

**FAYSAL BANK LIMITED
DIRECTORS' REVIEW
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

It gives me great pleasure to present, on behalf of the Board of Directors, the financial statements for the quarter and half year ended June 30, 2009.

The bank was incorporated on October 3, 1994 and is quoted at all stock exchanges in Pakistan. Ithmaar Bank B.S.C., an investment bank listed in Bahrain, is the ultimate holding company of the bank.

Economic Update

Financial Year 2009 proved to be an extremely challenging year for Pakistan's economy. During this period the economy had to face multifold challenges which included; rampant inflation, a ballooning current account deficit, fast depleting foreign exchange reserves and a rapidly depreciating Pak Rupee. To avert a balance of payment crisis Pakistan entered into a standby agreement with the IMF worth USD 7.6 billion. Under the terms of the SBA, which was aimed at bringing about corrective structural measures in the economy, the economic managers had to conform to some rather tough conditionalities. These included a steep reduction in the fiscal deficit; withdrawal of subsidies and restrictions on GOP's borrowing from the central bank.

Economic activity during FY '09 remained lackluster with GDP growing by a meager 2%, this dismal performance can be attributed to; structural bottlenecks (gas and electricity shortfalls), rising input costs, banks averseness to extending fresh credit due to rising NPLs (this lowered access and increased cost of credit, fresh credit off take to the Private sector for FY '09 was PKR 18.8 billion vs. PKR 408 billion in FY '08), deteriorating law and order situation, global recession and PSDP spending almost came to a halt due to restrained fiscal space.

The macroeconomic out look began to display some semblance of stability in the second half of FY '09 as the receipt of the first two IMF tranches of approximately USD 4 billion helped shore up foreign exchange reserves (which improved to USD 11.8 billion in June '09 vs. USD 6.7 billion in October '08) warding off any potential balance of payment crisis. The current account deficit in the second half of FY '09 narrowed to USD 1.28 billion vs. USD 7.57 billion in the first half, aided largely by; falling global energy prices, dampening of aggregate demand and an increase in home remittances by 21% to USD 7.8 billion for the financial year - a stellar achievement considering labor markets are highly sensitive to global recessionary cycles.

Inflation remained a primary concern during FY '09 where the average CPI was recorded at 20.8% vs. 12% in FY '08. This was mainly due to rising international commodity and food prices, a weakening USD/ PKR parity which depreciated by approximately 19% and the monetary hangover from the monetization of the fiscal deficit in previous years. This propelled the Central Bank to respond by increasing the policy rate twice in FY '09; by 1% in July '08 and another 2% in November '08 in order to curb aggregate demand. Subsequently the average CPI inflation in the later half of the FY subsided to 17.5% vs. 24.4% during the first half (July-Dec '08). It was only after the downward trend in inflation was deemed permanent, aided by plummeting international energy prices, did the SBP revise its monetary policy stance and reduce the discount rate by 1% in April '09. CPI inflation is expected to maintain its down ward trajectory in FY '10 aided by a high base effect and cool off in global commodity prices. Even though the resurgence of inflationary risks cannot be ignored due to

the apparent pressure of raising electricity charges, they are likely to be a lot more confined compared to the previous fiscal year.

During FY '09 the GOP was successful in limiting the fiscal deficit to 4.3% of GDP as compared to 7.4% in FY '08, hence conforming with a key IMF conditionality despite dismal performance on revenue collection. As a consequence the GOP could only spend a fraction of the initial PSDP outlay, further stifling economic activity. FY10's fiscal deficit target is set at 4.9% of GDP and a large chunk of it is expected to be financed from external sources and an ambitious tax collection target of 1.5 trillion (28% higher than FY '09).

Going forward there is cautious optimism regarding an economic revival as the macro imbalances now seem to be in a corrective phase; inflation is falling and the current account deficit is narrowing. This has encouraged the GOP to embark upon a mammoth public spending program envisioned at PKR 646 Billion aimed towards providing a countercyclical stimulus to the beleaguered economy. The SBP is also expected to slash the policy rate in phases throughout FY '10 to shore up aggregate demand providing further impetus to the economy.

Due to economic challenges the banking industry is also witnessing rising trend in Non Performing Loans. The profitability of banks is under pressure and their focus is on managing risk rather than asset mobilization. We expect that the economic recovery will take some more time and the banking sector will continue to face these challenges during the later part of CY '09.

Bank's Performance

The bank started implementation of five year strategy in Jan 2009. In the short period of six months it has been able to make a considerable progress towards achieving its goals in all the five areas of strategy focus i.e. Customer Franchise, People, Risk Management, Processes and Financial Perspective.

On the **Customer Franchise** side the bank completed its re-branding exercise; new branch siganges, promotional displays and internal branding elements have brought in a refreshed and updated look to the branch network. In order to provide high quality services to customers through state of the art technology and to further expand our reach to customers, 22 new ATMs were installed in different cities increasing our country wide ATM network to 115. Further, the scope of SMS alert service was enhanced with the introduction of additional features including the capability to receive alerts on paper based transactions. With the objective of providing wide range of financial services to our customers, the bank has also started issuance and encashment of defense savings and special savings certificates from all its branches across Pakistan.

