.

On Enterprise Risk Management front, the Capital Management unit ensured that the Bank remains compliant with the Basel III guidelines and maintains adequate capital as per SBP regulations. The scope of Market Risk Management Framework has been enhanced with the implementation of "Live Limit Monitoring" dashboard (s) that enabled the Bank to monitor the key market risk limits on real time basis; regular alerts are generated in case the limits enter into "Warning" and "Breach" zones.

An Operational Risk Management (ORM) system has been implemented to further strengthen ORM framework in line with SBP's guidelines. The new System helps in effective management of "identification, assessment, measurement, monitoring and reporting of operational risks" through pre-defined tools i.e. Risk and Controls Self-Assessment (RCSA), Key Risk Indicators (KRI) and Loss Reporting. It will also help in automating manual processes and central bank's reporting.

In line with overall Consumer Finance strategy, Retail Risk Management function paved the way for Consumer Finance business to increase concentration in profitable segments to augment its growth plans, while prudently managing NPLs and operational cost through continuous process reengineering and organizational restructuring.

Overall, in-line with the Bank's focus on rationalizing costs, various strategic initiatives were under taken to enhance staff productivity which helped to maintain the function's cost efficiency.

Learning & Development

Learning and Development offered different programs to staff in the 3rd quarter through blended learning methodologies and trained more than 2400 employees in both classroom and online trainings.

As per the guidelines of the State Bank of Pakistan, the mandatory training on Standardization of Customer's Cheque Layout designed to create awareness among operations team about the upcoming cheque security features, was put to operation. Online training on FATCA procedures was also launched as its classroom sessions continued in the Central and North Regions whereas the quarter also saw the re-launch of Auto Loans for the Branch Distribution team in line with the new organizational structure.

Branch Operation Development Program was organized for operations staff to refresh and improve process knowledge for smooth operations. The trainings on Consumer Finance Product & Policy and Liabilities & Bancassurance Products were also arranged for staff for business appreciation with a view to capacity building of new hires and their exposure to the Bank's policy and procedural requirements. A training session on Agri Policy, Procedure & Regulatory

DIRECTORS' REVIEW

Framework was also successfully conducted.

Other training programs such as Branch Banking Certification Program, Fire Fighting and Disaster Management, iMAL R13 Upgrade Features, Basic Islamic Banking & Barkat Liability Products and Cash Withdrawal Insurance (CWI) were the highlights of the quarter too.

Corporate Social Responsibility

The third quarter witnessed a concentrated effort in the area of education as a result of Waqf Faisal's social activities. Donations were made for those engaged in serving the communities with special emphasis on smaller charities and at the same time contributing also to our core Millennium Development Goals. The key highlight is inclusion of Family Educational Services Foundation and the Society for the Rehabilitation of Special Children into our list of approved charities. Waqf Faisal in healthcare approved the proposals received from Nigahban Welfare Association (Civil Hospital) and Child Aid Association (National Institute of Child Health).

The Waqf also approved sponsorship of 300 students at SOS Technical Training Institute located near Lalabad Goth, Korangi in a bid to help the youth from the local communities to attend technical courses at the institute and find suitable technical jobs based on these courses.

The sponsorship of 33 students with the Helpcare Society was also renewed.

FINANCIAL HIGHLIGHTS

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

	Sep 30, 2014	Sep 30, 2013
	Rs in Million	
Operating profit	3,785	3,132
(Provision) / Reversal for non performing advances	(1,610)	(1,457)
(Provision) / Reversal for diminution in value of investments	(300)	44
	(1,911)	(1,413)
Profit before tax	1,874	1,719
Provision for taxation	(458)	(414)
Profit after tax	1,416	1,305
Earnings per share— Rupees	1.36	1.25

Bank during first nine months of 2014 managed to post a healthy PKR 1,416 million profit as against PKR 1,305 in the corresponding period last year. This achievement is significant as the bank was able to absorb all VSS and BPR related expenses during the year. During the period under review the bank was able to further improve CASA deposits mix from 64.9% to 65.7%. Net margins as a result improved by PKR 2,318 million, from Rs. 7,637 million to Rs.9,955 million.

DIRECTORS' REVIEW

Non funded revenue streams of the Bank remained diversified across the branch banking, consumer asset and corporate portfolios.

Administrative cost, due to one off expenses was higher than the corresponding period last year. Cost rationalization remained one of the primary objectives of the management and measures were taken to control it without affecting service quality and operational efficiency.

The Bank through better risk management and effective remedial measures has been trying to manage non-performing loans. As per instructions of the State Bank of Pakistan, Non-distributable Capital Reserve, created on acquisition of RBS Pakistan Operations, was utilized for withdrawal of Forced Sales Value (FSV) benefit relating to ex-RBS non-performing loans. Consequent to this, provision coverage against non-performing loans increased to 76.8%.

Earning per Share for nine months of 2014 was PKR 1.36 as against last year earnings of PKR 1.25.

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, 2013:

Long-Term AA

Short-Term A1+

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

ACKNOWLEDGEMENT

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

On behalf of the Board of Directors

Karachi

President & CEO

Dated: October 22, 2014

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2014

	Note	Un-audited September 30, 2014	Audited December 31, 2013
		----- Rupees '000 -----	
ASSETS			
Cash and balances with treasury banks		19,239,517	28,422,497
Balances with other banks	9	1,068,499	1,011,980
Lendings to financial institutions		6,760,789	300,000
Investments	10	108,536,933	113,319,478
Advances	11	174,548,288	184,190,304
Operating fixed assets	12	9,911,680	10,250,910
Deferred tax assets - net		4,424,989	3,980,541
Other assets	13	14,221,821	13,803,997
		338,712,516	355,279,707
LIABILITIES			
Bills payable		5,560,951	4,968,610
Borrowings		31,852,350	45,446,528
Deposits and other accounts	14	267,084,908	271,134,303
Sub-ordinated loans		3,245,300	3,495,400
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		8,943,437	8,068,673
		316,686,946	333,113,514
NET ASSETS		22,025,570	22,166,193
REPRESENTED BY			
Share capital		10,432,697	10,432,697
Reserves		5,238,980	6,554,197
Unappropriated profit		5,129,590	3,600,828
		20,801,267	20,587,722
Surplus on revaluation of assets - net of tax		1,224,303	1,578,471
		22,025,570	22,166,193
CONTINGENCIES AND COMMITMENTS			

