

FAYSAL BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

	Note	2014	2013
----- Rupees '000 -----			
ASSETS			
Cash and balances with treasury banks	8	20,285,851	28,422,497
Balances with other banks	9	1,422,699	1,011,980
Lendings to financial institutions	10	-	300,000
Investments	11	155,210,513	113,319,478
Advances	12	181,224,805	184,190,304
Operating fixed assets	13	11,543,356	10,250,910
Deferred tax assets - net	14	2,428,817	3,980,541
Other assets	15	16,009,743	13,803,997
		<u>388,125,784</u>	<u>355,279,707</u>
LIABILITIES			
Bills payable	16	5,347,774	4,968,610
Borrowings	17	60,926,863	45,446,528
Deposits and other accounts	18	283,345,739	271,134,303
Sub-ordinated loans	19	2,995,200	3,495,400
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities	20	9,207,632	8,068,673
		<u>361,823,208</u>	<u>333,113,514</u>
NET ASSETS		<u><u>26,302,576</u></u>	<u><u>22,166,193</u></u>
REPRESENTED BY			
Share capital	21	10,432,697	10,432,697
Reserves	22	5,703,155	6,554,197
Unappropriated profit		<u>5,696,366</u>	<u>3,600,828</u>
		21,832,218	20,587,722
Surplus on revaluation of assets - net of tax	23	4,470,358	1,578,471
		<u><u>26,302,576</u></u>	<u><u>22,166,193</u></u>
CONTINGENCIES AND COMMITMENTS	24		

The annexed notes 1 to 48 and Annexures I to IV form an integral part of these financial statements.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

FAYSAL BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
-----Rupees '000-----			
Mark-up / return / interest earned	26	32,312,633	27,790,468
Mark-up / return / interest expensed	27	18,480,191	16,945,315
Net mark-up / interest income		<u>13,832,442</u>	<u>10,845,153</u>
Provision against non-performing loans and advances - net	12.4 & 22.2	2,055,820	1,905,541
Provision for consumer and small enterprise loans - general	12.4 & 12.5	33,159	122,546
Provision against off balance sheet obligations	20.2	6,981	11,167
Provision for diminution in value of investments - net	11.3	397,383	111,043
Recoveries against written-off debts - net	12.8	(134,506)	(33,903)
		<u>2,358,837</u>	<u>2,116,394</u>
Net mark-up / interest income after provisions		11,473,605	8,728,759
Non mark-up / interest income			
Fee, commission and brokerage income		2,075,945	2,237,474
Dividend income		182,435	479,352
Income from dealing in foreign currencies		1,072,939	948,598
Gain on sale of securities - net	28	460,477	306,329
Unrealised gain / (loss) on revaluation of investments classified as held for trading		31,475	(19,127)
Other income	29	550,898	573,558
Total non mark-up / interest income		<u>4,374,169</u>	<u>4,526,184</u>
		15,847,774	13,254,943
Non mark-up / interest expenses			
Administrative expenses	30	12,162,034	11,079,122
Reversals of other provisions - net	15.3	(88,616)	(94,976)
Other charges	31	221,826	116,675
Total non mark-up / interest expenses		<u>12,295,244</u>	<u>11,100,821</u>
		3,552,530	2,154,122
Share of (loss) / profit of associate	11.7.1	(745)	6,657
Extraordinary / unusual items		-	-
Profit before taxation		<u>3,551,785</u>	<u>2,160,779</u>
Taxation - Current	32	1,712,150	1,078,186
Taxation - Prior years	32	(812,786)	(1,612,830)
Taxation - Deferred	32	175,462	845,517
		<u>1,074,826</u>	<u>310,873</u>
Profit after taxation		<u>2,476,959</u>	<u>1,849,906</u>
-----Rupees-----			
Basic earnings per share	33	<u>2.37</u>	<u>1.77</u>

The annexed notes 1 to 48 and Annexures I to IV form an integral part of these financial statements.

PRESIDENT & CEO

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FAYSAL BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
		-----Rupees '000-----	
Profit after taxation for the year		2,476,959	1,849,906
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	36.5	41,466	(7,005)
- Deferred tax (liability) / asset on remeasurements of defined benefit plan		(14,513)	2,452
		26,953	(4,553)
Comprehensive income transferred to equity		2,503,912	1,845,353
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		2,506,467	(960,438)
- Deferred tax (liability) / asset on change in value of available for sale securities		(887,700)	369,102
		1,618,767	(591,336)
Total comprehensive income		4,122,679	1,254,017

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PRESIDENT & CEO

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FAYSAL BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

	Reserves							Unappropriated profit	Total
	Capital				Statutory reserve (note 22.1)	Total			
	Share capital	Reserve for issue of bonus shares	Share premium	Non-distributable capital reserve (NCR) - gain on bargain purchase (notes 22.2 & 12.4)			Reserve arising on amalgamation		
Rupees '000									
Balance as at January 1, 2013	9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,205,439	18,788,030
Profit after taxation for the year	-	-	-	-	-	-	-	1,849,906	1,849,906
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)	-
- Issue of bonus shares	1,159,189	(1,159,189)	-	-	-	-	(1,159,189)	-	-
	1,159,189	-	-	-	-	-	-	(1,159,189)	-
Amortisation of intangible assets - customer relationship - net of tax	-	-	-	(124,867)	-	-	(124,867)	-	(124,867)
Transfer to statutory reserve	-	-	-	-	-	369,981	369,981	(369,981)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	79,206	79,206
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
Profit after taxation for the year	-	-	-	-	-	-	-	2,476,959	2,476,959
Other comprehensive income for the year									
- Remeasurements of defined benefit plan	-	-	-	-	-	-	-	41,466	41,466
- Tax on remeasurements of defined benefit plan	-	-	-	-	-	-	-	(14,513)	(14,513)
	-	-	-	-	-	-	-	26,953	26,953
Amortisation of intangible assets - customer relationship - net of tax	-	-	-	(124,867)	-	-	(124,867)	-	(124,867)
Transfer to statutory reserve	-	-	-	-	-	495,392	495,392	(495,392)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	87,018	87,018
Provision against non-performing loans and advances directly charged to equity as per SBP directive and adjusted against Non-distributable Capital Reserve	-	-	-	(1,221,567)	-	-	(1,221,567)	-	(1,221,567)
Balance as at December 31, 2014	10,432,697	-	10,131	1,131,474	23,952	4,537,598	5,703,155	5,696,366	21,832,218

The annexed notes 1 to 48 and Annexures I to IV form an integral part of these financial statements.

PRESIDENT & CEO

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FAYSAL BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014

Note	2014	2013
	-----Rupees '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	3,551,785	2,160,779
Less: dividend income	(182,435)	(479,352)
	<u>3,369,350</u>	<u>1,681,427</u>
Adjustments for non-cash and other items:		
Depreciation	734,477	799,763
Amortisation	234,088	155,664
Workers' Welfare Fund	98,643	58,836
Provision against non-performing loans and advances - net	2,055,820	1,905,541
Provision for consumer and small enterprise loans - general	33,159	122,546
Provision for diminution in value of investments - net	397,383	111,043
Reversal of other provisions - net	(88,616)	(94,976)
Provision against off balance sheet obligations	6,981	11,167
Unrealised (gain) / loss on revaluation of investments classified as held for trading	(31,475)	19,127
Net profit on disposal of property and equipment	(18,193)	(19,667)
Net gain on disposal of non-banking assets	(145,108)	(123,436)
Charge for defined benefit plan	65,434	94,100
Amortisation of prepaid employee benefits	322,426	143,449
Recoveries against written-off debts	(134,506)	(33,903)
Share of loss / (profit) of associate	745	(6,657)
	<u>3,531,258</u>	<u>3,142,597</u>
	6,900,608	4,824,024
(Increase) / decrease in operating assets		
Lendings to financial institutions	300,000	(300,000)
Held for trading securities	(18,636,968)	(851,458)
Advances	(210,541)	(13,885,283)
Other assets	(2,404,914)	(588,395)
	<u>(20,952,423)</u>	<u>(15,625,136)</u>
Increase / (decrease) in operating liabilities		
Bills payable	379,164	724,116
Borrowings	15,255,679	9,085,160
Deposits and other accounts	12,211,436	30,426,194
Other liabilities	1,095,942	687,047
	<u>28,942,221</u>	<u>40,922,517</u>
	14,890,406	30,121,405
Income tax paid	(1,411,661)	(1,294,163)
Contribution to gratuity fund	-	(94,142)
Net cash generated from operating activities	<u>13,478,745</u>	<u>28,733,100</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	(1,098,438)	(23,993,166)
Net investment in held to maturity securities	(20,015,815)	(1,539,409)
Dividend income received	181,715	480,988
Investment in operating fixed assets	(580,567)	(564,577)
Proceeds realised on disposal of operating fixed assets	47,069	45,767
Proceeds realised on disposal of non-banking assets	536,940	460,205
Net cash used in investing activities	<u>(20,929,096)</u>	<u>(25,110,192)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of sub-ordinated loan	(500,200)	(699,601)
Dividends paid	(32)	(254)
Net cash used in financing activities	<u>(500,232)</u>	<u>(699,855)</u>
(Decrease) / Increase in cash and cash equivalents	<u>(7,950,583)</u>	<u>2,923,053</u>
Cash and cash equivalents at beginning of the year	28,617,034	25,693,981
Cash and cash equivalents at end of the year	<u>34</u> <u>20,666,451</u>	<u>28,617,034</u>

The annexed notes 1 to 48 and Annexures I to IV form an integral part of these financial statements.

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FAYSAL BANK LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1 STATUS AND NATURE OF BUSINESS

- 1.1 Faysal Bank Limited (the Bank) was incorporated in Pakistan on October 3, 1994 as a public limited company under the provisions of the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is mainly engaged in Corporate, Commercial and Consumer banking activities. The Bank has a network of 274 branches (2013: 269); including 58 Islamic banking branches (2013: 53) and 1 Islamic sub-branch (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 (DMIT), (ultimate parent of the Bank) is the holding company of Ithmaar Bank B.S.C. The DMIT 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' (December 31, 2012: 'AA') and the short term rating as 'A1+' (December 31, 2012: 'A1+').

2 BASIS OF PRESENTATION

- 2.1 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 financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- 2.2 The financial results of the Islamic banking branches have been consolidated in these financial statements for reporting purposes only. Inter branch transactions and balances have been eliminated.
- 2.3 In accordance with the directives issued by the SBP, the statement of financial position and the profit and loss account of Islamic banking branches are disclosed in Annexure III to these financial statements.

3 STATEMENT OF COMPLIANCE

- 3.1 These financial statements have 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 (IASB) and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the requirements of the Banking Companies Ordinance, 1962, or the directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, the IFAS notified under the Companies Ordinance, 1984 or the directives issued by the SECP and the SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFAS notified under the Companies Ordinance, 1984 or the requirements of the said directives issued by the SECP and the 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 S.R.O. 633(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. 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 annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP's requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

- 3.4** The SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, only the surplus / (deficit) on revaluation of available for sale (AFS) securities, 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 these financial statements.
- 3.5 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year**
- 3.5.1** 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. The standard is effective from January 1, 2014 and deals with the accounting for transactions relating to " Profit and Loss Sharing on Deposits" as defined by the standard. The standard may result in the addition of certain new disclosures. However, the SBP vide its BPRD Circular No. 4 dated February 25, 2015 has deferred the disclosure requirements of IFAS-3 which will be notified in due course.
- 3.5.2** There are certain 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 are, therefore, not disclosed in these financial statements.
- 3.6 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**
- 3.6.1** IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist where the determination of control is difficult to assess. The amendments may impact the financial statements of the Bank and the management is in the process of assessing the full impact of the change.
- 3.6.2** IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The amendments may impact the financial statements of the Bank and the management is in the process of assessing the full impact of the change.
- 3.6.3** There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2015 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that certain fixed assets are carried at revalued amounts and certain investments and derivative contracts have been marked to market and are carried at fair value. In addition, obligation in respect of staff retirement benefit is carried at present value.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgments in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of the accounting policies that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are disclosed in note 40 to these financial statements.