Corporate and Investment Banking Group remained active throughout the period and following major transactions were accomplished:

- The bank for the first time participated in commodity financing amounting to Rs. 3 billion to a provincial government department for procurement of wheat through syndicate financing. FBL also participated in another commodity financing transaction for Rs. 1 billion.

- FBL served as a co-arranger in a syndicate financing of Rs. 5.1 billion for a leading telecommunication company. FBL's participation in the transaction is Rs. 1 billion.
- The bank provided structured medium term finance of Rs. 300 million for an upcoming microfinance bank.
- FBL participated in syndicate financing of Rs. 2 billion to a new private sector power project. FBL's participation was Rs. 700 million.

In the area of **People**, the organization structures of all the functions were reviewed and brought in line with the best practices. HR processes were streamlined and automated with the successful implementation of Phase I of Oracle HRMS. A new performance management system was introduced and goal setting on SMART objective basis was completed. All HR policies were reviewed to align them with the current market practices.

Risk Management function was strengthened by revising the structure and developing areas of Enterprise Risk Management and Compliance. Over All Risk Assessment Procedures (ORAP) for new initiatives and New Client Take On Procedures were introduced. A detailed risk assessment of loan portfolio was completed and Special Assets Management (SAM) function was strengthened.

On **Processes**, the focus was on efficiency improvement and centralization. All Regional Centralized Processing Centres (CPUs) and trade factories were centralized at one place. To improve customer services, corporate service centres were established in Karachi, Lahore and Islamabad. On technology side, IT platform was stabilized, security improved, operations streamlined and detailed strategy for meeting future business and regulatory requirements was prepared.

Last but not the least, the financial perspective of the `Balance Score Card` of the strategy also witnessed a remarkable improvement. The MIS set up was shifted from geographical to functional in alignment with the new organizational structure of the bank. After obtaining MIS at business segment level the work on customer level MIS has been initiated.

Corporate Social Responsibility (CSR) Initiatives

Faysal Bank is fully aware of its social responsibilities, and has been a regular contributor to the society and communities it operates in. The employees of the bank established a relief fund for those tragically displaced from their homes in Swat with the bank contributing by matching the employees' collection. The bank also entered into a partnership with Institute of Business Administration Karachi under which FBL will provide Rs. 50 million for sponsorship of one academic chair in IBA's Executive MBA program from September 2009.

Credit Rating

Faysal Bank has been assigned the highest short term rating of A1+ (A One Plus) and AA (Double A) for the long term by JCR-VIS (credit rating company). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. Another major credit rating company of Pakistan, PACRA, has also assigned the same ratings to the Bank. During the period under review, in view of the prevailing economic environment, the outlook on the rating was changed from stable to negative.

FINANCIAL HIGHLIGHTS

	<i>For the quarter ended</i>		<i>For the six months ended</i>	
	<i>June 30, 2009</i>	<i>June 30, 2008</i>	<i>June 30, 2009</i>	<i>June 30, 2008</i>
	Rupees in millions			
<i>Profit before taxation</i>	423	476	775	1,138
<i>Taxation</i>	211	171	308	392
<i>Profit after tax</i>	212	305	467	746
<i>Un-appropriated profit brought forward</i>	510	599	1,050	1,482
	722	904	1,517	2,228
Appropriations:				
<i>Final cash dividend 2008:Nil (2007 @ 25%)</i>	-	-	-	(1,324)
<i>Issue of bonus shares 2008 @ 15%</i>	-	-	(795)	-
Un-appropriated profit carried forward	722	904	722	904
Earning per share (Rupees)	0.35	0.50	0.77	1.23

The markup earned for the quarter increased by Rs. 913 million to Rs. 4,089 million mainly due to higher level of investment in government securities. This increase was however, partly offset by higher markup expense on deposits and increased inter bank borrowings. Accordingly, net markup income for the quarter showed a marginal increase of Rs. 57 million over corresponding quarter last year.

Non markup income for the current quarter increased by Rs. 360 million to Rs. 690 million mainly on account of capital gains from equity investments.

Despite the worsening economic conditions, the bank was able to maintain provision for bad debts from Rs. 347 million in last quarter to Rs. 358 million.

Administrative expenses have increased to Rs. 1,154 million from Rs. 773 million over the previous period. Reasons for this increase include opening of 28 branches in 2008, higher inflation and investment in high quality HR and efficient systems.

Accordingly, net profit after tax for the quarter and six months ended June 30, 2009 was Rs. 212 million and Rs. 467 million respectively as against Rs. 305 million and Rs. 746 million for the corresponding periods last year.