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The annexed notes 1 to 23 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

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CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2014

Note	Quarter ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
----- Rupees '000 -----				
Mark-up / return / interest earned	7,873,968	7,078,532	23,553,740	20,469,530
Mark-up / return / interest expensed	4,598,054	3,918,700	13,598,266	12,832,043
Net mark-up / interest income	3,275,914	3,159,832	9,955,474	7,637,487
Provision against non-performing loans and advances - net	11.2 362,386	648,553	1,679,888	1,289,573
Provision for consumer loans (general) - net	11.3 (4,417)	37,997	30,951	95,682
Provision against off balance sheet obligations	-	(2,795)	-	4,186
Provision / (reversal of provision) for diminution in the value of investments - net	10.7 95,882	150,901	300,083	(43,650)
Recoveries against written-off debts - net	(15,265)	100,212	(100,391)	67,165
	438,586	934,868	1,910,531	1,412,956
Net mark-up / interest income after provisions	2,837,328	2,224,964	8,044,943	6,224,531
Non mark-up / interest income				
Fee, commission and brokerage income	468,392	675,300	1,600,251	1,746,842
Dividend income	21,400	42,866	157,567	470,129
Income from dealing in foreign currencies	282,484	176,704	896,947	550,757
Gain / (loss) on sale of securities - net	24,847	105,180	155,472	307,002
Unrealised loss on revaluation of investments classified as held for trading	45,905	(67,301)	8,277	(84,511)
Other income	128,932	422,591	358,307	605,383
Total non mark-up / interest income	971,960	1,355,340	3,176,821	3,595,602
	3,809,288	3,580,304	11,221,764	9,820,133
Non mark-up / interest expenses				
Administrative expenses	16 2,793,348	2,848,423	9,349,585	7,991,590
(Reversal of other provisions) / other provisions - net	(11,772)	(74,749)	(48,657)	16,021
Other charges	21,148	11,030	45,317	93,132
Total non mark-up / interest expenses	2,802,724	2,784,704	9,346,245	8,100,743
	1,006,564	795,600	1,875,519	1,719,390
Share of profit of associate	(2,146)	-	(2,082)	-
Extraordinary / unusual items	-	-	-	-
Profit before taxation	1,004,418	795,600	1,873,437	1,719,390
Taxation - Current	354,442	406,399	967,939	755,434
Taxation - Prior years	-	-	(142,629)	(90,309)
Taxation - Deferred	(26,271)	(160,924)	(367,661)	(250,514)
	328,171	245,475	457,649	414,611
Profit after taxation	676,247	550,125	1,415,788	1,304,779
----- Rupees -----				
Basic earnings per share	17 0.65	0.53	1.36	1.25

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

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CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2014

	For the quarter ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	Rupees '000			
Profit after tax for the period	676,247	550,125	1,415,788	1,304,779
Other comprehensive income:				
Items that will not be reclassified to profit and loss account				
Components of comprehensive income reflected in equity				
- Remeasurements of defined benefit plan	-	-	82,414	-
- Deferred tax liability on remeasurements of defined benefit plan	-	-	(28,845)	-
	-	-	53,569	-
Comprehensive income transferred to equity	676,247	550,125	1,469,357	1,304,779
Items that may be reclassified subsequently to profit and loss account				
Components of comprehensive income not reflected in equity				
- Net change in value of available for sale securities	(416,580)	(1,810,579)	(349,969)	(1,449,482)
- Deferred tax asset / (liability) on change in value of available for sale securities - net	69,888	672,208	55,205	517,601
	(346,692)	(1,138,371)	(294,764)	(931,881)
Total comprehensive income	329,555	(588,246)	1,174,593	372,898

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

	Share capital	Reserves				Statutory reserve	Total	Unappropriated profit	Total
		Capital			Reserve arising on amalgamation				
		Reserve for issue of bonus shares	Share premium	Non-distributable Capital Reserve (NCR) - gain on bargain purchase (note 18)					
Rupees '000									
Balance as at January 1, 2013 (Audited)	9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,205,439	18,788,030
Profit after tax for the period ended September 30, 2013	-	-	-	-	-	-	-	1,304,779	1,304,779
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Transfer from surplus on revaluation of fixed assets	-	-	-	-	-	-	-	59,814	59,814
Balance as at September 30, 2013	9,273,508	-	10,131	2,509,125	23,952	3,672,225	6,215,433	4,570,032	20,058,973
Profit after tax for the period from October 1, 2013 to December 31, 2013	-	-	-	-	-	-	-	545,127	545,127
Other comprehensive income for the year									
- Remeasurements of defined benefit plan	-	-	-	-	-	-	-	(7,005)	(7,005)
- Tax on remeasurements of defined benefit plan	-	-	-	-	-	-	-	2,452	2,452
	-	-	-	-	-	-	-	(4,553)	(4,553)
Transactions with owners recognised directly in equity									
- Transfer to reserve for issue of bonus shares	-	1,159,189	-	-	-	-	1,159,189	(1,159,189)	-
- Bonus shares issued	1,159,189	(1,159,189)	-	-	-	-	(1,159,189)	-	-
	1,159,189	-	-	-	-	-	-	(1,159,189)	-
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Transfer to statutory reserve	-	-	-	-	-	369,981	369,981	(369,981)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	19,392	19,392
Balance as at December 31, 2013	10,432,697	-	10,131	2,477,908	23,952	4,042,206	6,554,197	3,600,828	20,587,722
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Profit after tax for the period ended September 30, 2014	-	-	-	-	-	-	-	1,415,788	1,415,788
Other comprehensive income for the year									
- Remeasurements of defined benefit plan	-	-	-	-	-	-	-	82,414	82,414
- Tax on remeasurements of defined benefit plan	-	-	-	-	-	-	-	(28,845)	(28,845)
	-	-	-	-	-	-	-	53,569	53,569
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	59,405	59,405
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve	-	-	-	(1,221,567)	-	-	(1,221,567)	-	(1,221,567)
Balance as at September 30, 2014	10,432,697	-	10,131	1,162,691	23,952	4,042,206	5,238,980	5,129,590	20,801,267