6 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise disclosed or specified.

7.1 Business Combination

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed as at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. The excess of the consideration transferred over the fair value of the Bank's share of identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss account. However, as more fully described in note 22.2 to these financial statements, the gain on bargain purchase arising on an acquisition made in 2010 has been recognised directly in equity as per the directives of the SBP.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognised in the profit and loss account and is not subsequently reversed.

Acquisition of non-controlling interests (NCI) is measured at the proportionate share of the NCI in the fair value of the net assets acquired by the Bank. The excess of the fair value of consideration transferred over the proportionate share of the NCI in the fair value of the net assets acquired is recognised in equity.

7.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, if any, and overdrawn nostro accounts.

7.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

(a) Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued over the period of the contract and recorded as an expense.

(b) Purchase of securities under repurchase agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. These transactions are accounted for on the settlement date. The difference between the purchase and contracted resale price is accrued over the period of the contract and recorded as income.

7.4 Investments

The Bank classifies its investments as follows:

(a) Held for trading

These are securities, which are either acquired for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements, or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

(b) Held to maturity

These are securities with fixed or determinable payments and maturity that the Bank has a positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those, in associates, that do not fall under either held for trading or held to maturity categories.

(d) Associates

Associates are all entities over which the bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

Investments other than those recognised as held for trading and associates are initially recognised at fair value which includes transaction costs associated with the investments. Investments classified as 'held for trading' and associates are initially recognised at fair value and transaction costs associated with the transactions are expensed in the profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity and investments in associates, are subsequently stated at market values. Investments classified as held to maturity are carried at cost, less accumulated impairment losses, if any. Unquoted equity securities (excluding associates) are valued at the lower of cost and break-up value. Break-up value of unquoted equity securities (excluding associates) is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities classified as 'available for sale' is included in the statement of comprehensive income but is kept in a separate account shown in the statement of financial position below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Investments in associates, where the Bank has significant influence, are accounted for using the equity method of accounting. Under the equity method of accounting, the investment in associate is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of net assets after the date of acquisition. The Bank's share of post acquisition profit and loss of associates is accounted for in the profit and loss account with a corresponding adjustment to the carrying amount of the investment. When the Bank's share of losses in associates equals or exceeds its interest in the associates, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associates. The Bank determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associates and their carrying value and recognises the amount in the profit and loss account. Profit and losses resulting from upstream and downstream transactions between the Bank and its associates are recognised in the Bank's financial statements only to the extent of unrelated investor's interests in the associates. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank. Dilution gains and losses arising on investments in associates are recognised in the profit and loss account.

Impairment loss in respect of investments classified as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in the fair value of a listed equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the requirements of the Prudential Regulations issued by the SBP. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / deficit on revaluation of securities on the statement of financial position below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain or loss on sale of investments is included in the profit and loss account currently.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using the effective interest method.

7.5 Advances**(a) Loans and advances**

Advances are stated net of specific and general provisions. Specific and general provisions for advances are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(b) Net investment in finance lease

Leases where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on the commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease. Specific and general provisions for net investment in finance lease are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(c) Ijara Assets (IFAS 2)

Ijara assets are stated at cost less accumulated depreciation and are recorded as part of loans and advances. The rentals received / receivable on Ijara under IFAS 2 are recorded as income / revenue. The Bank charges depreciation from the date of recognition of Ijara of respective assets. Ijara assets are depreciated over the period of Ijara using the straight line method. Impairment of Ijara assets is determined on the same basis as that of operating fixed assets. Impairment of Ijara rentals are determined in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(d) Murabaha

Murabaha transactions are accounted for at gross receivable net of specific and general provisions. Specific and general provisions are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(e) Diminishing Musharakah

In Diminishing Musharakah based financing, the Bank enters into Musharakah based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payments agreement for the utilization of the Bank's Musharakah share by the customer. Specific and general provisions are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account.

(f) Bai Muajjal

In Bai Muajjal financing, the Bank sells Shariah Compliant instruments on credit to customers. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period.

(g) Write-off

Non-performing: (a) loans and advances; (b) net investment in finance lease; (c) murabaha; and (d) other financing are written off only when possible courses of action to achieve recovery have proved unsuccessful.

7.6 Fixed assets and depreciation**(a) Tangible assets - owned**

Operating fixed assets other than land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Buildings are carried at revalued amount less any accumulated depreciation and subsequent impairment losses, if any. Land is carried at revalued amount less any subsequent impairment losses, if any

Depreciation on operating fixed assets (excluding land which is not depreciated) is charged using the straight line method in accordance with the rates specified in note 13.2 to these financial statements after taking into account residual value, if significant. The asset's residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenditure are charged to the profit and loss account as and when incurred.

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from their fair value.

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

(b) Tangible assets - leased

Leases are classified as finance lease wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Lease payments, if any, under operating lease are charged to income on a straight line basis over the lease term.

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. Leasehold land and buildings on leasehold land are subsequently revalued. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to the future periods.

The finance charges are allocated to the accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease, subsequent costs and gains / losses are recognised in a manner consistent with that for depreciable and other fixed assets which are owned by the Bank.

(c) Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

(d) Intangibles

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The intangible assets include directly attributable cost that are capitalised as part of the intangible asset and mainly comprise employee costs and an appropriate portion of the relevant overheads. Amortisation, except for customer relationship is charged applying the straight-line method over the useful lives of the assets. Amortisation is calculated so as to write-off the assets over their expected economic lives at rates specified in note 13.3 to these financial statements. Amortisation is charged from the month in which the asset is available for use. No amortisation is charged for the month in which the asset is disposed off. The intangible asset comprising customer relationship is being amortised over the life expectancy of the deposits. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Intangible assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any.

Gains and losses on disposals, if any, are taken to the profit and loss account in the period in which they arise.

7.7 Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

An impairment loss is reversed except for impairment loss relating to goodwill, if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the amount that would have been determined if no impairment loss had been recognised.

7.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or below equity, in which case it is recognised in equity or below equity.

Current

Provision for current taxation is based on taxable income for the year. Tax charge for the current year is determined in accordance with the prevailing laws for taxation. The charge for the current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. The charge for the current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities / fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS-12) Income Taxes.

7.9 Non-current assets held for sale and assets acquired in satisfaction of claim

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

Assets acquired in satisfaction of claim are stated at the lower of the financed amount and their market value at the time of acquisition. The Bank carries out periodic valuation of these assets and any decline in their value below the recognized amount is charged to the profit and loss account. These assets are disclosed in other assets as specified by the SBP.

7.10 Provisions and contingent assets and liabilities

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

Contingent assets are not recognised and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are not recognised and are disclosed unless the probability of an outflow of resources embodying economic benefits are remote.

7.11 Staff retirement benefits

a) Defined contribution plan

The Bank operates a contributory provident fund for all its permanent employees to which equal monthly contributions at the rate of 10 percent of basic salary are made both by the Bank and the employees.

b) Defined benefit scheme

The Bank operates an approved funded gratuity scheme for all its permanent eligible employees and eligible employees who are on contractual service and are employed under non-management cadre. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method is used for the actuarial valuation.

Amounts arising as a result of "Remeasurements", representing the actuarial gains and losses and the difference between the actual investment returns and the return implied by the net interest cost are recognised in the Statement of Financial Position immediately, with a charge or credit to "Other Comprehensive Income" in the periods in which they occur.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

7.12 Borrowings / deposits and their costs

Borrowings / deposits are recorded at the proceeds received. Borrowing / deposit costs are recognised as an expense in the period in which these are incurred to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) is capitalised as part of the cost of the asset.

7.13 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Balance Sheet Date' in the year in which they are approved / transfers are made.

7.14 Revenue recognition and other items

- Mark-up income / interest on advances and returns on investments are recognised on a time proportion basis except that mark-up income / interest / returns on non-performing advances and investments are recognised on receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Interest / returns / mark-up on rescheduled / restructured advances and investments are recognised as permitted by the State Bank of Pakistan, except where, in the opinion of the management, it would not be prudent to do so.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned finance income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.
- Unrealised finance income in respect of non-performing lease finance is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations issued by the SBP. Gains / losses on termination of lease contracts, documentation charges, front-end fee and other lease income are recognised as income when they are realised.
- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.
- Dividend income from investments is recognised when the Bank's right to receive the dividend is established.
- Fee, commission on letters of credit / guarantee, brokerage and others is recognised on time proportion basis.
- Financial advisory fee is recognised when the right to receive the fee is established.
- Rent and other income is recognised on accrual basis.

7.15 Foreign currencies

(a) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at rates determined with reference to their respective maturities. Forward purchase contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at the spot rate prevailing on the balance sheet date. The forward cover fee, if any, payable on contracts with the SBP is amortised over the term of the contract.

(b) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

7.16 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at committed amounts. Commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the reporting date.

7.17 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities.

7.18 Financial instruments**Financial assets and financial liabilities**

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, certain other assets, bills payable, borrowings, deposits, liabilities against assets subject to finance lease and certain other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Bank has a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements only when permitted by the approved accounting standards as applicable in Pakistan.

7.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

7.20 Segment reporting

Segment reporting is based on operating (business) segments of the Bank. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment's operating results are reviewed regularly, which have been presented according to the functional basis and the guidance of the SBP, to make decisions about resources to be allocated to the segment and assess its performance, and for which financial information is available. These have been presented as per the Bank's functional structure and guidance of the SBP. The segments of the Bank are as follows:

(a) Business Segments**(i) Corporate finance**

This includes investment banking activities such as mergers and acquisitions, underwriting, privatisation, securitisation, Initial Public Offers (IPOs), secondary private placements and etc.

(ii) Trading and Sales

It includes fixed income, equity, foreign exchanges, funding, own position securities, lendings and repos.

(iii) Retail banking

Retail banking provides services to small borrowers i.e. consumers, small enterprises, medium enterprises and agriculture sector. It includes loans, deposits, other transactions and balances with retail customers.

(iv) Corporate and commercial banking

This includes strategic partnership with Corporate and Commercial entities to provide working capital financing, trade financing, cash management services, project finance, export finance, leasing, guarantees, bills of exchange, deposits and other long term finance.

(b) Geographical segment

The operations of the Bank are currently based only in Pakistan.