Acknowledgement

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

On behalf of the Board of Directors

Karachi
Dated: 20 August 2009

President & CEO



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Report on Review of Interim Financial Information to The Members of Faysal Bank Limited

Introduction

We have reviewed the accompanying condensed interim unconsolidated balance sheet of Faysal Bank Limited ("the Bank") as at 30 June 2009 and the related condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement and condensed interim unconsolidated statement of changes in equity for the six months period then ended (the interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim unconsolidated financial information as at 30 June 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

The figures for the quarter ended 30 June 2009 in the condensed interim unconsolidated profit and loss account have not been reviewed and we do not express a conclusion on them.

Date: August 20, 2009

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Najmul Hussain

Faysal Bank Limited
Unconsolidated Condensed Interim Balance Sheet
As at June 30, 2009

	Note	Unaudited June 30, 2009	Audited December 31, 2008
Rupees '000			
ASSETS			
Cash and balances with treasury banks		8,429,959	8,927,524
Balances with other banks	9	1,117,727	876,780
Lendings to financial institutions	10	500,000	2,861,401
Investments	11	41,448,994	30,186,168
Advances	12	94,809,249	89,758,789
Operating fixed assets	13	2,815,450	2,646,978
Deferred tax assets - net	14	810,050	-
Other assets		3,502,274	2,983,846
		153,433,703	138,241,486
LIABILITIES			
Bills payable		2,103,542	1,536,517
Borrowings from financial institutions		25,533,515	13,027,468
Deposits and other accounts	15	105,817,583	102,776,793
Sub-ordinated loans		999,400	999,600
Liabilities against assets subject to finance lease		-	4,103
Deferred tax liabilities - net		-	2,483,355
Other liabilities		7,334,892	6,641,542
		141,788,932	127,469,378
NET ASSETS		11,644,771	10,772,108
REPRESENTED BY			
Share capital		6,090,914	5,296,445
Reserves		3,790,023	3,790,023
Unappropriated profit		722,122	1,049,519
		10,603,059	10,135,987
Surplus on revaluation of assets - net of deferred tax		1,041,712	636,121
		11,644,771	10,772,108
CONTINGENCIES AND COMMITMENTS	16		

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO

Director

Director

Director

Faysal Bank Limited
Unconsolidated Condensed Interim Profit and Loss Account (Unaudited)
For the quarter and six months ended June 30, 2009

	Note	For the quarter ended		For the six months ended	
		June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Rupees '000					
Mark-up / return / interest earned		4,089,829	3,176,375	8,271,201	6,247,321
Mark-up / return / interest expensed		2,764,328	1,908,040	5,856,089	3,848,355
Net mark-up / interest income		1,325,501	1,268,335	2,415,112	2,398,966
Provision against non-performing loans and advances	12.2	358,342	347,177	682,961	498,452
Reversal of provision against consumer loans - general	12.3	(7,426)	-	(19,279)	(91,600)
Provision for diminution in the value of investments		66,534	2,871	66,354	5,404
Bad debts written off directly		-	-	-	-
		417,450	350,048	730,036	412,256
Net mark-up / interest income after provisions		908,051	918,287	1,685,076	1,986,710
NON MARK-UP / INTEREST INCOME					
Fee, commission and brokerage income		289,644	159,910	475,138	363,021
Dividend income		44,494	81,752	79,327	108,222
Income from dealing in foreign currencies		100,248	73,022	163,962	124,762
Gain on sale of investments		313,924	1,475	491,694	14,094
Unrealised loss on revaluation of securities classified as held-for-trading		(84,412)	-	(87,319)	-
Other income		26,484	14,689	44,039	27,959
Total non mark-up / interest income		690,382	330,848	1,166,841	638,058
		1,598,433	1,249,135	2,851,917	2,624,768
NON MARK-UP / INTEREST EXPENSES					
Administrative expenses		1,154,560	772,650	2,047,916	1,485,840
Other provisions		20,908	-	29,180	-
Other charges		1	877	91	846
Total non mark-up interest expenses		1,175,469	773,527	2,077,187	1,486,686
Extraordinary items / unusual items		-	-	-	-
PROFIT BEFORE TAXATION		422,964	475,608	774,730	1,138,082
Taxation - Current		316,911	322,692	405,057	544,025
- Prior years		3,305,364	-	3,305,364	-
- Deferred		(3,411,129)	(152,143)	(3,402,763)	(152,143)
		211,146	170,549	307,658	391,882
PROFIT AFTER TAXATION		211,818	305,059	467,072	746,200
Rupees					
Basic and diluted earnings per share	17	0.35	0.50	0.77	1.23

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO

Director

Director

Director

Faysal Bank Limited
Unconsolidated Condensed Interim Statement of Comprehensive Income (Unaudited)
For the quarter and six months ended June 30, 2009

	For the quarter ended		For the six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	Rupees '000			
PROFIT FOR THE PERIOD	211,818	305,059	467,072	746,200
OTHER COMPREHENSIVE INCOME				
Net change in fair value of available-for-sale financial assets	180,770	(1,800,210)	514,950	(1,300,682)
Income tax on other comprehensive income	7,691	203,586	(109,359)	174,424
Other comprehensive income / (loss) for the period	188,461	(1,596,624)	405,591	(1,126,258)
Total comprehensive income / (loss) for the period	400,279	(1,291,565)	872,663	(380,058)