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

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CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

	September 30, 2014	September 30, 2013
	----- Rupees '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,873,437	1,719,390
Less: dividend income	(157,567)	(470,129)
	<u>1,715,870</u>	<u>1,249,261</u>
Adjustments for non-cash and other items:		
Depreciation	534,283	585,435
Amortisation	133,679	99,064
Workers' Welfare Fund	55,025	35,301
Provision against non-performing loans and advances - net	1,679,888	1,289,573
Provision for consumer loans (general) - net	30,951	95,682
Provision/ (reversal) of provision for diminution in value of investments - net	300,083	(43,650)
(Reversal of other provisions) / provision for other assets	(48,657)	16,021
Provision against off balance sheet obligations	-	4,186
Unrealised loss on revaluation of investments classified as held for trading	(8,277)	84,511
Net profit on disposal of property and equipment	(14,134)	(18,088)
Net profit on disposal of non-banking assets	(82,376)	(80,604)
Charge for defined benefit plan	74,076	70,606
Amortisation of prepaid employee benefits	101,961	128,740
Recoveries against written-off debts - net	(100,391)	67,165
Share of profit of associate	2,082	-
	<u>2,658,193</u>	<u>2,333,942</u>
	<u>4,374,063</u>	<u>3,583,203</u>
(Increase) / decrease in operating assets		
Lendings to financial institutions	(6,460,789)	(300,000)
Held for trading securities	2,233,548	(5,214,263)
Advances	6,810,001	(11,657,873)
Other assets	(540,849)	562,971
	<u>2,041,911</u>	<u>(16,609,165)</u>
(Decrease) / increase in operating liabilities		
Bills payable	592,341	1,521,134
Borrowings	(12,972,888)	(5,409,425)
Deposits and other accounts	(4,049,395)	5,994,273
Other liabilities	874,790	(358,153)
	<u>(15,555,152)</u>	<u>1,747,829</u>
	<u>(9,139,178)</u>	<u>(11,278,133)</u>
Income tax paid	(1,004,711)	(1,376,640)
Contribution to gratuity fund	-	(70,606)
Net cash generated from operating activities	<u>(10,143,889)</u>	<u>(12,725,379)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	21,269,217	13,795,572
Net investment in held to maturity securities	(19,364,076)	(445,475)
Dividend income received	140,190	449,717
Investment in operating fixed assets	(501,784)	(388,915)
Proceeds realised on disposal of operating fixed assets	43,109	119,881
Proceeds realised on disposal of non-banking assets	302,188	-
Net cash used in investing activities	<u>1,888,844</u>	<u>13,530,780</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of sub-ordinated loan	(250,100)	(449,501)
Dividends paid	(26)	(4,502)
Net cash used in financing activities	<u>(250,126)</u>	<u>(454,003)</u>
Decrease in cash and cash equivalents	<u>(8,505,171)</u>	<u>351,398</u>
Cash and cash equivalents at beginning of the period	28,617,034	25,693,981
Cash and cash equivalents at end of the period	<u>20,111,863</u>	<u>26,045,379</u>

The annexed notes 1 to 23 form an integral part of this condensed interim financial information.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Faysal Bank Limited (the Bank) was incorporated in Pakistan on October 3, 1994 as a public limited company under the provisions of the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is mainly engaged in Corporate, Commercial and Consumer banking activities. The Bank has a network of 270 branches (December 31, 2013: 269); including 53 Islamic banking branches (December 31, 2013: 53) and 1 Islamic sub-branch (December 31, 2013: Nil) in Pakistan.

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

Ithmaar Bank B.S.C., a Bahrain based retail bank, is the parent company of the Bank, holding, directly and indirectly through subsidiaries 66.78% (2013: 66.78%) of the shareholding of the Bank. Dar Al-Maal Al-Islami Trust (DMI), (ultimate parent of the Bank) is the holding company of Ithmaar Bank B.S.C. The DMI group owns and operates an international network of Islamic Banks, Investments Banks and Insurance Companies.

- 1.2 Based on the financial statements of the Bank for the year ended December 31, 2013, the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited have determined the Bank's long-term rating as 'AA' and the short term rating as 'A1+'.

2 BASIS OF PRESENTATION

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

The condensed interim financial information of the Islamic banking branches have been consolidated in this condensed interim financial information for reporting purposes only. Inter branch transactions and balances have been eliminated. In accordance with the directives issued by the SBP, the statement of financial position of Islamic banking branches is disclosed in note 21 to this condensed interim financial information.

3 STATEMENT OF COMPLIANCE

- 3.1 This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan. The approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, 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, the Banking Companies Ordinance, 1962, IFAS notified by the SECP or the directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, 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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

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, 2013.

- 3.6** Standards, interpretations and amendments to published approved accounting standards that are effective in the current period

The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants of Pakistan. IFAS 3 shall be followed by the Bank for the purpose of preparation of the financial statements for the year ending December 31, 2014 while accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard is effective from current period and has no material impact on this condensed interim financial information except for disclosure relating to deposits as noted in 14.1. The standard would result in certain new disclosures in the annual financial statements for the year ending December 31, 2014.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in this condensed interim financial information.

4 BASIS OF MEASUREMENT

This condensed interim financial information has been prepared under the historical cost convention, except that certain fixed assets are carried at revalued amounts and certain investments and derivative contracts have been marked to market and are carried at fair value. In addition, obligation in respect of staff retirement benefit is carried at present value and investments in associate is carried using the equity method.