	Note	2014	2013
		-----Rupees '000-----	
8	CASH AND BALANCES WITH TREASURY BANKS		
	In hand		
	- local currency	5,493,911	5,276,275
	- foreign currencies	1,935,347	1,610,342
	With the State Bank of Pakistan in		
	- local currency current accounts	8.1 4,446,559	13,362,758
	- foreign currency current accounts	8.2 1,254,532	1,331,830
	- foreign currency deposit accounts	8.3 3,672,057	3,981,210
	With the National Bank of Pakistan in		
	- local currency current accounts	3,455,114	2,855,297
	National prize bonds	28,331	4,785
		<u>20,285,851</u>	<u>28,422,497</u>
8.1	These include local currency current accounts maintained with the SBP as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by the SBP.		
8.2	This represents cash reserve of 5% maintained with the SBP in US dollars current account on deposits held under the New Foreign Currency Accounts (FE-25 deposits) as per BSD Circular No. 14 and 15 dated June 21, 2008.		
8.3	This represents special cash reserve of 15% maintained with SBP in US dollars under the requirements of BSD Circular No.14 dated June 21, 2008 local USD clearing account maintained with SBP to facilitate USD clearing and 6% special cash reserve requirement on FE-25 deposits maintained by Islamic Banking branches under the requirements of BSD Circular No.15 dated June 21, 2008. Profit rates on these balances are fixed on monthly basis by the SBP. The SBP has not remunerated any amount on these deposits during the current and the last year.		
9	BALANCES WITH OTHER BANKS	2014	2013
		-----Rupees '000-----	
	In Pakistan		
	- Current accounts	868,011	544,138
	Outside Pakistan		
	- Current accounts	554,688	415,180
	- Deposit account	-	52,662
		<u>1,422,699</u>	<u>1,011,980</u>
10	LENDINGS TO FINANCIAL INSTITUTIONS		
	Call money lendings	-	300,000
10.1	Particulars of lendings		
	In local currency	-	300,000

11 INVESTMENTS

Investments by type and segments, details of strategic investments and particulars of provisions are given below. The full break down of available for sale investments is given in Annexure I, which forms an integral part of these financial statements.

11.1 Investments by type

Note	2014			2013				
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total		
----- Rupees '000 -----								
Held for trading securities								
	Market Treasury Bills	11.2.1	16,355,610	7,918,016	24,273,626	7,195,165	1,031,758	8,226,923
	Pakistan Investment Bonds	11.2.2	2,467,424	318,224	2,785,648	-	-	-
	Fully paid up ordinary shares / certificates of closed end mutual funds		266,393	-	266,393	461,776	-	461,776
			19,089,427	8,236,240	27,325,667	7,656,941	1,031,758	8,688,699
Available for sale securities								
	Market Treasury Bills	11.2.1	33,390,917	11,054,584	44,445,501	39,771,651	22,593,710	62,365,361
	Pakistan Investment Bonds	11.2.2	15,333,043	19,890,625	35,223,668	19,280,139	-	19,280,139
	Ijara Sukuk Bonds	11.2.3	17,579,035	-	17,579,035	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 *		57,919	-	57,919	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 *		549,000	-	549,000	745,000	-	745,000
	- Faysal Asset Allocation Fund *		15,491	-	15,491	15,491	-	15,491
	- Faysal Financial Sector Opportunity Fund *		39,000	-	39,000	54,000	-	54,000
	Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	11.3.4 & 11.6	2,752,299	-	2,752,299	2,025,629	-	2,025,629
	Fully paid up preference shares		197,490	-	197,490	197,652	-	197,652
	Term finance certificates	11.3.2	932,300	-	932,300	960,273	-	960,273
			71,099,386	30,945,209	102,044,595	78,352,447	22,593,710	100,946,157
Held to maturity securities								
	Pakistan Investment Bonds	11.2.2	19,606,773	-	19,606,773	-	-	-
	Term finance certificates	11.3.3	2,798,791	-	2,798,791	3,033,053	-	3,033,053
	Sukuk Bonds	11.3.3	3,999,738	-	3,999,738	3,356,434	-	3,356,434
			26,405,302	-	26,405,302	6,389,487	-	6,389,487
Associate *								
	Fully paid up ordinary shares of Faysal Asset Management Limited	11.7	75,084	-	75,084	75,829	-	75,829
Investments								
			116,669,199	39,181,449	155,850,648	92,474,704	23,625,468	116,100,172
	Less: provision for diminution in the value of investments at cost	11.3 & 12.4.1	(2,828,212)	-	(2,828,212)	(2,430,829)	-	(2,430,829)
Investments (net of provisions)								
			113,840,987	39,181,449	153,022,436	90,043,875	23,625,468	113,669,343
	Surplus / (deficit) on revaluation of investments classified as held for trading - net	11.5	11,110	5,474	16,584	(14,417)	(474)	(14,891)
	Surplus / (deficit) on revaluation of investments classified as available for sale - net	23.2	1,084,848	1,086,645	2,171,493	(325,107)	(9,867)	(334,974)
Total investments - net								
			114,936,945	40,273,568	155,210,513	89,704,351	23,615,127	113,319,478

* related parties

11.1.1 Strategic Investments	Note	2014	2013
-----Rupees '000-----			
Available for sale securities - Listed			
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds		105,469	317,410
Units of open end mutual funds		7,480	7,480
		112,949	324,890
Available for sale securities - Unlisted			
Fully paid up ordinary shares		568,755	568,755
Associate - unlisted	11.7	75,084	75,829
		756,788	969,474
Provision for diminution in the value of investments		(464,030)	(496,965)
		292,758	472,509
Surplus on revaluation of investments classified as available for sale		104,191	145,935
		396,949	618,444

Strategic investments are those investments which the Bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to the fulfilment of the requirements prescribed by the SBP. The overall exposure limit for equity investments prescribed by the SBP does not apply to these investments. Further, as per the SBP's instructions in BPD Circular Letter No. 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date. However, these can be sold before the stipulated period with the prior permission of the SBP.

11.2 Investments by segments	Note	2014	2013
-----Rupees '000-----			
Federal Government Securities			
- Market Treasury Bills	11.2.1	68,719,127	70,592,284
- Pakistan Investment Bonds	11.2.2	57,616,089	19,280,139
- Ijara Sukuk Bonds	11.2.3	17,579,035	15,038,802
		143,914,251	104,911,225
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies / modarabas / mutual funds	11.3.4	2,369,026	1,837,739
- Unlisted companies		724,750	725,495
		3,093,776	2,563,234
Fully Paid up Preference Shares			
- Listed companies		122,490	122,652
- Unlisted companies		75,000	75,000
		197,490	197,652
		3,291,266	2,760,886
Term Finance Certificates			
- Listed		224,189	251,080
- Unlisted	11.3.2 & 11.3.3	3,506,902	3,742,246
		3,731,091	3,993,326
Units of Open end Mutual Funds			
		914,302	1,078,301
Sukuk Bonds	11.3.3	3,999,738	3,356,434
Total investments at cost		155,850,648	116,100,172
Less: provision for diminution in the value of investments	11.3 & 12.4.1	(2,828,212)	(2,430,829)
Investments (net of provisions)		153,022,436	113,669,343
Surplus / (deficit) on revaluation of investments classified as held for trading - net	11.5	16,584	(14,891)
Surplus / (deficit) on revaluation of investments classified as available for sale - net	23.2	2,171,493	(334,974)
Total investments - net		155,210,513	113,319,478

- 11.2.1** Market Treasury Bills have tenures of three months to one year. The Bank's return on these instruments ranges from 9.35% to 12% per annum (2013: 9.18% to 11% per annum) with maturities up to December 2015.
- 11.2.2** Pakistan Investment Bonds have tenures of 3 to 10 years. The Bank's return on these instruments ranges from 9.70% to 14.09% per annum (2013: 9.31% to 14.30% per annum) with maturities from July 2015 to July 2024.
- 11.2.3** GoP Ijara sukuk bonds have tenures of 1 to 3 years with maturities from March 2015 to June 2017. The Bank's return on these instruments ranges from 8.06% to 11.93% per annum (2013: 8.90% to 13.68% per annum).

	2014	2013
	-----Rupees '000-----	
11.3 Particulars of provision for diminution in the value of investments		
Opening balance	2,430,829	2,319,786
Charge for the year	549,145	663,826
Reversals during the year	(151,762)	(552,783)
	397,383	111,043
Closing balance	2,828,212	2,430,829

11.3.1 Particulars of provision for diminution in the value of investments by type and segment

Available for sale securities

- Fully Paid up Ordinary Shares / Modaraba Certificates / Certificates of Closed end Mutual Funds		
- Listed companies / modarabas / mutual funds	461,243	480,002
- Unlisted companies	498,983	498,983
- Fully Paid up Preference Shares		
- Listed companies	22,490	22,652
- Unlisted companies	18,750	-
- Units of Open end Mutual Funds	1,368	1,486
- Term Finance Certificates		
- Listed	162,976	167,902
- Unlisted	458,511	450,000

Held to maturity securities

- Term Finance Certificates		
- Unlisted	807,579	533,087
- Sukuk Bonds	396,312	276,717
	2,828,212	2,430,829

- 11.3.2** These include Pre IPO investment of Rs 500 million made in the unlisted term finance certificates (TFCs) of Dewan Cement Limited. The SBP through its letter BPRD/BLRD-3/DMG/2011-1035 dated January 26, 2011 had advised banks to maintain provision at least upto 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 year ended December 31, 2014 would have been higher by Rs 50 million (2013: Rs 50 million) and the profit before taxation for the year ended December 31, 2014 would have been lower by Rs 50 million (2013: Rs 50 million).

11.3.3 These include the term finance certificates and sukuk bonds of Rs 999.172 million (2013: Rs 999.172 million) and Rs 500 million (2013: Rs 500 million) respectively issued by Agritech Limited (a related party of the Bank). The impact of relaxation availed by the Bank for maintaining the provision against these investments is disclosed in note 12.4.1 to these financial statements.

11.3.4 These include 8,868,843 equity shares (2013: 8,868,843) of Rs 310.410 million (2013: Rs 310.410 million) of Agritech Limited (a related party of the Bank) acquired at the rate of Rs 35 each as part of debt share swap agreement with Azgard Nine Limited. The impact of relaxation availed by the Bank for impairment against these shares is disclosed in note 12.4.1 to these financial statements.

11.4 Quality of available for sale securities

The details regarding the quality of available for sale securities and their mark-up / interest and other terms are contained in Annexure I, which forms an integral part of these financial statements.

	2014	2013
	-----Rupees '000-----	
11.5 Surplus / (deficit) on revaluation of investments classified as held for trading		
Market Treasury Bills	2,694	(3,424)
Pakistan Investment Bonds	17,060	-
Fully paid up ordinary shares / certificates of closed end mutual fund	<u>(3,170)</u>	<u>(11,467)</u>
	<u>16,584</u>	<u>(14,891)</u>

11.6 These include an investment of the Bank in unlisted shares of DHA Cogen Limited (DHA) (a related party of the Bank) representing 19.1% (2013: 19.1%) equity holding of DHA. During 2013, the Bank acquired additional equity shares of 9.35% by exercising its rights over pledged shares of DHA after eventual non-compliance by DHA in respect of 'Rehabilitation and Standstill Agreement' made between the consortium banks (including the Bank) and DHA for repayment of liabilities.