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO

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Faysal Bank Limited
Unconsolidated Condensed Interim Cash Flow Statement (Unaudited)
For the six months ended June 30, 2009

	June 30, 2009	June 30, 2008
	Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	774,730	1,138,082
Less : Dividend income	(79,327)	(108,222)
Profit on available-for-sale securities	(1,902,229)	(850,126)
	<u>(1,206,826)</u>	<u>179,734</u>
Adjustments for non-cash charges:		
Depreciation / Amortisation	292,479	204,218
Provision against non-performing advances	682,961	498,452
Reversal for consumer loans - general	(19,279)	(91,600)
(Reversal) / Provision for diminution in the value of investments	(80,885)	5,404
Provision for other assets	29,180	-
Unrealised loss on revaluation of held-for-trading financial instruments	87,319	-
Bad debts written off directly	-	-
Gain on sale of operating fixed assets	(6,786)	(2,353)
Finance charges on leased assets	22	125
Exchange loss / (gain)	2,320	(148,477)
	<u>987,331</u>	<u>465,769</u>
	<u>(219,495)</u>	<u>645,503</u>
(Increase) / Decrease in operating assets		
Lendings to financial institutions	2,861,401	3,575,034
Held-for-trading securities	(789,674)	-
Advances	(5,714,142)	(674,531)
Other assets (excluding advance taxation)	(366,617)	(182,533)
	<u>(4,009,032)</u>	<u>2,717,970</u>
Increase / (Decrease) in operating liabilities		
Bills payable	567,025	(1,021,595)
Borrowings from financial institutions	12,506,047	742,467
Deposits	3,040,790	(2,455,653)
Other liabilities (excluding taxation)	30,868	331,208
	<u>16,144,730</u>	<u>(2,403,573)</u>
	<u>11,916,203</u>	<u>959,900</u>
Income tax refund / (paid) received	<u>(3,047,805)</u>	<u>(82,532)</u>
Net cash flow from operating activities	<u>8,868,398</u>	<u>877,368</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(18,769,881)	1,714,947
Net investments in held-to-maturity securities	8,805,245	-
Dividends received	64,272	133,795
Profit received on available-for-sale securities	1,736,294	849,309
Fixed capital expenditure	(478,327)	(225,858)
Sale proceeds from disposal of fixed assets	24,160	16,734
Net cash flow from investing activities	<u>(8,618,237)</u>	<u>2,488,927</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Payments of lease obligations	(4,125)	(1,966)
Repayment of Sub-ordinated loans	(200)	(200)
Dividends paid	(134)	(1,318,598)
Net cash flow from financing activities	<u>(4,459)</u>	<u>(1,320,764)</u>
Increase in cash and cash equivalents	<u>245,702</u>	<u>2,045,531</u>
Cash and cash equivalents at beginning of the period	9,804,304	11,380,484
Effects of exchange rate changes on cash and cash equivalents	(2,320)	148,477
Cash and cash equivalents at beginning of the period	<u>9,801,984</u>	<u>11,528,961</u>
Cash and cash equivalents at end of the period	<u>10,047,686</u>	<u>13,574,492</u>

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President & CEO

Director

Director

Director

Faysal Bank Limited
Unconsolidated Condensed Interim Statement of Changes in Equity (Unaudited)
For the six months ended June 30, 2009

	Reserves				Unappropriated profit	Total
	Capital	Statutory reserve	Revenue			
	Reserve for issue of bonus shares		Capital market reserve			
Share capital						
----- Rupees '000 -----						
Balance as at January 1, 2008	5,296,445	-	3,177,491	389,542	1,481,668	10,345,146
Changes in Equity for the Six months ended June 30, 2008 :						
Final cash dividend for the year ended December 31, 2007 at Rs. 2.5 per share approved subsequent to the year end	-	-	-	-	(1,324,111)	(1,324,111)
Profit after taxation for the six months ended June 30, 2008	-	-	-	-	746,200	746,200
Balance as at June 30, 2008	5,296,445	-	3,177,491	389,542	903,757	9,767,235
Profit after taxation for the period July 01 to December 31, 2008	-	-	-	-	368,752	368,752
Transfer to statutory reserve	-	-	222,990	-	(222,990)	-
Balance as at December 31, 2008	5,296,445	-	3,400,481	389,542	1,049,519	10,135,987
Changes in Equity for the Six months ended June 30, 2009 :						
Profit after taxation for the six months ended June 30, 2009	-	-	-	-	467,072	467,072
Transfer to reserve for issue of bonus shares	-	794,469	-	-	(794,469)	-
Issue of bonus shares	794,469	(794,469)	-	-	-	-
Balance as at June 30, 2009	6,090,914	-	3,400,481	389,542	722,122	10,603,059

The annexed notes 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

President & CEO

Director

Director

Director

Faysal Bank Limited
Notes to the Unconsolidated Condensed Interim Financial Statements (Unaudited)
For the six months ended June 30, 2009

1. STATUS AND NATURE OF BUSINESS

Faysal Bank Limited 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 Commercial, Consumer and Corporate banking activities. The bank has a branch network of 129 branches (June 30, 2008:113 branches) , 2 sub branches (June 30, 2008:Nil) and operates 1 (June 30, 2008:6) sales service centres.