5 FUNCTIONAL AND PRESENTATION CURRENCY

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2013.

7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis and the methods used for critical accounting estimates and judgments adopted in this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2013.

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, 2013.

9 BALANCES WITH OTHER BANKS

	Un-audited September 30, 2014	Audited December 31, 2013
	Rupees '000	
In Pakistan		
- Current accounts	391,302	544,138
Outside Pakistan		
- Current accounts	677,197	415,180
- Deposit account	-	52,662
	<u>1,068,499</u>	<u>1,011,980</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

10 INVESTMENTS

10.1 Investments by type

Note	Un-audited September 30, 2014			Audited December 31, 2013		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees '000						
Held for trading securities						
Market Treasury Bills	6,142,261	-	6,142,261	7,195,165	1,031,758	8,226,923
Pakistan Investment Bonds	90,608	-	90,608	-	-	-
Fully paid up ordinary shares / certificates of closed end mutual funds	222,282	-	222,282	461,776	-	461,776
	6,455,151	-	6,455,151	7,656,941	1,031,758	8,688,699
Available for sale securities						
Market Treasury Bills	16,844,860	5,672,316	22,517,176	39,771,651	22,593,710	62,365,361
Pakistan Investment Bonds	34,767,348	-	34,767,348	19,280,139	-	19,280,139
Ijara Sukuk Bonds	17,579,061	-	17,579,061	15,038,802	-	15,038,802
Units of open end mutual funds						
- Faysal Balanced Growth Fund *	12,480	-	12,480	12,480	-	12,480
- Faysal Income Growth Fund *	62,919	-	62,919	62,919	-	62,919
- Faysal Savings Growth Fund *	155,412	-	155,412	100,411	-	100,411
- Faysal Islamic Savings Growth Fund *	85,000	-	85,000	88,000	-	88,000
- Faysal Money Market Fund *	590,000	-	590,000	745,000	-	745,000
- Faysal Asset Allocation Fund *	15,491	-	15,491	15,491	-	15,491
- Faysal Financial Sector Opportunity Fund *	54,000	-	54,000	54,000	-	54,000
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	2,706,559	-	2,706,559	2,025,629	-	2,025,629
Fully paid up preference shares	197,490	-	197,490	197,652	-	197,652
Term finance certificates	934,004	-	934,004	960,273	-	960,273
	74,004,624	5,672,316	79,676,940	78,352,447	22,593,710	100,946,157
Held to maturity securities						
Term finance certificates	2,836,273	-	2,836,273	3,033,053	-	3,033,053
Sukuk Bonds	3,355,166	-	3,355,166	3,356,434	-	3,356,434
Pakistan Investment Bonds	19,562,124	-	19,562,124	-	-	-
	25,753,563	-	25,753,563	6,389,487	-	6,389,487
Fully paid up ordinary shares of Faysal Asset Management Limited	73,747	-	73,747	75,829	-	75,829
Investments	106,287,085	5,672,316	111,959,401	92,474,704	23,625,468	116,100,172
Less: provision for diminution in the value of investments	(2,730,912)	-	(2,730,912)	(2,430,829)	-	(2,430,829)
Investments (net of provisions)	103,556,173	5,672,316	109,228,489	90,043,875	23,625,468	113,669,343
Deficit on revaluation of held for trading securities - net	(6,613)	-	(6,613)	(14,417)	(474)	(14,891)
Deficit on revaluation of available for sale securities - net	(683,587)	(1,356)	(684,943)	(325,107)	(9,867)	(334,974)
Total investments at market value	102,865,973	5,670,960	108,536,933	89,704,351	23,615,127	113,319,478

* related parties

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

- 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, 2014 would have been higher by Rs 50 million (December 31, 2013: Rs 50 million) and the profit before taxation for the period ended September 30, 2014 would have been lower by Rs 50 million (December 31, 2013: Rs 50 million).
- 10.3** These include the term finance certificates and Sukuk Bonds of Rs 999.172 million (December 31, 2013: Rs 999.172 million) and Rs 500 million (December 31, 2013: Rs 500 million) respectively issued by Agritech Limited. The impact of relaxation availed by the Bank for maintaining the provision against these investments is disclosed in note 11.2.1 to this condensed interim financial information.
- 10.4** These include 8,868,843 equity shares (December 31, 2013: 8,868,843) valuing Rs 310.410 million of Agritech Limited acquired at the rate of Rs. 35 each as part of a debt share swap agreement with Azgard Nine Limited. The impact of relaxation availed by the Bank for impairment against these shares is disclosed in note 11.2.1 to this condensed interim financial information.
- 10.5** These include an investment of the Bank in unlisted shares of DHA Cogen Limited (DHA) (a related party of the bank) representing 19.1% equity holding of DHA. During 2013, the Bank has acquired additional equity shares of 9.35% by exercising its right over pledged shares after eventual non-compliance by DHA in respect of 'Rehabilitation and Standstill Agreement' made between the consortium banks (including FBL) and DHA for repayment of liabilities.
- 10.6** The Bank does not prepare consolidated financial statements as it does not have any subsidiary company as at September 30, 2014. Accordingly, investment of the Bank in Faysal Asset Management Limited (FAML) has been accounted for under the equity method of accounting as per the requirement of IAS 28. The Bank's share of post acquisition profit or loss is recognised using the latest available financial statements of FAML which relate to the year ended September 30, 2014 with a corresponding adjustment to the carrying amount of investment. The details of the Bank's investment, post acquisition changes and certain other details relating to FAML are as under:

	Un-audited September 30, 2014	Audited December 31, 2013
	----- Rupees '000 -----	-----
10.6.1 Faysal Asset Management Limited - percentage holding 30% (December 31, 2013: 30%)		
At January 1	75,829	69,172
Post acquisition changes during the period / year - Recognised in the profit and loss account	(2,082)	6,657
Closing Balance	<u>73,747</u>	<u>75,829</u>
Cost of Investment	<u>45,000</u>	<u>45,000</u>
10.6.2 Particulars of the assets and liabilities of the associate		
Assets	<u>271,916</u>	<u>282,478</u>
Liabilities	<u>26,281</u>	<u>29,714</u>
Revenue	<u>79,029</u>	<u>145,596</u>
Profit	<u>(6,941)</u>	<u>22,189</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

		Un-audited September 30, 2014	Audited December 31, 2013
		----- Rupees '000 -----	
10.7 Particulars of provision for diminution in the value of investments			
Opening balance		2,430,829	2,319,786
Charge during the period / year		423,178	663,826
Reversals during the period / year		(123,095)	(552,783)
		300,083	111,043
Closing balance		2,730,912	2,430,829
11 ADVANCES			
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1	183,243,821	188,593,008
Net investment in finance lease – in Pakistan		11,236,235	10,085,694
		194,480,056	198,678,702
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		2,027,555	4,319,771
Payable outside Pakistan		1,022,385	1,234,513
		3,049,940	5,554,284
Margin financing / reverse repo transactions		101,533	110,200
Gross advances		197,631,529	204,343,186
Provision against non-performing advances	11.1 & 11.2	(22,645,925)	(19,746,517)
Provision against consumer loans - general	11.3 & 11.3.1	(437,316)	(406,365)
		(23,083,241)	(20,152,882)
Advances - net of provision	11.4	174,548,288	184,190,304

11.1 Advances includes Rs. 29,505 million (December 31, 2013: Rs. 27,619 million) which have been placed under non-performing status as detailed below:

		September 30, 2014 (Un-audited)								
Particulars	Note	Classified Advances			Provision required			Provision held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
----- Rupees '000 -----										
Category of classification										
Other Assets Especially										
Mentioned (OAEM)	11.1.1	417,986	-	417,986	42	-	42	42	-	42
Substandard		3,373,764	-	3,373,764	476,444	-	476,444	476,444	-	476,444
Doubtful		1,538,517	-	1,538,517	566,774	-	566,774	566,774	-	566,774
Loss		24,174,649	-	24,174,649	21,602,665	-	21,602,665	21,602,665	-	21,602,665
		29,504,916	-	29,504,916	22,645,925	-	22,645,925	22,645,925	-	22,645,925

		December 31, 2013 (Audited)								
Particulars	Note	Classified Advances			Provision required			Provision held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
----- Rupees '000 -----										
Category of classification										
Other Assets Especially										
Mentioned (OAEM)	11.1.1	408,606	-	408,606	2,465	-	2,465	2,465	-	2,465
Substandard		1,826,072	-	1,826,072	364,859	-	364,859	364,859	-	364,859
Doubtful		2,871,259	-	2,871,259	996,059	-	996,059	996,059	-	996,059
Loss		22,512,682	-	22,512,682	18,383,134	-	18,383,134	18,383,134	-	18,383,134
		27,618,619	-	27,618,619	19,746,517	-	19,746,517	19,746,517	-	19,746,517

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

11.1.1 This represents non-performing portfolio of agricultural and small enterprise financing classified as OAEM as per the requirements of the Prudential Regulations for agricultural and small enterprise financing issued by the SBP.

Note	Un-audited September 30, 2014	Audited December 31, 2013
	----- Rupees '000 -----	
11.2 Particulars of provision against non-performing advances		
Opening balance	19,746,517	18,268,251
Charge for the period / year	2,215,701	3,825,655
Reversals during the period / year	(535,813)	(1,920,114)
Net charge	1,679,888	1,905,541
Provision against non-performing loans and advances directly charged during the period to equity and adjusted against Non-distributable Capital Reserve	18 1,221,567	-
	2,901,455	1,905,541
Amounts written off	(2,047)	(427,275)
Closing balance	22,645,925	19,746,517

11.2.1 These include classified advances of Rs 350 million disbursed to Agritech Limited (AGL). In addition, as disclosed in notes 10.3 and 10.4, the Bank had also made investments in term finance certificates, sukuk bonds and equity shares of Rs 999.172 million, Rs 500 million and Rs 310.410 million respectively of AGL. In accordance with the requirements of the approved accounting standards as applicable in Pakistan and the Prudential Regulations issued by the SBP, the Bank was required to maintain a provision of Rs 2,063.192 million (net of FSV benefit) as at September 30, 2014 against the above exposure of AGL. The required provision has not been fully made by the Bank as the SBP has given relaxation to the Bank in maintaining provision against the outstanding exposure of AGL. The Bank is required to make the provisions against the outstanding exposure (including investment in equity shares) of at least 70%, 75%, 80%, 85%, 90% and 100% of the required provision as at September 30, 2014, December 31, 2014, March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015 respectively. The Bank has availed the relaxation provided by the SBP and has recorded total provision of Rs 1,444.235 million - net of FSV benefit (including impairment loss of Rs 166.007 million) (December 31, 2013: Rs 986.408 million - net of FSV benefit including impairment loss of Rs 103.855 million).

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower by Rs 618.957 million and the provision against advances and investments would have been higher by Rs 103.022 million and Rs 515.935 million respectively.

11.2.2 As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs. 2,767.924 million [Rs 2,740.424 million (December 31, 2013: Rs 3,601.242 million) relating to advances and Rs. 27.500 million (December 31, 2013: Rs 76.914 million) relating to investments] while determining the provisioning requirement against non-performing financing (including investments) as at September 30, 2014. The additional profit arising from availing the FSV benefit - net of tax as at September 30, 2014 which is not available for distribution as either cash or stock dividend to shareholders amounted to approximately Rs 1,799.150 million (December 31, 2013: Rs 2,390.801 million).