11.7 The Bank does not prepare consolidated financial statements as it does not have any subsidiary company as at December 31, 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 period ended December 31, 2014 with a corresponding adjustment to the carrying amount of investment. The details of the Bank's investment and post acquisition changes relating to FAML are as under:

	2014	2013
	-----Rupees '000-----	
11.7.1 Faysal Asset Management Limited - percentage holding 30% (2013: 30%)		
At January 1	75,829	69,172
Post acquisition changes during the year		
- Recognised in the profit and loss account	(745)	6,657
At December 31	<u>75,084</u>	<u>75,829</u>
Cost of Investment	<u>45,000</u>	<u>45,000</u>

11.7.2 Particulars of the assets and liabilities of the associate

Assets	<u>279,063</u>	<u>282,478</u>
Liabilities	<u>28,783</u>	<u>29,714</u>
Revenue	<u>114,775</u>	<u>145,596</u>
(Loss) / profit	<u>(2,483)</u>	<u>22,189</u>

	Note	2014	2013
-----Rupees '000-----			
12 ADVANCES			
Loans, cash credits, running finances, etc. – in Pakistan	12.4.1	188,265,398	188,593,008
Net investment in finance lease – in Pakistan	12.2	<u>11,047,764</u>	<u>10,085,694</u>
		199,313,162	198,678,702
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		<u>4,136,469</u>	<u>4,319,771</u>
- Payable outside Pakistan		<u>1,130,241</u>	<u>1,234,513</u>
		5,266,710	5,554,284
Margin financing / reverse repo transactions		<u>96,200</u>	<u>110,200</u>
Gross advances		204,676,072	204,343,186
Provision against non-performing advances	12.4,12.4.3 & 12.7	<u>(23,011,743)</u>	<u>(19,746,517)</u>
Provision against consumer and small enterprise loans - general	12.4,12.5 & 12.6	<u>(439,524)</u>	<u>(406,365)</u>
		(23,451,267)	(20,152,882)
Advances - net of provision		<u>181,224,805</u>	<u>184,190,304</u>
12.1 Particulars of advances (Gross)			
12.1.1 In local currency		203,520,420	202,725,652
In foreign currencies		<u>1,155,652</u>	<u>1,617,534</u>
		204,676,072	204,343,186
12.1.2 Short term (upto one year)		135,166,374	114,047,238
Long term (over one year)		<u>69,509,698</u>	<u>90,295,948</u>
		204,676,072	204,343,186
12.1.3 Net investment in Ijarah - Ijarah accounted for under IFAS-2			
Movement in net book value of Ijarah assets			
Assets under Ijarah			
Opening balance		<u>37,717</u>	<u>3,285</u>
Disbursed during the year		<u>512,536</u>	<u>34,432</u>
Disposals during the year		-	-
Closing balance		550,253	37,717
Accumulated depreciation			
Opening balance		<u>9,179</u>	<u>457</u>
Charged during the year		<u>26,542</u>	<u>8,722</u>
Adjustment during the year		-	-
Closing balance		35,721	9,179
Net investment in Ijarah	12.1.4	<u>514,532</u>	<u>28,538</u>

12.1.4 Net investment in Ijarah

	2014				2013			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
-----Rupees '000-----								
Ijarah rentals receivable	233,576	367,152	-	600,728	8,281	7,594	-	15,875

The difference between net investment in Ijarah and Ijarah rental receivable represents element of profit in receivable.

12.2 Net investment in finance lease

	2014				2013			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	----- Rupees '000 -----							
Lease rentals receivable	747,049	6,641,401	16,740	7,405,190	823,782	5,792,337	107,161	6,723,280
Residual value	871,622	3,860,117	9,608	4,741,347	887,271	3,422,363	54,364	4,363,998
Minimum lease payment	1,618,671	10,501,518	26,348	12,146,537	1,711,053	9,214,700	161,525	11,087,278
Finance charge for future periods	(97,573)	(994,302)	(6,898)	(1,098,773)	(94,042)	(868,128)	(39,414)	(1,001,584)
Present value of minimum lease payment	1,521,098	9,507,216	19,450	11,047,764	1,617,011	8,346,572	122,111	10,085,694

12.3 Advances includes Rs. 29,293 million (2013: Rs. 27,619 million) which have been placed under non-performing status as detailed below:

Note	2014									
	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)	12.3.1	206,095	-	206,095	36	-	36	36	-	36
Substandard		2,717,410	-	2,717,410	406,705	-	406,705	406,705	-	406,705
Doubtful		1,675,067	-	1,675,067	523,630	-	523,630	523,630	-	523,630
Loss		24,694,748	-	24,694,748	22,081,372	-	22,081,372	22,081,372	-	22,081,372
		<u>29,293,320</u>	<u>-</u>	<u>29,293,320</u>	<u>23,011,743</u>	<u>-</u>	<u>23,011,743</u>	<u>23,011,743</u>	<u>-</u>	<u>23,011,743</u>
	----- 2013 -----									
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)	12.3.1	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
		<u>27,618,619</u>	<u>-</u>	<u>27,618,619</u>	<u>19,746,517</u>	<u>-</u>	<u>19,746,517</u>	<u>19,746,517</u>	<u>-</u>	<u>19,746,517</u>

12.3.1

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

12.4 Particulars of provision against non-performing advances and general provision

	2014			2013		
	Specific	General	Total	Specific	General	Total
	Note 12.5 & 12.6			Note 12.5 & 12.6		
	----- Rupees '000 -----					
Opening balance	19,746,517	406,365	20,152,882	18,268,251	283,819	18,552,070
Recognised in the profit & loss account						
- Charge for the year	2,900,885	33,159	2,934,044	3,825,655	122,546	3,948,201
- Reversals during the year	(845,065)	-	(845,065)	(1,920,114)	-	(1,920,114)
	2,055,820	33,159	2,088,979	1,905,541	122,546	2,028,087
Recognised in equity						
- Provision against non-performing loans and advances adjusted against NCR (note 22.2)	1,221,567	-	1,221,567	-	-	-
Net charge	3,277,387	33,159	3,310,546	1,905,541	122,546	2,028,087
Amounts written off - note 12.8.1	(12,161)	-	(12,161)	(427,275)	-	(427,275)
Closing balance	<u>23,011,743</u>	<u>439,524</u>	<u>23,451,267</u>	<u>19,746,517</u>	<u>406,365</u>	<u>20,152,882</u>

12.4.1 This includes classified advances of Rs 350 million disbursed to Agritech Limited (AGL). In addition, as disclosed in notes 11.3.3 and 11.3.4, 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 2,067.716 (net of FSV benefit) million as at December 31, 2014 against the above exposure of AGL. The required provision as per the approved accounting standards as applicable in Pakistan and as per the requirements of the Prudential Regulations 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 75%, 80%, 85%, 90% and 100% of the required provision as at 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 1,550.787 million - net of FSV benefit (including impairment loss of Rs 181.257 million) (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 year would have been lower by Rs 516.929 million and the provision against advances and investments would have been higher by Rs 85.852 million and Rs 431.077 million respectively.

12.4.2 As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs 2,771.857 million (2013: Rs 3,601.242 million) relating to advances and Rs 28.324 million (2013: Rs 76.914 million) relating to investments while determining the provisioning requirement against non-performing financing (including investments) as at December 31, 2014. The additional profit arising from availing the FSV benefit - net of tax as at December 31, 2014 which is not available for distribution as either cash or stock dividend to shareholders and bonus to employees amounted to approximately Rs 1,820.118 million (2013: Rs 2,390.801 million).

12.4.3 Particulars of provision against non-performing advances:

	2014			2013		
	Specific	General	Total	Specific	General	Total
	-----Rupees '000-----					
In local currency	23,011,743	439,524	23,451,267	19,746,517	406,365	20,152,882
In foreign currencies	-	-	-	-	-	-
Total	<u>23,011,743</u>	<u>439,524</u>	<u>23,451,267</u>	<u>19,746,517</u>	<u>406,365</u>	<u>20,152,882</u>

12.5 The Bank maintains general provision in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing, Housing Finance and Small and Medium Enterprise Financing issued by the SBP. As per these regulations, the Bank maintains general provision as follows:

	Note	Secured	Unsecured
Housing Finance Portfolio	12.6	1.5%	-
Consumer portfolio		1.5%	5.0%
Small enterprise portfolio		1.0%	2.0%

12.6 During the year, the SBP has issued new Prudential Regulations (PRs) for Housing Finance vide IH&SMEFD Circular No.3 dated May 06, 2014. Based on the new regulations, the guidelines have been introduced for maintenance of general provision between 0.5% - 1.5% of performing Housing Finance (HF) portfolio. The new guidelines have also changed the classification criteria based on overdue days and percentage of provision for making specific provision against HF portfolio. Under the new guidelines the category of Other Assets Especially Mentioned (OAEM) has been introduced and the basis of classification of loans and advances under the remaining three categories has been redefined whereby all loans and advances overdue by 90 days, 180 days, 1 year and 2 years are now required to be classified as OAEM, substandard, doubtful and loss respectively. Previously, these loans were classified as substandard, doubtful and loss based on the different prescribed ageing criteria. The new guidelines specify that provision should be made in the financial statements equal to 0 percent, 25 percent, 50 percent and 100 percent, in respect of overdue loans and advances classified as OAEM, substandard, doubtful and loss respectively, of the outstanding balances of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged asset.

Had the provision against non-performing loans and advances been determined in accordance with the previous guidelines of the SBP, the provision would have been higher by Rs 0.328 million.

12.7 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.

12.8 Particulars of write-offs	Note	-----Rupees '000-----	
		2014	2013
12.8.1 Against provisions		12,161	427,275
Bad debts written-off directly		13,604	164,301
Recoveries against written-off debt		(148,110)	(198,204)
Net recoveries against written-off debt credited to profit and loss account		(134,506)	(33,903)
		<u>(122,345)</u>	<u>393,372</u>
12.8.2 Write-offs of Rs. 500,000 and above	12.9	11,350	441,058
Write-offs below Rs. 500,000		14,415	150,518
Recoveries against write-offs		(148,110)	(198,204)
		<u>(122,345)</u>	<u>393,372</u>

12.9 Details of loan write-offs of Rs 500,000 and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2014 is given in Annexure - II to these financial statements. However, the write-off of loans does not affect the Bank's right to recover the outstanding loans from these customers.

12.10 Particulars of loans and advances to directors, associated companies, etc.	2014	2013
	-----Rupees '000-----	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons *		
Balance at beginning of the year	2,602,261	2,500,839
Loans granted during the year	638,945	836,762
Repayments during the year	(918,554)	(735,340)
Balance at end of the year	<u>2,322,652</u>	<u>2,602,261</u>
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members **		
Balance at beginning of the year	2,654,970	3,639,386
Loans granted during the year	1,778,823	11,579,524
Repayments during the year	(1,192,678)	(12,563,940)
Balance at end of the year	<u>3,241,115</u>	<u>2,654,970</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties **		
Balance at beginning of the year	800,735	800,735
Loans granted during the year	-	-
Repayments during the year	-	-
Balance at end of the year	<u>800,735</u>	<u>800,735</u>

* These represent loans given by the Bank to its employees as per the terms of their employment.

** Provision held against the loans provided to related parties amounted to Rs 2,827.738 million (2013: Rs 2,583.053 million).