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

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain, is the ultimate holding company of Faysal Bank Limited.

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 these unconsolidated condensed interim financial statements as such and in substance are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

These unconsolidated condensed interim financial statements are in accordance with the 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, provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan shall prevail.

The State Bank of Pakistan as per BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

Further, disclosures made in these unconsolidated condensed interim financial statements have been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular Letter No. 2 dated May 12, 2004. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the bank for the year ended December 31, 2008.

During the current period, International Accounting Standard 1 (Revised), Presentation of Financial Statements (IAS 1) and International Financial Reporting Standard 8, Operating Segments (IFRS 8) became effective from January 1, 2009. The application of these standards has resulted in certain increased disclosures only. Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2009 and are not considered to be relevant or have any significant effect on the bank's operations, are not detailed in these un-consolidated condensed interim financial statements.

4. BASIS OF MEASUREMENT

These unconsolidated condensed interim financial statements have been prepared under the historical cost convention, except for the following financial instruments:

- Derivative financial instruments are measured at fair value; and
- Investments classified as held for trading and available-for-sale are also measured at fair values.

5. FUNCTIONAL AND PRESENTATION CURRENCY

These unconsolidated condensed interim financial statements have been presented in Pakistani Rupee, which is the Bank's functional as well as the reporting currency.

6. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these unconsolidated condensed interim financial statements are the same as those applied in the preparation of the financial statements for the year ended December 31, 2008.

7. USE OF ESTIMATES AND JUDGEMENTS

The preparation of these unconsolidated condensed interim financial statements in accordance with approved accounting standards require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the current and future reporting periods. The actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates (other than adjusting events) are recognized prospectively commencing from the period of revision.

The significant judgements made by management and the key sources of estimating uncertainty in preparation of these unconsolidated condensed interim financial statements were same as those applied to the financial statements for the year ended December 31, 2008.

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, 2008.

	Note	June 30, 2009 (Rupees in '000)	December 31, 2008
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		110,040	163,851
- Deposit accounts		-	-
Outside Pakistan			
- Current accounts		1,007,687	712,929
- Deposit accounts		-	-
		<u>1,117,727</u>	<u>876,780</u>
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		500,000	-
Repurchase agreement lendings	10.1	-	2,861,401
Certificates of investment		-	-
		<u>500,000</u>	<u>2,861,401</u>

10.1 Repurchase agreement lendings :

	June 30, 2009			December 31, 2008		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- Rupees '000 -----					
Market Treasury Bills	-	-	-	2,861,401	-	2,861,401
Pakistan Investments Bonds	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,861,401</u>	<u>-</u>	<u>2,861,401</u>

11. INVESTMENTS

11.1 Investments by type

	June 30, 2009			December 31, 2008		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees '000 -----						
Held for trading securities						
Fully paid up ordinary shares	808,778	-	808,778	19,104	-	19,104
Available-for-sale securities						
Market Treasury Bills	14,269,388	12,837,735	27,107,123	11,345,480	1,122,183	12,467,663
Pakistan Investment Bonds	5,110,311	-	5,110,311	1,154,312	-	1,154,312
Units of open ended mutual funds						
- National Investment (Unit) Trust - note 11.2	2,721,544	-	2,721,544	3,475,056	-	3,475,056
- First Habib Income Fund	-	-	-	25,000	-	25,000
- 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	207,411	-	207,411	207,411	-	207,411
- NAFA Cash Fund	-	-	-	50,000	-	50,000
- Atlas Income Fund	-	-	-	35,000	-	35,000
- United Money Market Fund	-	-	-	25,000	-	25,000
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	2,908,039	-	2,908,039	1,750,640	-	1,750,640
Fully paid up preference shares	492,677	-	492,677	492,677	-	492,677
Term finance certificates and bonds	1,446,394	-	1,446,394	1,540,859	-	1,540,859
	27,436,138	12,837,735	40,273,873	20,381,809	1,122,183	21,503,992
Held to maturity						
Market Treasury Bills	-	-	-	8,805,245	-	8,805,245
Associates						
- Shares of Faysal Asset Management Ltd.	45,000	-	45,000	45,000	-	45,000
Subsidiaries						
Shares of Faysal Management Services (Private) Ltd.	108,000	-	108,000	108,000	-	108,000
Investments at cost	28,397,916	12,837,735	41,235,651	29,359,158	1,122,183	30,481,341
Provision for diminution in the value of investments	(790,595)	-	(790,595)	(871,481)	-	(871,481)
Investments (Net of Provisions)	27,607,321	12,837,735	40,445,056	28,487,677	1,122,183	29,609,860
Surplus / (Deficit) on revaluation of held for trading securities	(90,730)	-	(90,730)	(3,410)	-	(3,410)
Surplus / (Deficit) on revaluation of available for sale securities (net)	1,077,145	17,523	1,094,668	579,718	-	579,718
Total investments at market value	28,593,736	12,855,258	41,448,994	29,063,985	1,122,183	30,186,168

11.2 This includes 150,268,315 NIT Units (December 31, 2008 : 150,268,315 NIT units) covered under letter of comfort (LOC) dated June 30, 2009 issued by the Federal Government with an expiry / renewal date of December 31, 2009.