	Un-audited September 30, 2014	Audited December 31, 2013
	----- Rupees '000 -----	
11.3 Particulars of provision against consumer loans - general		
Opening balance	406,365	283,819
Charge during the period / year	30,951	122,546
Closing balance	437,316	406,365

11.3.1 The Bank maintains general provision in accordance with the following applicable requirements of the Prudential Regulations for Consumer Financing and Prudential Regulations for Small and Medium Enterprise Financing issued by the SBP.

	Secured	Unsecured
Consumer portfolio	1.5%	5.0%
Small enterprise portfolio	1.0%	2.0%

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

- 11.4** Although the Bank has made provision against its non-performing portfolio as per the category of classification of the loans, however, the Bank still holds enforceable collateral against certain non-performing loans in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade, etc.

	Un-audited	
	For the nine months ended	
	September 30, 2014	September 30, 2013
	Rupees '000	

12 OPERATING FIXED ASSETS

12.1 Additions to operating fixed assets - cost

Leasehold property and improvements	120,541	72,518
Office furniture, fixtures, equipment and computers	64,511	390,740
Vehicles	33,406	54,945
Capital work-in-progress	213,519	366,163

12.2 Additions to Intangibles

Software	70,010	387,490
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12.3 Disposals of operating fixed assets - cost

Leasehold property and improvements	7,000	3,554
Office furniture, fixtures, equipment and computers	3,295	13,874
Vehicles	12,042	4,904

13 OTHERASSETS

These include non-banking assets acquired in satisfaction of claims amounting to Rs 2,085.199 million (December 31, 2013: Rs 2,305.011 million).

	Un-audited September 30, 2014	Audited December 31, 2013
	Rupees '000	

14 DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	90,431,369	92,803,300
Saving deposits	84,075,848	86,464,689
Current accounts – Remunerative	1,668,713	2,306,983
Current accounts – Non-remunerative	77,475,053	78,787,509
Margin accounts	2,081,639	2,032,215
	255,732,622	262,394,696

Financial institutions

Remunerative deposits	11,084,199	8,467,508
Non-remunerative deposits	268,087	272,099
	11,352,286	8,739,607
	267,084,908	271,134,303

- 14.1** Above includes deposits amounting to Rs 17.930 billion (December 31, 2013: 15.906 billion) which are on Modaraba basis (i.e. classifiable as redeemable capital as defined under IFAS 3).

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

	Un-audited September 30, 2014	Audited December 31, 2013
	----- Rupees '000 -----	
15 CONTINGENCIES AND COMMITMENTS		
15.1 Direct credit substitutes		
Contingent liability in respect of guarantees favouring:		
- Banking companies and other financial institutions	<u>497,543</u>	<u>825,498</u>
Acceptances		
- Others	<u>8,321,170</u>	<u>13,139,248</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:		
- Government	<u>8,187,875</u>	<u>7,382,176</u>
- Banking companies and other financial institutions	<u>2,010</u>	<u>18,777</u>
- Others	<u>1,550,515</u>	<u>2,830,604</u>
	<u>9,740,400</u>	<u>10,231,557</u>
15.3 Trade-related contingent liabilities		
Letters of credit		
- Government	<u>6,271,294</u>	<u>6,903,344</u>
- Others	<u>14,587,708</u>	<u>18,317,222</u>
	<u>20,859,002</u>	<u>25,220,566</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>33,229,222</u>	<u>32,373,712</u>

These mainly represent counter claims filed by the borrowers for restricting the Bank from disposal of assets (such as mortgaged / pledged assets kept as security), cases where the Bank was proforma defendant for defending its interest in the underlying collateral kept by it at the time of financing and certain cases filed by ex-employees of the Bank for damages sustained by them consequent to the termination from the Bank's employment. The above also includes an amount of Rs 25,299 million in respect of a suit filed against the Bank for declaration, recovery of monies, release of securities, rendition of account and damages.

Based on legal advice and / or internal assessments, management is confident that the matters will be decided in the Bank's favour and the possibility of any outcome against the Bank is remote and accordingly no provision has been made in this condensed interim financial information.

(iv) Income tax assessments of the Bank have been finalised upto the tax year 2013 (Accounting year 2012).

The department and the Bank have disagreements on certain matters for tax years from 1994 to 2013. These include disallowance on initial depreciation of leases, provision for bad debts, bad debts written off, provision against investments, taxability of dividend and profit accrued on deposits. The additional tax liability on these matters is Rs 1,734.720 million.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

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

15.5 Commitments to extend credits

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

	Un-audited September 30, 2014	Audited December 31, 2013
	----- Rupees '000 -----	
15.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	1,866,830	1,629,491
- Banks	26,861,578	31,733,550
	<u>28,728,408</u>	<u>33,363,041</u>
Sale		
- Customers	1,592,615	2,337,278
- Banks	12,947,695	12,948,403
	<u>14,540,310</u>	<u>15,285,681</u>
15.7 Commitments for the acquisition of operating fixed assets	<u>234,613</u>	<u>286,323</u>
15.8 Commitments in respect of donations	<u>8,000</u>	<u>8,000</u>
15.9 Commitments in respect of repo transactions		
Repurchase	<u>5,672,886</u>	<u>23,622,480</u>
Resale	<u>6,063,966</u>	<u>299,186</u>
15.10 Others		
Interest rate swaps and cross currency swaps (notional principal)	<u>69,317</u>	<u>20,130,348</u>

16 ADMINISTRATIVE EXPENSES

During the year the Bank offered voluntary staff separation scheme to some of its permanent employees. The Bank has recognised a cost of Rs 472.414 million in this respect. In addition, the consequential impact of this scheme on defined benefit plan has been determined through actuarial valuation carried out during the period, the results of which have been incorporated in this condensed interim financial information and disclosed as remeasurement of defined benefit plan in the condensed interim statement of comprehensive income.