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

12.10.2 Maximum total amount of advances (including temporary advances) outstanding at the end of any month during the year

	2014	2013
	-----Rupees '000-----	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons	<u>2,614,902</u>	<u>2,602,261</u>
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members	<u>3,252,967</u>	<u>9,598,729</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	<u>800,735</u>	<u>800,735</u>

13 OPERATING FIXED ASSETS**Note**

Capital work-in-progress	13.1	145,908	220,325
Tangible fixed assets	13.2	9,108,566	7,560,732
Intangible assets	13.3	2,288,882	2,469,853
		<u>11,543,356</u>	<u>10,250,910</u>

13.1 Capital work-in-progress

Civil works	15,797	1,805
Equipment	99,834	99,449
Advances to suppliers and contractors	30,277	119,071
	<u>145,908</u>	<u>220,325</u>

13.2 Tangible fixed assets

Particulars	2014								Book value at December 31, 2014	Rate of depreciation (%)
	COST				ACCUMULATED DEPRECIATION					
	As at January 1, 2014	Additions / revaluation surplus / adjustments*	Deletions / write-off	As at December 31, 2014	As at January 1, 2014	Additions/ revaluation surplus/ adjustments*	On deletions / write-off	As at December 31, 2014		
-----Rupees 000-----										
Owned										
Freehold land	1,243,295	- 112,543	(7,000)	1,348,838	-	-	-	-	1,348,838	-
Leasehold land	2,253,080	- 242,350	-	2,495,430	-	-	-	-	2,495,430	-
Building on freehold	234,796	- 905 (39,515) *	-	196,186	142,522	15,808 (84,649) (39,492) *	-	34,189	161,997	5
Building on leasehold land	3,457,850	2,970 726,249 (12,194) *	(576)	4,174,299	768,568	249,905 (734,728) (12,178) *	(576)	270,991	3,903,308	5
Leasehold property and improvement	1,525,264	128,017 - 51,708 *	(35,392)	1,669,597	1,140,743	124,987 - 51,670 *	(27,593)	1,289,807	379,790	5 to 20
Office furniture, fixtures, equipment and computers	5,156,246	218,017	(73,216)	5,301,047	4,410,517	311,004	(69,255)	4,652,266	648,781	20 to 33.33
Vehicles	261,907	60,760	(32,386)	290,281	109,356	32,773	(22,270)	119,859	170,422	20
Total Owned	14,132,438	1,491,810	(148,570)	15,475,678	6,571,706	(84,900)	(119,694)	6,367,112	9,108,566	

Particulars	2013								Book value at December 31, 2013	Rate of depreciation (%)
	COST				ACCUMULATED DEPRECIATION					
	As at January 1, 2013	Additions / adjustments*	Deletions / write-off	As at December 31, 2013	As at January 1, 2013	Additions	On deletions / write-off	As at December 31, 2013		
-----Rupees 000-----										
Owned										
Freehold land	1,260,795	-	(17,500)	1,243,295	-	-	-	-	1,243,295	-
Leasehold land	2,253,080	-	-	2,253,080	-	-	-	-	2,253,080	-
Building on freehold	234,796	-	-	234,796	105,908	36,614	-	142,522	92,274	5
Building on leasehold land	3,307,191	165,139 (14,480) *	-	3,457,850	523,994	259,050	(14,476)	768,568	2,689,282	5
Leasehold property and improvement	1,559,437	121,048 14,480 *	(169,701)	1,525,264	1,188,651	106,185	(154,093)	1,140,743	384,521	5 to 20
Office furniture, fixtures, equipment and computers	4,690,801	516,805	(51,360)	5,156,246	4,093,071	367,034	(49,588)	4,410,517	745,729	20 to 33.33
Vehicles	228,516	55,225	(21,834)	261,907	94,614	30,880	(16,138)	109,356	152,551	20
Total Owned	13,534,616	858,217	(260,395)	14,132,438	6,006,238	799,763	(234,295)	6,571,706	7,560,732	

13.2.1 Included in cost of operating fixed asset are fully depreciated items still in use having cost of Rs 5,256.468 million (2013: Rs 4,905.113 million).

13.2.2 On December 31, 2014, the Bank's freehold / leasehold land and building on freehold / leasehold land were revalued by Iqbal A. Nanjee Co. Private Limited on the basis of professional assessments of the market value. As a result of the revaluation of these assets, the market value of freehold / leasehold land and building on freehold / leasehold land were determined at Rs 7,909.573 million. The results of this revaluation exercise have determined a surplus of Rs 1,901.424 million.

Had there been no revaluation, the carrying amount of revalued assets as at December 31, 2014 would have been Rs 3,941.506 million (2013: Rs 4,081.620 million).

13.3 Intangible assets

Particulars	2014								Book value at December 31, 2014	Rate of amortisation % per annum
	COST				ACCUMULATED AMORTISATION					
	As at January 1, 2014	Additions	Deletions	As at December 31, 2014	As at January 1, 2014	Charge to profit and loss account / transferred to equity	Charge on deletions	As at December 31, 2014		
-----Rupees 000-----										
Computer software	1,493,883	245,220	-	1,739,103	956,863	234,088	-	1,190,951	548,152	20 to 33.33
Customer Relationship - note 13.3.2	2,557,167	-	-	2,557,167	624,334	-	-	816,437	1,740,730	Note 13.3.2
	4,051,050	245,220	-	4,296,270	1,581,197	234,088	-	2,007,388	2,288,882	
						192,103				

Particulars	2013								Book value at December 31, 2013	Rate of amortisation % per annum
	COST				ACCUMULATED AMORTISATION					
	As at January 1, 2013	Additions	Deletions	As at December 31, 2013	As at January 1, 2013	Charge to profit and loss account / transferred to equity	Charge on deletions	As at December 31, 2013		
-----Rupees 000-----										
Computer software	975,818	518,065	-	1,493,883	801,199	155,664	-	956,863	537,020	20 to 33.33
Customer Relationship - note 13.3.2	2,557,167	-	-	2,557,167	432,231	-	-	624,334	1,932,833	Note 13.3.2
	3,532,985	518,065	-	4,051,050	1,233,430	155,664	-	1,581,197	2,469,853	
						192,103				

13.3.1 The intangible assets include fully amortised items still in use having cost of Rs 822.175 million (2013: Rs 706.798 million).

13.3.2 The intangible asset comprises of core deposits which were recognised at the time of acquisition of Ex-RBS Pakistan. These core deposits represent the funding benefit that would be available to the Bank on account of availability of funding through deposit customers rather than from the wholesale or interbank market. This benefit also considers the fact that the economic life time of these deposits is longer than their contractual life. Based on this assumption, this intangible asset has been valued using certain valuation techniques and is being amortised over the life expectancy of these deposits. As more fully explained in note 22.2 to the financial statements the SBP allowed the Bank to adjust the amortisation of intangible assets against non-distributable capital reserve.

13.4 Details of disposal of fixed assets to executives, and other persons having cost of more than Rs 1 million or net book value of Rs 250,000 or above are disclosed in Annexure IV to these financial statements.

	Note	2014	2013
-----Rupees '000-----			
14 DEFERRED TAX ASSETS - NET			
Deferred credits arising due to:			
- Accelerated tax depreciation		(30,340)	(127,153)
- Surplus on revaluation of securities	23.2	(733,975)	-
- Fair value adjustments relating to net assets acquired upon amalgamation		(609,256)	(678,944)
- Surplus on revaluation of fixed assets	23.1	(935,226)	(436,591)
- Remeasurement of defined benefit obligations		(35,446)	(20,932)
- Share of profit from associate		(10,529)	(10,790)
Deferred debits arising due to:			
- Deficit on revaluation of securities	23.2	-	153,725
- Provision against non-performing advances		3,290,482	3,083,128
- Provision for diminution in the value of investments		984,070	856,002
- Provision against other assets		68,637	99,653
- Unused tax losses (including unabsorbed depreciation)		440,400	1,062,443
		<u>2,428,817</u>	<u>3,980,541</u>

15	OTHER ASSETS	Note	2014	2013
			-----Rupees '000-----	
	Income / mark-up accrued in local currency		6,770,686	4,910,605
	Income / mark-up accrued in foreign currencies		58,084	51,213
	Advances, deposits, advance rent and other prepayments		726,148	874,863
	Taxation (payments less provisions)		3,737,611	3,323,957
	Branch adjustment account		27,954	-
	Non-banking assets acquired in satisfaction of claims	15.1, 15.4 & 15.5	1,913,178	2,305,011
	Credit cards and other products fee receivable		284,791	168,802
	Fair value of derivative contracts	25.3 & 25.4	-	330,534
	Dividend receivable		95,113	94,393
	Receivable from brokers against sale of shares		196,140	27,047
	Prepaid employee benefits	15.2	206,921	529,347
	Advance against Islamic financing		1,468,739	825,051
	Others		842,761	806,241
			<u>16,328,126</u>	<u>14,247,064</u>
	Less: Provision held against other assets	15.3	<u>(318,383)</u>	<u>(443,067)</u>
	Other assets (net of provisions)		<u>16,009,743</u>	<u>13,803,997</u>
15.1	Market value of non-banking assets acquired in satisfaction of claims - determined by professional valuer		<u>2,595,165</u>	<u>2,938,709</u>

15.2 The prepaid employee benefits represent the impact of fair value adjustment on employee loans and advances which was determined at the time of acquisition of Ex-RBS Pakistan and is being amortized over the loan periods.

15.3	The movement of prepaid employee benefits is as follows:	Note	2014	2013
			-----Rupees '000-----	
	Prepaid employee benefits at beginning of the year		529,347	672,796
	Employee benefits expensed during the year		<u>(322,426)</u>	<u>(143,449)</u>
	Prepaid employee benefits at the end of the year		<u>206,921</u>	<u>529,347</u>

15.3 Provision against other assets

Opening balance		443,067	538,043
Charge for the year		187,845	109,489
Reversals		<u>(276,461)</u>	<u>(204,465)</u>
		(88,616)	(94,976)
Transfer of provision	20.2	<u>(36,068)</u>	-
Closing balance		<u>318,383</u>	<u>443,067</u>

15.4 Non- current assets held for sale

These include properties having carrying value of Rs 1,778.6 million which have been classified as 'Non-current assets held for sale' as at December 31, 2014. A formal plan to dispose of these properties is in place and it is expected that the process of sale of these properties will be completed in the near future.

15.5 On one of these properties is a claim by an individual to the extent of Rs 35 million (2013: Rs 35 million).

16	BILLS PAYABLE	2014	2013
		-----Rupees '000-----	
	In Pakistan	5,345,594	4,965,424
	Outside Pakistan	2,180	3,186
		<u>5,347,774</u>	<u>4,968,610</u>

	Note	2014	2013
-----Rupees '000-----			
17	BORROWINGS		
	In Pakistan	59,884,764	44,629,085
	Outside Pakistan	1,042,099	817,443
		<u>60,926,863</u>	<u>45,446,528</u>
17.1	Particulars of borrowings with respect to currencies		
	In local currency	59,884,764	44,629,085
	In foreign currencies	1,042,099	817,443
		<u>60,926,863</u>	<u>45,446,528</u>
17.2	Details of borrowings secured / unsecured		
	Secured		
	Borrowings from the State Bank of Pakistan		
	- Under export refinance scheme - Part I and II	17.3 15,315,794	15,108,132
	- Under scheme for long term financing for export oriented projects	17.4 156,000	376,807
	- Under long term financing facility	17.5 2,695,118	2,942,799
	- Agri finance (flood affected)	-	50,500
	- Under scheme of financing facility for storage of agricultural produce	17.6 273,564	391,297
	- Islamic export refinance scheme	-	300,000
	Repurchase agreement borrowings	17.7 40,094,288	23,609,550
		58,534,764	42,779,085
	Unsecured		
	Call borrowings	17.8 1,350,000	1,850,000
	Overdrawn nostro accounts	1,042,099	817,443
		2,392,099	2,667,443
		<u>60,926,863</u>	<u>45,446,528</u>
17.3	In accordance with the Export Refinance (ERF) scheme, the Bank has entered into agreements for financing with the SBP for extending export finance to customers. As per the agreement, the Bank has granted the SBP a right to recover the outstanding amount from the Bank at the maturity date of finances by directly debiting the current account of the Bank maintained with the SBP. Borrowing from the SBP under the export refinance scheme is secured by the Bank's cash and security balances held by the SBP. The mark-up rate on this facility is 5.5% to 6.5% per annum (2013: 8.2% to 8.4% per annum) payable on quarterly basis with maturities upto 180 days from the date of grant.		
17.4	These represent borrowings from the SBP under scheme for long term financing for export oriented projects. The mark-up rate on these facilities is 5% per annum (2013: 5% per annum) payable on quarterly basis with maturities upto May 2017. As per the agreement, the Bank has granted the SBP a right to recover the outstanding amount from the Bank at the maturity date of finances by directly debiting the current account of the Bank maintained with the SBP.		
17.5	These represent borrowings from the SBP under scheme for Long Term Financing facility. The mark-up rates on these facilities are ranging from 6% to 10.10% per annum (2013: 6.50% to 10.10% per annum), payable on quarterly basis, with maturities upto May 2022. As per the agreement, the Bank has granted the SBP a right to recover the outstanding amount from the Bank at the maturity date of finances by directly debiting the current account of the Bank maintained with the SBP.		
17.6	These represent borrowings from the SBP under scheme of financing facility for storage of agricultural produce. The mark-up rates on these facilities are ranging from 5.5% to 6.5% per annum (2013: 5.5% to 6.5% per annum) payable on quarterly basis with maturities upto February 2021. As per the agreement, the Bank has granted the SBP a right to recover the outstanding amount from the Bank at the maturity date of finances by directly debiting the current account of the Bank maintained with the SBP.		
17.7	These represent collateralized borrowings against market treasury bills and Pakistan Investment Bonds at the rate of 9.40% to 9.50% per annum (2013: 10% per annum) payable on maturity with maturities upto January 2015.		