12. ADVANCES	Note	June 30, 2009	December 31, 2008
		(Rupees in '000)	
Loans, cash credits, running finances, etc.		86,917,031	79,492,629
Net investment in finance lease- In Pakistan		<u>12,146,655</u>	<u>13,493,087</u>
		<u>99,063,686</u>	92,985,716
Bills discounted and purchased (excluding government market treasury bills)			
- Payable in Pakistan		<u>312,922</u>	675,771
- Payable outside Pakistan		<u>883,105</u>	596,917
		<u>1,196,027</u>	1,272,688
		<u>100,259,713</u>	94,258,404
Margin financing / reverse repo transactions		338,200	625,367
Provision for non-performing advances	12.2	(5,591,145)	(4,908,184)
Provision for consumer loans - general	12.3	<u>(197,519)</u>	<u>(216,798)</u>
		<u>94,809,249</u>	<u>89,758,789</u>

12.1 Advances includes Rs. 8.255 billion (December 31, 2008 : Rs. 7.479 billion) which have been placed under non-performing status as detailed below:

June 30, 2009				
Domestic	Overseas	Total	Provision required	Provision held
----- (Rupees in '000) -----				
Category of classification				
Other assets especially mentioned	321,972	-	321,972	-
Substandard	907,866	-	907,866	175,127
Doubtful	2,247,384	-	2,247,384	1,029,029
Loss	<u>4,777,722</u>	-	<u>4,777,722</u>	<u>4,328,313</u>
	<u>8,254,944</u>	-	<u>8,254,944</u>	<u>5,532,469</u>
December 31, 2008				
Domestic	Overseas	Total	Provision required	Provision held
----- (Rupees in '000) -----				
Category of classification				
Other assets especially mentioned - note 12.1.2	242,329	-	242,329	-
Substandard	1,882,120	-	1,882,120	655,627
Doubtful	1,553,008	-	1,553,008	658,836
Loss	<u>3,801,842</u>	-	<u>3,801,842</u>	<u>3,535,045</u>
	<u>7,479,299</u>	-	<u>7,479,299</u>	<u>4,849,508</u>

12.1.1 In accordance with the directives issued by SBP, the Bank has considered the benefit of 30% of FSV of pledged stocks and mortgaged commercial and residential properties held as collateral against all Non Performing Loans (NPLs), except consumer financing, for three years from the date of classification for calculating provisioning requirements. For Non Performing Loans in respect of consumer financing, benefit of 50% of the FSV of mortgage property is considered in the first two years of classification and 30% in the third year of classification.

12.2 Particulars of provision for non-performing advances

June 30, 2009			
Specific	General	Total	
----- (Rupees in '000) -----			
Opening balance	4,849,508	58,676	4,908,184
Charge for the period	<u>1,564,802</u>	-	<u>1,564,802</u>
Transfer to specific provision from general provision	-	-	-
Reversals during the period	<u>(881,841)</u>	-	<u>(881,841)</u>
	682,961	-	682,961
Write off during the period	-	-	-
Closing balance	<u>5,532,469</u>	<u>58,676</u>	<u>5,591,145</u>
December 31, 2008			
Specific	General	Total	
----- (Rupees in '000) -----			
Opening balance	3,199,581	148,676	3,348,257
Charge for the period	1,973,009	-	1,973,009
Transfer to specific provision from general provision	90,000	(90,000)	-
Reversals during the period	<u>(411,993)</u>	-	<u>(411,993)</u>
	1,651,016	(90,000)	1,561,016
Write off during the period	<u>(1,089)</u>	-	<u>(1,089)</u>
Closing balance	<u>4,849,508</u>	<u>58,676</u>	<u>4,908,184</u>

12.3 Particulars of provision for consumer loans - general	June 30, 2009	December 31, 2008
	(Rupees in '000)	
Opening balance	216,798	321,620
Charge for the year	-	-
Reversals	<u>(19,279)</u>	<u>(104,822)</u>
Closing balance	<u>197,519</u>	<u>216,798</u>

- 12.3.1 General provision against consumer portfolio has been determined in accordance with the requirements of Prudential Regulations issued by the State Bank of Pakistan equivalent to (1.5% of secured loans and 5% of unsecured loans).