17 EARNINGS PER SHARE

	Un-audited			
	For the quarter ended September 30, 2014	September 30, 2013	For the nine months ended September 30, 2014	September 30, 2013
	----- Rupees '000 -----			
Profit after tax for the period	<u>676,247</u>	<u>550,125</u>	<u>1,415,788</u>	<u>1,304,779</u>
	----- Number of shares in thousands -----			
Weighted average number of ordinary shares	<u>1,043,270</u>	<u>1,043,270</u>	<u>1,043,270</u>	<u>1,043,270</u>
	----- Rupees -----			
Earnings per share - basic	<u>0.65</u>	<u>0.53</u>	<u>1.36</u>	<u>1.25</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

17.1 Diluted earning per share has not been presented as the Bank does not have any convertible instruments in issue at September 30, 2013 and September 30, 2014 which would have any effect on the earning per share if the option to convert is exercised.

18 NON-DISTRIBUTABLE CAPITAL RESERVE - GAIN ON BARGAIN PURCHASE

As per the directive of the State Bank of Pakistan (SBP) through its 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 (ex-RBS Pakistan) was credited directly into equity as Non-Distributable Capital Reserve (NCR). The SBP allowed the Bank to adjust the amortisation of intangible assets 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 ex-RBS Pakistan will be adjusted against the 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 the SBP.

The BID of the SBP had issued a final inspection report in 2013. The report identified an adjustment of Rs 441.757 million which essentially represented the additional provision suggested by the BID in the acquired loans and advances portfolio of the RBS Pakistan. In accordance with the above directive of the SBP the management adjusted the aforementioned amount against the NCR at the time of finalisation of the financial statements of the Bank for the year ended December 31, 2012. In August 2013, the management of the Bank sought approval from the SBP for the transfer of bargain purchase gain (net of unamortised balance of intangible assets) to unappropriated profit which may become available for distribution as stock dividend to the shareholders of the Bank.

The SBP through its letter BPRD (R&P-02)/625-99/2013/17 dated November 25, 2013 allowed the Bank to transfer the bargain purchase gain (net of unamortised balance of intangible assets) to unappropriated profit subject to the condition that the amount of bargain purchase gain for distribution should be determined after making full provision against the classified portfolio of the ex-RBS Pakistan without taking any FSV benefit of the collaterals / securities. Thereafter, if any balance amount is available then the same may be transferred to unappropriated profit for onward distribution to shareholders as stock dividend.

The management of the Bank sought clarification on certain conditions and related matters (including meaning of 'full provision' and adjustment mechanism of FSV benefit) attached to the transfer of bargain purchase gain including the accounting entry required to effect the directive issued by the SBP.

Based on the clarification and approval received from the SBP, the Bank has adjusted a gross provision of Rs. 1,221.567 million in this condensed interim financial information by debiting the NCR appearing in equity with a corresponding adjustment to provision against loans and advances.

19 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

The Bank is organised into four major business segments:

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

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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

September 30, 2014 - Un-audited

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
	Rupees '000				
Total income - net	61,436	4,304,190	18,482,114	3,880,739	26,728,479
Total expenses	(68,177)	(2,561,180)	(18,296,417)	(4,386,917)	(25,312,691)
Net income / (loss)	(6,741)	1,743,010	185,697	(506,178)	1,415,788
Segment assets (Gross)	-	112,167,453	68,904,161	183,956,833	365,028,447
Segment non performing loans	-	-	2,708,669	26,796,247	29,504,916
Segment provision required against loans **	-	-	(2,292,376)	(20,353,549)	(22,645,925)
Segment liabilities	-	(13,836,868)	(267,407,412)	(35,442,666)	(316,686,946)
Segment return on assets (ROA) (%) *	-	2.27%	0.39%	(0.36%)	
Segment cost of funds (%) *	-	5.92%	5.90%	9.10%	

September 30, 2013 - Un-audited

Total income - net	132,150	3,549,171	16,351,837	4,031,974	24,065,132
Total expenses	(70,911)	(2,175,546)	(16,576,222)	(3,937,674)	(22,760,353)
Net income / (loss)	61,239	1,373,625	(224,385)	94,300	1,304,779

December 31, 2013 - Audited

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
	Rupees '000				
Total income - net	217,876	4,346,821	21,557,001	6,201,611	32,323,309
Total expenses	(105,445)	(2,807,601)	(21,569,936)	(5,990,421)	(30,473,403)
Net income / (loss)	112,431	1,539,220	(12,935)	211,190	1,849,906
Segment assets (Gross)	-	99,565,986	91,637,468	187,103,031	378,306,485
Segment non performing loans	-	-	4,395,393	23,223,226	27,618,619
Segment provision required against loans **	-	-	(2,170,676)	(17,982,206)	(20,152,882)
Segment liabilities	-	(30,059,699)	(255,218,107)	(47,835,708)	(333,113,514)
Segment return on assets (ROA) (%)	-	2.19%	(0.02%)	0.12%	
Segment cost of funds (%)	-	8.57%	5.71%	8.78%	

* These percentages have been computed based on average balances.

** includes general provision

20 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its holding company, associated undertaking, subsidiary company, group companies, retirement benefit plans, directors, key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The particulars of the Bank's investment in its associated companies / investments in the funds is given in notes 10.1 and 10.5 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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

more than a normal risk. Details of transactions with the related parties and balances with them as at period end are as follows:

Particulars	September 30, 2014 (Un-audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Deposits				
Balance at the beginning of the period	190,399	116,373	2,544	1,140,702
Placements during the period	2,014,361	63,136	1,320,377	20,525,438
Withdrawals during the period	(2,114,157)	(69,698)	(1,320,702)	(21,303,896)
Balance at end of the period	90,603	109,811	2,219	362,244
Advances				
Balance at the beginning of the period	24,901	-	-	3,455,705
Disbursements during the period	33,977	-	-	5,152,554
Repayments during the period	(13,044)	-	-	(603,186)
Balance at end of the period	45,834	-	-	8,005,073