- 17.8 These borrowings are from the financial institutions. The mark-up rate on these borrowings is 9.25% per annum (2013: 6% to 10% per annum) payable on maturity with maturities upto January 2015.

18 DEPOSITS AND OTHER ACCOUNTS	2014	2013
	-----Rupees '000-----	
Customers		
Fixed deposits	95,714,523	92,803,300
Saving deposits	87,507,426	86,464,689
Current accounts – Remunerative	2,572,655	2,306,983
Current accounts – Non-remunerative	85,073,620	78,787,509
Margin accounts	2,067,200	2,032,215
	<u>272,935,424</u>	<u>262,394,696</u>
Financial Institutions		
Remunerative deposits	10,167,344	8,467,508
Non-remunerative deposits	242,971	272,099
	<u>10,410,315</u>	<u>8,739,607</u>
	<u>283,345,739</u>	<u>271,134,303</u>
18.1 Particulars of deposits		
In local currency	258,385,068	244,449,273
In foreign currencies	24,960,671	26,685,030
	<u>283,345,739</u>	<u>271,134,303</u>

19 SUB-ORDINATED LOANS

These represent rated and un-secured Term Finance Certificates (TFCs) issued by the Bank. The salient features of the issue are as follows:

	Note	2014	2013
		-----Rupees '000-----	
Outstanding amount	19.1	<u>2,995,200</u>	<u>3,495,400</u>
Total issue amount		<u>3,000,000</u>	<u>4,000,000</u>

19.1	Particulars	TFC (issue date: 27-12-2010)
Outstanding amount	Rs. 2,995.2 million (2013: Rs. 2,996.4 million)	
Issue amount	Rs. 3,000 million	
Rating as at June 30, 2014	"AA-" (Double A Minus) by JCR-VIS [2013: AA-(Double A Minus)]	
Listing	Unlisted	
Rate	Base Rate Plus 2.25%	
	The Base Rate is defined as the ask side of six months Karachi Inter bank Offered Rate (KIBOR) prevailing on the base rate setting date.	
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.	
Date of issue	December 2010	
Tenure and maturity	7 years from the date of issue.	
Principal repayment	Semi annually as follows: 0.20% of principal in first 60 months and remaining principal in four semi-annual installments of 24.95% starting from 66th month.	
Profit payment	Profit is payable semi-annually in arrears.	

- 19.2 The corresponding amount of 2013 includes TFC of Rs 499 million. During the year, the Bank has repaid this TFC as per its term. The TFC was issued in November 2007 with the total issue amount of Rs 1,000 million.

	Note	2014	2013
		-----Rupees '000-----	
20 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		2,172,969	1,855,010
Mark-up / return / interest payable in foreign currencies		7,658	9,726
Unearned commission / income		108,479	167,202
Accrued expenses		863,913	1,118,883
Unclaimed dividends		39,803	39,835
Branch adjustment account		-	12,713
Unrealised loss on revaluation of forward foreign exchange contracts		271,359	123,483
Fair value of derivative contracts	25.3 & 25.4	1,443	-
Withholding tax payable		81,178	74,138
Federal excise duty payable		26,485	25,713
Security deposits against finance leases	20.1	3,658,600	3,371,724
Provision against off-balance sheet obligations	20.2	94,014	50,965
Payable to brokers against purchase of shares		65,066	24,941
Others	20.3	1,816,665	1,194,340
		<u>9,207,632</u>	<u>8,068,673</u>
20.1	These represent interest free security deposits received from lessees against lease contracts and are adjustable against residual value of leased assets at the expiry of the respective lease terms.		
	Note	2014	2013
		-----Rupees '000-----	
20.2 Provision against off-balance sheet obligations			
Opening balance		50,965	39,798
Charge for the year		6,981	11,167
Transfer from provision against other assets	15.3	36,068	-
Closing balance		<u>94,014</u>	<u>50,965</u>
20.3	The Bank has recognised a provision amounting to Rs 149.772 million in respect of employee infidelity during the year ended December 31, 2014.		
21 SHARE CAPITAL			
21.1 Authorised Share capital			
		2014	2013
		Number of Shares	
		<u>1,200,000,000</u>	<u>1,200,000,000</u>
		Ordinary shares of Rs. 10 each	
		<u>12,000,000</u>	<u>12,000,000</u>
21.2 Issued, subscribed and paid-up capital			
		2014	2013
		Number of shares	
		201,451,420	201,451,420
		824,346,006	824,346,006
		17,472,226	17,472,226
		<u>1,043,269,652</u>	<u>1,043,269,652</u>
		Ordinary shares	
		2,014,514	2,014,514
		8,243,461	8,243,461
		174,722	174,722
		<u>10,432,697</u>	<u>10,432,697</u>
21.3	As at December 31, 2014, Ithmaar Bank B.S.C. (the holding company of the Bank) through its subsidiaries and nominees held 696,666,196 ordinary shares of Rs. 10 each (2013: 696,666,196 ordinary shares).		
21.4	The movement in the issued, subscribed and paid-up capital during the year was as follows:		
		2014	2013
		Number of shares	
		1,043,269,652	927,350,802
		-	115,918,850
		<u>1,043,269,652</u>	<u>1,043,269,652</u>
	Note	2014	2013
		-----Rupees '000-----	
		10,432,697	9,273,508
		-	1,159,189
		<u>10,432,697</u>	<u>10,432,697</u>
22 RESERVES			
Statutory reserve	22.1	4,537,598	4,042,206
Capital reserve			
Reserve arising on amalgamation		23,952	23,952
Share premium		10,131	10,131
Non-distributable capital reserve - gain on bargain purchase	22.2	1,131,474	2,477,908
		<u>5,703,155</u>	<u>6,554,197</u>

22.1 Appropriations are made to statutory reserve, as required by section 21 of the Banking Companies Ordinance, 1962, at the rate 20% of profit after tax for the year.

22.2 NON-DISTRIBUTABLE CAPITAL RESERVE- GAIN ON BARGAIN PURCHASE

As per the directive of the 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 directive 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 this reserve. The balance amount of reserve, after incorporation of the adjustment as identified by BID of the SBP 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 of the SBP in the acquired loans and advances portfolio of the Ex-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 the remaining amount 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 these financial statements by debiting the NCR appearing in equity with a corresponding adjustment to provision against loans and advances.

23 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX	Note	2014	2013
		-----Rupees '000-----	
Surplus / (deficit) arising on revaluation of:			
- Fixed assets	23.1	3,032,840	1,759,720
- Available for sale securities	23.2	<u>1,437,518</u>	<u>(181,249)</u>
		<u>4,470,358</u>	<u>1,578,471</u>
23.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets at January 1		2,196,311	2,318,167
Surplus on revaluation of fixed assets recognised during the year		1,901,424	-
Transferred to un-appropriated profit in respect of incremental depreciation charged during the year		(87,018)	(79,206)
Related deferred tax liability in respect of incremental depreciation charged during the year		(42,650)	(42,650)
		<u>(129,668)</u>	<u>(121,856)</u>
		3,968,067	2,196,311
Related deferred tax liability on surplus at January 1		(436,591)	(479,241)
Related deferred tax liability on surplus recognised during the year		(541,286)	-
Related deferred tax liability in respect of incremental depreciation charged during the year		42,650	42,650
		<u>(935,227)</u>	<u>(436,591)</u>
		<u>3,032,840</u>	<u>1,759,720</u>

	2014	2013
	-----Rupees '000-----	
23.2 Surplus / (deficit) on revaluation of investments classified as available for sale		
Federal Government Securities		
- Market Treasury Bills	144,961	(30,229)
- Pakistan Investment Bonds	1,784,616	(669,405)
- Ijara Sukuk Bonds	(56,361)	144,770
Fully Paid up Ordinary Shares / Modaraba Certificates / Units of Closed end Mutual Funds		
- Listed companies / modarabas / mutual funds	244,793	200,491
Fully Paid up Preference Shares		
- Unlisted companies	2,003	-
Term Finance Certificates		
- Listed	(434)	(298)
- Unlisted	6,951	11,312
Units of Open end Mutual Funds	44,964	8,385
	<u>2,171,493</u>	<u>(334,974)</u>
Related deferred tax (liability) / asset	<u>(733,975)</u>	<u>153,725</u>
	<u>1,437,518</u>	<u>(181,249)</u>
24 CONTINGENCIES AND COMMITMENTS		
24.1 Direct credit substitutes		
Contingent liability in respect of guarantees favouring:		
- Banking companies and other financial institutions	<u>618,456</u>	<u>825,498</u>
Acceptances		
- Others	<u>10,719,676</u>	<u>13,139,248</u>
24.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
- Government	8,098,193	7,382,176
- Banking companies and other financial institutions	12,765	18,777
- Others	1,870,207	2,830,604
	<u>9,981,165</u>	<u>10,231,557</u>
24.3 Trade-related contingent liabilities		
Letters of credit		
- Government	2,292,534	6,903,344
- Others	16,781,954	18,317,222
	<u>19,074,488</u>	<u>25,220,566</u>
24.4 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>30,404,910</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 these financial statements.

- (iv) Income tax assessments of the Bank have been finalised upto the tax year 2014 (Accounting year 2013). Return of income for tax year 2015 will be e-filed within due date.

The department and the Bank have disagreements on certain matters in different tax years. 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 2,044.680 million.

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

24.5 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.

	2014	2013
	-----Rupees '000-----	
24.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	2,019,028	1,629,491
- Banks	33,335,629	31,733,550
	<u>35,354,657</u>	<u>33,363,041</u>
Sale		
- Customers	980,313	2,337,278
- Banks	17,398,632	12,948,403
	<u>18,378,945</u>	<u>15,285,681</u>
24.7 Commitments for the acquisition of operating fixed assets	<u>118,310</u>	<u>286,323</u>
24.8 Commitments in respect of donation	<u>8,000</u>	<u>8,000</u>
24.9 Commitments in respect of repo transactions		
Repurchase	<u>40,116,082</u>	<u>23,622,480</u>
Resale	<u>305,244</u>	<u>299,186</u>
25 DERIVATIVE INSTRUMENTS		
Interest rate swaps and cross currency swaps (notional principal)	<u>67,864</u>	<u>20,130,348</u>

Derivative instruments, such as Forward Rate Agreement, Interest Rate Swaps, Cross Currency Swaps and FX Options, are forward transactions that provide market making opportunities / hedge against the adverse movement of interest and exchange rates. Derivatives business provides risk solutions for the existing and potential customers of the Bank. All Derivative transactions are governed by the Financial Derivative Business Regulations (FDBR) issued by the State Bank of Pakistan (SBP).