	For the six months ended	
	June 30, 2009	June 30, 2008
	(Rupees in '000)	
13. OPERATING FIXED ASSETS		
13.1 Additions to operating fixed assets		
Leasehold property and improvements	72,713	106,721
Office furniture, fixtures, equipment and computers	292,296	131,510
Vehicles-owned	44,365	21,101
Capital work-in-progress	-	71,532
13.2 Intangibles		
Software	68,951	13,652
13.2 Disposals of operating fixed assets		
Leasehold property and improvements	-	-
Office furniture, fixtures, equipment and computers	1,857	13,398
Vehicles-owned	31,383	13,643
Vehicles-subject to finance lease	10,478	-

14. The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provisions for doubtful and loss categories of advances and off balance sheet items is allowed upto a maximum of 1% of total advances. The amount of bad debts classified as OAEM (in agriculture) and Substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. Provisioning in excess of 1% of total advances would be allowed to be carried over to succeeding years. Therefore, the management has carried out an exercise at period end and concluded that they would be able to get deduction of provision in excess of 1% of total advances (provided for half year) and have recognized deferred tax asset on such provision amounting to Rs. 64 million.

The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto December 31, 2008 would be allowed as a deduction. The Institute of Chartered Accountants of Pakistan (ICAP) and Pakistan Banking Association (PBA) has taken up this matter with Federal Board of Revenue (FBR). However, pending the final resolution of the matter, ICAP considers that reversal of deferred tax assets in relation thereto may not be made until the end of the financial year by which time the matter is expected to be decided by the FBR as proposed by the ICAP and the PBA. Accordingly, the deferred tax asset recognized through December 31, 2008 relating to provisions for advances and off balance sheet items amounting to Rs. 1,598 million has been carried forward.

	June 30, 2009	December 31, 2008
	(Rupees in '000)	
15. DEPOSITS AND OTHER ACCOUNTS		
Term deposits	46,855,713	56,930,591
Saving deposits	37,966,830	25,317,608
Current accounts	19,113,511	18,509,917
Margin accounts	1,881,529	2,018,677
	<u>105,817,583</u>	<u>102,776,793</u>

16. CONTINGENCIES AND COMMITMENTS

16.1 Direct credit substitutes

Contingent liability in respect of guarantees favouring:

i) Government	-	-
ii) Banking companies and other financial institutions	7,819	11,314
iii) Others	3,013,912	2,298,364
	<u>3,021,731</u>	<u>2,309,678</u>

Acceptances

i) Government	-	8,903
ii) Banking companies and other financial institutions	-	-
iii) Others	1,388,310	2,115,242
	<u>1,388,310</u>	<u>2,124,145</u>

June 30, December 31,
2009 2008
(Rupees in '000)

16.2 Transaction-related contingent liabilities

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

i) Government	2,485,688	3,940,271
ii) Banking companies and other financial institutions	38,792	121,645
iii) Others	13,440,692	13,053,502
	15,965,172	17,115,418

16.3 Trade-related contingent liabilities

Letters of credit

i) Government	1,982,756	302,870
ii) Banking companies and other financial institutions	-	115,210
iii) Others	6,620,365	8,378,903
	8,603,121	8,796,983

16.4 Other Contingencies

i) Suit filed by a customer for recovery of alleged losses suffered, which is pending in the High Court of Sindh; Bank's legal advisors are confident that the Bank has a strong case	2,500,000	2,500,000
ii) Indemnity issued favouring the High Court in above case	457,543	457,543
iii) Claims against the Bank not acknowledged as debt	1,149,116	1,126,990

16.5 The tax department has amended the assessments of the Bank under section 122(5A) of the Income Tax Ordinance, 2001 relating to the tax years 2004 to 2008. The Bank filed an appeal against the amended orders passed, before the Commissioner of Income Tax (CIT)-Appeals. The CIT - Appeals passed a combined order, the effect of which had been accounted for by the Bank. The Bank has now filed an appeal before the Income Tax Appellate Tribunal against the order of the CIT - Appeals on certain issues, which are pending.

June 30, December 31,
2009 2008
(Rupees in '000)

16.6 Commitments in respect of forward lending / purchase

Commitments to extend credit - advances	50,000	3,179,852
Commitments to invest in securities	-	330,000

16.7 Commitments in respect of forward exchange contracts

Purchase		
- Customers	1,466,739	1,103,966
- Banks	9,436,542	4,905,443
	10,903,281	6,009,409
Sale		
- Customers	-	-
- Banks	9,596,730	3,224,281
	9,596,730	3,224,281

16.8 Commitments for acquisition of operating fixed assets

	128,976	196,637
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16.9 Commitments in respect of repo transactions

Resale	10,894,181	1,122,184
Repurchase	426,152	3,448,631

17. CAPITAL MARKET RESERVE

The bank makes appropriation for capital market reserve in order to meet unforeseen future contingencies in the capital market. Appropriation in respect of the current year will be considered at the time of finalisation of the annual statutory financial statements.