Particulars	December 31, 2013 (Audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Deposits				
Balance at the beginning of the year	126,680	55,800	2,053	86,234
Placements during the year	2,253,814	907,756	1,798,545	29,261,746
Withdrawals during the year	(2,190,095)	(847,183)	(1,798,054)	(28,207,278)
Balance at end of the year	190,399	116,373	2,544	1,140,702
Advances				
Balance at the beginning of the year	39,434	-	-	4,440,121
Disbursements during the year	5,546	-	-	11,579,524
Repayments during the year	(20,079)	-	-	(12,563,940)
Balance at end of the year	24,901	-	-	3,455,705

Particulars	September 30, 2014 (Un-audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Shares / units purchased during the period	-	-	-	1,376,728
Shares / units sold during the period	-	-	-	1,285,738
Government securities purchased during the period	928,920	752,702	-	-
Government securities sold during the period	1,163,623	576,651	-	-
Profit paid / accrued	7,144	5,528	318	3,365
Profit return / earned	1,208	-	-	286,357
Remuneration of the key management personnel				
- Salaries and other short-term employee benefits *	502,285	-	-	-
- Post-employment benefits	12,183	-	-	-
Remuneration and non-executive directors fee	22,430	-	-	-
Contribution to staff retirement benefits	-	175,771	-	-
Guarantees issued favouring related parties or on their behalf **	-	-	-	29,397

* Includes final settlement of Ex-President & CEO.

** represents outstanding guarantee

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

Particulars	September 30, 2013 (Un-audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Shares / units purchased during the period	-	-	-	1,419,719
Shares / units sold during the period	-	-	-	1,419,139
Government securities purchased during the period	1,148,904	-	-	-
Government securities sold during the period	1,226,120	160,569	-	-
Profit paid / accrued	3,402	7,335	194	4,243
Profit return / earned	1,625	-	-	114,316
Remuneration of the key management personnel				
- Salaries and other short-term employee benefits	310,717	-	-	-
- Post-employment benefits	13,861	-	-	-
Remuneration and non-executive directors fee	22,430	-	-	-
Contribution to staff retirement benefits	-	173,375	-	-
Guarantees issued favouring related parties or on their behalf *	-	-	-	29,397
Advisory fee	-	-	57,858	-

* represents outstanding guarantee

- 20.1** Balances pertaining to parties that were related at the beginning of the period 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.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

21 ISLAMIC BANKING BUSINESS

The Bank is operating 53 Islamic banking branches (December 31, 2013: 53) and 1 Islamic sub-branch (December 31, 2013: Nil). The statement of financial position as at September 30, 2014 is as follows:

	Note	Un-audited September 30, 2014	Audited December 31, 2013
		-----Rupees '000-----	
ASSETS			
Cash and balances with treasury banks		2,297,589	2,267,282
Balances with other banks		54,109	73,246
Due from financial institutions		-	-
Investments		20,168,291	17,514,498
Islamic financing and related assets	(a)	9,965,829	9,257,260
Operating fixed assets		138,213	290,574
Deferred tax assets		-	-
Other assets		1,020,605	876,076
		<u>33,644,637</u>	<u>30,278,936</u>
LIABILITIES			
Bills payable		367,536	266,100
Due to financial institutions		1,900,000	1,550,000
Deposits and other accounts			
- Current accounts		10,108,804	10,650,189
- Saving accounts		7,289,426	6,936,737
- Term deposits		8,368,256	6,481,043
- Others		50,818	36,323
- Deposits from financial institutions - remunerative		2,272,123	2,488,263
- Deposits from financial institutions - non-remunerative		14,690	6,752
Due to head office		1,025,119	227,813
Other liabilities		399,357	240,266
		<u>31,796,128</u>	<u>28,883,486</u>
		<u>1,848,508</u>	<u>1,395,450</u>
NET ASSETS			
REPRESENTED BY			
Islamic banking fund		880,000	880,000
Reserves		-	-
Unappropriated profit		886,625	421,350
		<u>1,766,625</u>	<u>1,301,350</u>
Surplus on revaluation of assets - net of tax		81,883	94,100
		<u>1,848,508</u>	<u>1,395,450</u>
Remuneration to shariah advisor		<u>2,057</u>	<u>2,630</u>
CHARITY FUND			
Opening balance		233	1,031
Additions during the period / year		710	4,026
Payments / utilization during the period / year		-	(4,824)
Closing balance		<u>943</u>	<u>233</u>
Sector wise details of Charity Disbursement			
Health		-	3,100
Education		-	724
Social Work		-	1,000
		<u>-</u>	<u>4,824</u>
(a) Islamic Financing and Related Assets	(b)	<u>9,965,829</u>	<u>9,257,260</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

	Un-audited September 30, 2014	Audited December 31, 2013
(b) Islamic Mode of Financing	-----Rupees '000-----	
Murabaha	1,924,855	2,840,462
Musharika cum Ijara	3,250	12,071
Diminishing Musharika	6,270,212	5,551,138
Advance against Murabaha Financing	87,702	65,515
Advance against Murabaha ERF	-	300,000
Advanced against Diminishing Musharika	1,142,702	453,821
Fixed Assets Ijara Financing (net)	531,224	28,538
Advanced against Ijara	5,884	5,715
	<u>9,965,829</u>	<u>9,257,260</u>

(c) Sectors and avenues of deposits and funds

The deposits and funds accepted under the above mentioned pools are provided to diversified sectors and avenues of the economy / business.

	Un-audited September 30, 2014	Audited December 31, 2013
	-----Rupees '000-----	
Government and other securities	20,170,933	17,522,424
Textiles, chemicals, pharmaceuticals, food and allied	2,137,795	3,313,121
Production and transmission of energy	5,869,756	4,484,158
Transportation	1,422,444	988,264
Construction / Housing	730,029	636,728
	<u>30,330,957</u>	<u>26,944,695</u>

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 the changes in presentation in the current period.

22.2 Comparative information relating to share of profit of associate and taxation (including deferred tax) has been changed consequent to the change in accounting policy as adopted by the Bank during the financial year ended December 31, 2013.

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

23 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on October 22, 2014 by the Board of Directors of the Bank.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

Bank on Ambition

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