25.1 Derivative Risk Management

The Bank's derivatives risk management is performed under Market Risk Management which is an independent unit reporting to the Chief Risk Officer. The risk management policies are governed by regulatory and internal guidelines. Risk management department of the Bank reviews credit risk, market risk and other risks associated with the derivative transactions or related area of the activity and assigns limits within which the transactions / area of activity can be carried out. Adherence to these limits is ensured through independent monitoring and control functions.

There are a number of risks undertaken by the Bank, which need to be monitored and assessed. The management of risks includes the following primary components:

- Comprehensive risk measurement approach;
- Detailed structure of limits, guidelines and other parameters used to govern risk taking; and
- Strong management information system for controlling, monitoring and reporting risks.

Major risks associated with the derivative instruments are market risk, credit risk and liquidity risk. The Bank uses SunGard-Sierra to measure and manage these risks which provides end-to-end capability with respect to transaction life cycle.

Market risk

The risk that the value of a derivative contract will be adversely affected by movements in equity prices, interest rates, currency exchange rates and commodity prices. The authority for approving policies, limits and periodic reviews rest with the Board of Directors. The critical measures used to manage market risks are Interest Rate Delta, Currency Delta Basis and Value-at-Risk. These measures involve extreme shifts in a variety of parameters, such as FX rates, interest rates, equity prices, implied volatility levels and combinations of the above. These measures are calculated through the relevant systems.

Credit risk

The risk that a party to a derivative contract will fail to perform its obligation. There are two types of credit risk associated with the derivative transactions 1) settlement, and 2) pre-settlement risk. Pre-Settlement risk is monitored on daily basis. Risk Management sets the policies and limits for counterparty risk based on a pre-defined criteria linked with the internal risk rating of the customer.

Liquidity risk

Liquidity risk is managed as part of the overall liquidity risk of the Bank. The risk management policies related to liquidity risk are explained in more detail in note 44.7 to these financial statements.

25.2 Product analysis

	2014		2013	
	Cross Currency Swaps		Interest Rate and Cross Currency Swaps	
	No. of Contracts	Notional Principal Rupees '000	No. of Contracts	Notional Principal Rupees '000
Counterparties				
With Banks for				
Hedging	-	-	2	9,743,356
Market Making	-	-	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	1	67,864	13	10,386,992
Total				
Hedging	-	-	2	9,743,356
Market Making	1	67,864	13	10,386,992
	1	67,864	15	20,130,348

25.3 Maturity analysis

Cross currency swaps

Remaining maturity

	2014				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Rupees '000					
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 months to 1 year	1	67,864	(70,705)	69,262	(1,443)
1 to 2 years	-	-	-	-	-
2 to 3 years	-	-	-	-	-
3 to 5 years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
	1	67,864	(70,705)	69,262	(1,443)

Interest rate & cross currency swaps
Remaining Maturity

	2013				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- Rupees '000 -----		
Upto 1 month	-	-	-	-	-
1 to 3 months	9	300,103	(300,610)	202,078	(98,532)
3 to 6 months	-	-	-	-	-
6 months to 1 year	4	19,486,713	(326,563)	756,653	430,090
1 to 2 years	1	138,960	(142,151)	143,623	1,472
2 to 3 years	1	204,572	(212,735)	210,239	(2,496)
3 to 5 years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
	<u>15</u>	<u>20,130,348</u>	<u>(982,059)</u>	<u>1,312,593</u>	<u>330,534</u>

25.4 As at December 31, 2014 the fair value of the derivative financial instruments has been determined using valuation techniques with significant inputs such as forecasted market interest rate and foreign exchange rate. The determination of the fair value of these instruments is most sensitive to these key assumptions. Any significant change in these key assumptions may have an effect on the fair value of these derivative financial instruments.

	2014	2013
	-----Rupees '000-----	
26 MARK-UP / RETURN / INTEREST EARNED		
a) On financing to:		
i) customers	21,041,398	19,684,893
ii) financial institutions	35,617	45,128
b) On investments in:		
i) held for trading securities	386,062	462,722
ii) available for sale securities	8,645,104	6,707,461
iii) held to maturity securities	1,643,252	392,084
c) On deposits with treasury bank and financial institutions	16,205	46,486
d) On securities purchased under resale agreements	137,176	160,189
e) Others	407,819	291,505
	<u>32,312,633</u>	<u>27,790,468</u>
27 MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	13,990,871	12,654,607
Securities sold under repurchase agreements	1,095,753	893,885
Other short term borrowings	1,669,978	1,488,813
SBP borrowings	1,319,496	1,471,953
Sub-ordinated loans	404,093	436,057
	<u>18,480,191</u>	<u>16,945,315</u>
28 GAIN SALE OF SECURITIES - NET		
Gain / (loss) on sale of:		
Federal Government Securities		
- Market Treasury Bills	38,378	345,244
- Pakistan Investment Bonds	155,622	23,893
- Ijara Sukuk Bonds	156	137
Fully Paid up Ordinary Shares / Modaraba Certificates / Units of Closed end Mutual Funds	262,335	(120,987)
Units of Open end Mutual Funds	3,986	58,042
	<u>460,477</u>	<u>306,329</u>
29 OTHER INCOME		
Rent on property	128,564	148,905
Net gain on disposal of operating fixed assets	18,193	19,667
Net gain on disposal of non-banking assets	145,108	123,436
Income on derivative contracts - net	249,707	235,138
Income from disposal of scrap	8,329	1,451
Notice pay recovered from outgoing employees	-	3,589
Gain on realisation of proceeds on liquidation of a subsidiary	-	17,129
Miscellaneous charges recovered	997	24,243
	<u>550,898</u>	<u>573,558</u>

30 ADMINISTRATIVE EXPENSES	Note	2014	2013
		-----Rupees '000-----	
Salaries, allowances and other employee benefits	30.1 & 30.2	5,474,022	4,885,383
Charge for defined benefit plan	36.7	65,434	94,100
Contribution to defined contribution plan	37	131,373	137,136
Non-executive directors' fees		52,276	24,940
Rent, taxes, insurance, electricity, etc.		1,983,749	1,921,914
Legal and professional charges		291,122	195,490
Communications		308,508	397,395
Repairs and maintenance		780,667	654,976
Stationery and printing		264,768	177,075
Advertisement and publicity		137,010	116,066
Donations	30.4	36,998	46,458
Auditors' remuneration	30.5	33,450	24,861
Depreciation	13.2	734,477	799,763
Amortisation	13.3	234,088	155,664
License and technical fee		274,213	170,204
Travelling, conveyance and entertainment		131,829	166,061
Vehicle running expenses		241,969	250,560
Books, periodicals and subscription		106,683	85,479
Brokerage and commission		42,599	45,565
Bank fees and charges		121,094	64,062
Security expenses		340,140	291,770
Public relation and sponsorship		131,989	110,119
Fee and documentation charges		88,479	87,326
Others		155,097	176,755
		<u>12,162,034</u>	<u>11,079,122</u>

30.1 This includes charge amounting to Rs 322.426 million (2013: Rs 143.449 million) in respect of amortisation of prepaid employee benefits as disclosed in note 15.2 to these financial statements.

30.2 During the year the Bank offered voluntary staff separation scheme to its permanent employees. The Bank has recognised a cost of Rs 453.499 million (which includes an amount of Rs 35.769 million paid as ex-gratia) in this respect.

30.3 The Bank operates a employee benefit scheme which includes special bonus for all employees including President. Under this scheme, the bonus for all Executives, including the Chief Executive Officer and President of the Bank is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount paid to eligible employees in respect of the above scheme relating to all Executives and for the President of the Bank amounted to Rs 307.850 million (2013: Rs 253.249 million) and Rs Nil (2013: Rs 55 million) respectively.

30.4 Donations made during the year were as follows:	2014	2013
	-----Rupees '000-----	
Donee		
Institute of Business Administration (IBA)	-	18,000
Waqf Faisal (Trust)	36,998	28,458
	<u>36,998</u>	<u>46,458</u>

Directors or their spouse have no interest in any of the donee other than 'Waqf Faisal (Trust)' (a charitable public welfare project), where the President and Chief Executive Officer of the Bank is acting as trustee.

30.5 Auditors' remuneration	2014	2013
	-----Rupees '000-----	
Statutory audit fee	3,000	2,822
Fee for quarterly and annual group reporting	7,900	6,209
Fee for the review of the half yearly financial statements	825	753
Tax services	9,100	6,000
Special certifications and sundry advisory services	10,375	7,077
Out-of-pocket expenses	2,250	2,000
	<u>33,450</u>	<u>24,861</u>

		2014	2013
		-----Rupees '000-----	
31 OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		123,183	57,839
Workers' Welfare Fund		98,643	58,836
		<u>221,826</u>	<u>116,675</u>
32 TAXATION			
For the year			
Current		1,712,150	1,078,186
Deferred		(446,581)	(467,370)
		1,265,569	610,816
For prior years			
Current		(812,786)	(1,612,830)
Deferred		622,043	1,312,887
		(190,743)	(299,943)
		<u>1,074,826</u>	<u>310,873</u>
32.1 Relationship between tax expense and accounting profit			
Profit before tax		3,551,785	2,160,779
Tax calculated at the rate of 35% (2013: 35%)		1,243,125	756,273
Effect of:			
- permanent differences		116,702	(22,960)
- income chargeable to tax at reduced rate		(45,969)	(104,627)
- prior year reversal		(190,743)	(299,943)
- others		(48,289)	(17,870)
Tax charge for the year		<u>1,074,826</u>	<u>310,873</u>
33 EARNINGS PER SHARE			
Profit after tax for the year		2,476,959	1,849,906
			Number of shares in thousands
Weighted average number of ordinary shares outstanding during the year		1,043,270	1,043,270
			-----Rupees-----
Earnings per share - basic		<u>2.37</u>	<u>1.77</u>
33.1	Diluted earnings per share has not been presented as the Bank does not have any convertible instruments in issue at December 31, 2014 and December 31, 2013 which would have any effect on the earnings per share if the option to convert is exercised.		
34 CASH AND CASH EQUIVALENTS	Note	2014	2013
		-----Rupees '000-----	
Cash and balances with treasury banks	8	20,285,851	28,422,497
Balances with other banks	9	1,422,699	1,011,980
Overdrawn nostros	17.2	(1,042,099)	(817,443)
		<u>20,666,451</u>	<u>28,617,034</u>
35 STAFF STRENGTH		2014	2013
		Number of employees	
Permanent		3,024	3,596
Temporary / on contractual basis		12	14
Bank's own staff strength at the end of the year		3,036	3,610
Outsourced	35.1	2,084	3,256
Total staff strength		<u>5,120</u>	<u>6,866</u>

35.1 Outsourced staff are employees hired by an outside contractor / agency and posted in the Bank to perform various tasks / activities of the Bank.

36 DEFINED BENEFIT PLAN

36.1 General description

The Bank operates an approved funded gratuity scheme for all its permanent employees and employees who are on contractual service in non-management cadre. The benefits under the gratuity scheme are payable on retirement at the age of 60 years or earlier cessation of service in lump sum. The benefit is equal to one month's last drawn basic salary for each year of eligible service or part thereof. The minimum qualifying eligible service for gratuity is 1 year for employees who became members of the Fund before November 12, 2002. In the case of other members of the Fund the minimum qualifying eligible service is 5 years. The minimum qualifying eligible service for contractual employees not employed under the management cadre is 6 months. The latest actuarial valuation of the Bank's defined benefit plan, based on Projected Unit Credit Actuarial Cost Method, was carried out as at December 31, 2014.

The Gratuity scheme exposes the entity to the following risks:

Mortality risks

The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service / age distribution and the benefit.

Investment risks

The risk of the investment underperforming and not being sufficient to meet the liabilities. This is managed by formulating proper investment plan in consultation with the investment advisors of the Fund.