18. BASIC / DILUTED EARNINGS PER SHARE

	For the Quarter ended		For the six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	----- (Rupees in '000) -----			
Profit after taxation	211,818	305,059	467,072	746,200
	Number of shares in thousands			
Weighted average number of ordinary shares	609,091	609,091	609,091	609,091
Basic and diluted earnings per share	Rs. 0.35	Rs. 0.50	Rs. 0.77	Rs. 1.23

19. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**Primary segment information**

For management purposes the Bank is organised into four major business segments;

Corporate Finance
 Trading and Sales
 Retail Banking and
 Commercial Banking

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

	Corporate finance	Trading & sales	Retail banking	Commercial banking
	----- (Rupees in '000) -----			
June 30, 2009				
Total income	43,680	143,833	1,787,340	1,018,679
Total expenses	(32,664)	(192,645)	(1,707,696)	(593,455)
Net income (loss)	<u>11,016</u>	<u>(48,812)</u>	<u>79,644</u>	<u>425,224</u>
Segment assets (Gross)	-	45,880,638	41,328,511	72,940,973
Segment non performing financing / investment	-	-	4,698,909	3,556,035
Segment provision required	-	(790,595)	(2,928,172)	(2,997,652)
Segment liabilities	-	(43,124,149)	(36,704,159)	(61,960,624)
Segment return on assets (ROA) (%)	<u>-</u>	<u>13.50</u>	<u>11.70</u>	<u>12.70</u>
Segment cost of funds (%)	<u>-</u>	<u>12.00</u>	<u>2.70</u>	<u>9.30</u>
June 30, 2008				
Total income	38,299	126,115	1,567,163	893,191
Total expenses	(24,288)	(143,243)	(1,269,770)	(441,268)
Net income (loss)	<u>14,011</u>	<u>(17,128)</u>	<u>297,393</u>	<u>451,923</u>
December 31, 2008				
Total income	76,060	250,455	3,112,278	1,773,816
Total expenses	(52,978)	(312,450)	(2,769,706)	(962,522)
Net income (loss)	<u>23,082</u>	<u>(61,995)</u>	<u>342,572</u>	<u>811,293</u>
Segment assets (Gross)	-	38,309,873	34,508,893	60,904,983
Segment non performing financing / investment	-	-	6,046,426	4,575,807
Segment provision required	-	(718,565)	(2,661,391)	(2,724,540)
Segment liabilities	-	38,768,953	32,997,331	55,703,094
Segment return on assets (ROA) (%)	<u>-</u>	<u>12.22</u>	<u>10.59</u>	<u>11.49</u>
Segment cost of funds (%)	<u>-</u>	<u>9.41</u>	<u>2.12</u>	<u>7.29</u>

Note :

The above table is based on best estimates / assumptions and other segments (payment & settlement and agency services) as required to be disclosed are not material.

20. RELATED PARTY TRANSACTIONS

The Bank has related party relations with its associated undertakings, subsidiary company, group companies, employee benefit plans, and its directors and executive officers (including their associates). Transaction with key management personnel and entities in which the Bank has strategic investment are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transactions with directors and executive officers 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 / balances with related parties are as follows:

	June 30, 2009					
	Directors and Key management personnel	Group companies	Associates	Subsidiaries	Strategic and other investments	Retirement Benefit Plan
	----- (Rupees in '000) -----					
Deposits						
Balance as at January 01, 2009	21,081	1,174,456	958	184,051	13,412	148,888
Placements during the period	392,158	17,854,085	44,161	1,819,077	7,876,383	340,791
Withdrawals during the period	(365,356)	(16,616,269)	(39,970)	(1,817,527)	(7,611,763)	(220,335)
Balance as at June 30, 2009	47,883	2,412,272	5,149	185,601	278,032	269,344
Advances						
Balance as at January 01, 2009	71,807		-	-	731,564	-
Disbursement during the period	-		-	-	47,447	-
Repayment during the period	(36,356)	-	-	-	(837)	-
Balance as at June 30, 2009	35,451	-	-	-	778,174	-

	June 30, 2009			
	Associates	Subsidiaries	Strategic Investments	Group Companies
	----- (Rupees in '000) -----			
Investments				
Balance as at January 01, 2009	45,000	108,000	853,750	132,487
Investments during the period	-	-	-	767,583
Sale proceed during the period	-	-	(37,737)	(824,424)
Balance as at June 30, 2009	45,000	108,000	816,013	75,646

	June 30, 2009	December 31, 2008
	(Rupees in '000)	
Nostro balances with related parties	15,688	15,238
	For the six months ended	
	June 30, 2009	June 30, 2008
	(Rupees in '000)	
Profit paid / accrued	124,558	4,267
Profit / return earned	49,441	13,530
Technical Fee	-	3,986
Dividend income from subsidiaries	3,240	6,156
Remuneration of key management personnel		
Salaries, bonuses and other short-term employee benefits	65,758	72,945
Post-employment benefits	1,690	1,854
Contribution to staff retirement benefits	6,110	19,141

21. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated condensed interim financial statements were authorised for issue on August 20, 2009 by the Board of Directors of the Bank.

22. GENERAL

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

22.2 Previous periods' figures have been rearranged and reclassified where ever necessary, to facilitate comparison.

President & CEO

Director

Director

Director