Risk of insufficiency of assets

This is managed by making regular contribution to the Fund as advised by the actuary.

Final salary risks

The risk that the final salary at the time of cessation of service is higher than what we assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

Withdrawal risks

The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service / age distribution and the benefit.

36.2 Principal actuarial assumptions	Note	2014	2013
Discount factor used (% per annum)		11.25	12.75
Expected rate of salary increase (% per annum)		11.25	12.75
Normal retirement age (years)		60	60
		2014	2013
		-----Rupees '000-----	
36.3 The amount recognised in the statement of financial position are determined as follows:			
Present value of defined benefit obligations	36.5	528,773	541,719
Fair value of plan assets	36.4	<u>(602,394)</u>	<u>(639,308)</u>
		<u>(73,621)</u>	<u>(97,589)</u>
36.4 Plan assets consist of the following:			

	2014		2013	
	Quoted	Non-Quoted	Quoted	Non-Quoted
	----- Rupees '000 -----			
Balances with banks and financial institutions	-	7,054	-	7,039
Debt instruments:				
- Government	363,321	232,019	632,269	-
- Corporate	-	-	-	-
	<u>363,321</u>	<u>239,073</u>	<u>632,269</u>	<u>7,039</u>

36.5 The movement in the defined benefit obligation over the year is as follows:

	2014		
	Present value of obligation	Fair value of plan assets	Total
-----Rupees '000-----			
At January 1	541,719	(639,308)	(97,589)
Current service cost	109,571	-	109,571
Past service cost	(30,476)	-	(30,476)
Interest expense / (income)	70,549	(84,210)	(13,661)
	149,644	(84,210)	65,434
	691,363	(723,518)	(32,155)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest (income) / expense	-	(8,588)	(8,588)
- Loss from change in demographic assumptions	16	-	16
- Loss from change in financial assumptions	1,749	-	1,749
- Experience (gains) / losses	(34,643)	-	(34,643)
	(32,878)	(8,588)	(41,466)
Contribution	-	-	-
Benefit payments	(129,712)	129,712	-
At December 31	528,773	(602,394)	(73,621)
	2013		
	Present value of obligation	Fair value of plan assets	Total
-----Rupees '000-----			
At January 1	430,334	(534,886)	(104,552)
Current service cost	105,936	-	105,936
Past service cost	-	-	-
Interest expense / (income)	56,853	(68,689)	(11,836)
	162,789	(68,689)	94,100
	593,123	(603,575)	(10,452)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	23,823	23,823
- Gain from change in demographic assumptions	(315)	-	(315)
- Gain from change in financial assumptions	(897)	-	(897)
- Experience (gains) / losses	(15,606)	-	(15,606)
	(16,818)	23,823	7,005
Contribution	-	(94,142)	(94,142)
Benefit payments	(34,586)	34,586	-
At December 31	541,719	(639,308)	(97,589)

36.6 Analysis of present value of defined benefit obligation

	2014	2013
	-----Rupees '000-----	
Split by type of members		
(i) Active employees	521,460	541,719
(ii) Deferred	-	-
(iii) Retired members	7,313	-
	528,773	541,719

	2014	2013
	-----Rupees '000-----	
Split by vested / non-vested		
(i) Vested benefits	466,589	346,348
(ii) Non-vested benefits	62,184	195,371
	<u>528,773</u>	<u>541,719</u>
Split by cadre of members		
(i) Management	524,702	541,077
(ii) Non-Management (Contractuals)	4,071	642
	<u>528,773</u>	<u>541,719</u>
Split by benefits earned to date		
(i) Present value of guaranteed benefits	202,624	189,506
(ii) Present value of benefits attributable to future increase in salary	326,149	352,213
	<u>528,773</u>	<u>541,719</u>
36.7 Charge for defined benefit plan		
Current service cost	109,571	105,936
Past service cost	(30,476)	-
Net interest cost	(13,661)	(11,836)
	<u>65,434</u>	<u>94,100</u>

36.8 The plan assets and defined benefit obligations are based in Pakistan.

36.9 Assumptions regarding future mortality are set based on the actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with one year age set back.

36.10 The sensitivities of the defined benefit obligation to changes in the weighted principal assumptions are as under:

	Impact on defined benefit obligation - Increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
	-----Rupees '000-----		
Discount rate	1%	469,427	583,064
Salary increase rate	1%	467,936	583,770
		<u>Increase by 1 year in assumption</u>	<u>Decrease by 1 year in assumption</u>
		-----Rupees '000-----	
Life expectancy / withdrawal rate		523,796	532,418

The above analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognised within the statement of financial position.

36.11 The weighted average duration of the defined benefit obligation is 10.89 years.

36.12 Expected maturity analysis of the undiscounted defined benefit obligation for the gratuity scheme is as follows:

At December 31, 2014	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
	----- Rupees '000 -----				
Gratuity	<u>30,190</u>	<u>46,736</u>	<u>190,994</u>	<u>18,113,474</u>	<u>18,381,394</u>

	2014	2013	2012	2011	2010
36.13 Historical information	Rupees '000				
Defined benefit obligation	(528,773)	(541,719)	(430,334)	(374,945)	(277,157)
Fair value of plan assets	602,394	639,308	534,886	368,641	245,286
Surplus / (deficit)	73,621	97,589	104,552	(6,304)	(31,871)
Remeasurements of plan liabilities	32,878	16,818	53,177	38,924	24,523
Remeasurements of plan assets	8,588	(23,823)	19,778	(15,508)	1,277

36.14 Funding levels are monitored on an annual basis and are based on actuarial recommendations. Gratuity cost comprising the service cost and the net interest cost for the next year works out to Rs. 100.814 million as per the actuarial valuation report of the Bank as at December 31, 2014.

36.15 The disclosure made in notes 36.2 to 36.14 are based on the information included in the actuarial valuation report of the Bank as at December 31, 2014.

37 DEFINED CONTRIBUTION PLAN

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 10% of the basic salary. The financial statements of the fund are separately prepared and are not included as part of these financial statements.

38 COMPENSATION OF DIRECTORS AND EXECUTIVES

Particulars	President & Chief Executive Officer		Directors		Executives	
	2014	2013	2014	2013	2014	2013
	Rupees '000					
Managerial remuneration	33,518	68,399	-	-	708,944	775,729
Fees	-	-	52,276	24,940	-	-
Charge for defined benefit plan	2,688	3,614	-	-	51,195	55,640
Contribution to defined contribution plan	3,226	4,336	-	-	61,436	66,768
Rent and house maintenance	6,579	10,544	-	-	276,047	301,608
Utilities	1,745	312	-	-	62,595	68,499
Medical	312	700	-	-	43,708	49,092
Leave fare assistance	140	-	-	-	94,870	103,805
Others	608	2,936	-	-	530,365	575,117
	48,816	90,841	52,276	24,940	1,829,160	1,996,258
Number of persons	2	1	10	9	637	697

38.1 Executives mean employees, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

38.2 The President & Chief Executive and certain senior executives are provided with Bank maintained cars in accordance with the terms of their employment.

38.3 In addition to the above, all executives, including the President & Chief Executive Officer of the Bank are also entitled to bonus which is disclosed in note 30.3 to these financial statements.

38.4 On cessation of employment of the former President & Chief Executive Officer, an amount of Rs 333.164 million was paid as ex-gratia settlement. In addition to this, an amount of Rs 179.562 million was paid to certain executives who opted for voluntary separation scheme.

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

	Book value		Fair value	
	2014	2013	2014	2013
----- Rupees '000 -----				
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	20,285,851	28,422,497	20,285,851	28,422,497
Balances with other banks	1,422,699	1,011,980	1,422,699	1,011,980
Lendings to financial institutions	-	300,000	-	300,000
Investments	155,210,513	113,319,478	156,318,170	113,284,002
Advances	181,224,805	184,190,304	181,224,805	184,190,304
Other assets	9,741,900	7,213,886	9,741,900	7,213,886
	<u>367,885,768</u>	<u>334,458,145</u>	<u>368,993,425</u>	<u>334,422,669</u>
Liabilities				
Bills payable	5,347,774	4,968,610	5,347,774	4,968,610
Borrowings	60,926,863	45,446,528	60,926,863	45,446,528
Deposits and other accounts	283,345,739	271,134,303	283,345,739	271,134,303
Sub-ordinated loans	2,995,200	3,495,400	2,995,200	3,495,400
Other liabilities	8,750,766	7,750,655	8,750,766	7,750,655
	<u>361,366,342</u>	<u>332,795,496</u>	<u>361,366,342</u>	<u>332,795,496</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	35,354,657	33,363,041	34,721,465	33,080,784
Commitments in respect of repurchase transactions	40,116,082	23,622,480	40,116,082	23,622,480
Forward sale of foreign exchange	18,378,945	15,285,681	18,017,112	15,126,907
Commitments in respect of resale transactions	305,244	299,186	305,244	299,186

The notional amounts and fair value of derivative financial instruments are disclosed in note 25.3 to these financial statements.

The carrying value of traded investments is based on quoted market price, except for marketable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD circular No.14 dated September 24, 2004. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest audited financial statements.

Fair value of fixed term advances, other assets, other liabilities, fixed term deposits and sub-ordinated loans cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision against investments and advances has been calculated in accordance with the Bank's accounting policy as stated in note 7.4 and 7.5 to these financial statements. Commitments in respect of repurchase and resale transactions are stated at the transaction amount.

The repricing profile and effective rates and maturity are stated in note 44.6 and 44.7 respectively.

The fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of customer advances and substantial deposits, are regularly repriced.

40 ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Bank's accounting policies. Estimates and judgments are evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The significant accounting areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of the accounting policies are as follows:

- i) classification and provisioning against investments (notes 7.4 and 11).
- ii) income taxes (notes 7.8, 14 and 32).
- iii) classification and provisioning against advances (notes 7.5 and 12).
- iv) depreciation / amortisation of operating fixed assets (notes 7.6 and 13).
- v) accounting for defined benefit plan (notes 7.11 and 36).
- vi) fair value of derivative financial instruments (notes 7.18 and 25).
- vii) impairment of intangible assets (note 7.6 and 13.3).
- viii) impairment of assets (note 7.7)

41 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
- Corporate & Commercial Banking

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

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
	Rupees '000				
December 31, 2014					
Total income	142,849	6,713,312	24,545,026	5,284,870	36,686,057
Total expenses	(84,123)	(4,085,130)	(24,291,630)	(5,748,215)	(34,209,098)
Net income / (loss)	<u>58,726</u>	<u>2,628,182</u>	<u>253,396</u>	<u>(463,345)</u>	<u>2,476,959</u>
Segment assets (Gross)	-	149,750,065	74,629,428	190,344,153	414,723,646
Segment non performing loans	-	-	3,599,658	25,693,662	29,293,320
Segment provision required against loans **	-	-	(2,367,920)	(21,083,347)	(23,451,267)
Segment liabilities	-	(42,447,414)	(280,986,592)	(38,389,202)	(361,823,208)
Segment return on assets (ROA) (%) *	<u>-</u>	<u>2.43%</u>	<u>0.39%</u>	<u>(0.25%)</u>	
Segment cost of funds (%) *	<u>-</u>	<u>5.59%</u>	<u>5.76%</u>	<u>9.07%</u>	
December 31, 2013					
Total income	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)	<u>112,431</u>	<u>1,539,220</u>	<u>(12,935)</u>	<u>211,190</u>	<u>1,849,906</u>
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) (%) *	<u>-</u>	<u>2.19%</u>	<u>(0.02%)</u>	<u>0.12%</u>	
Segment cost of funds (%) *	<u>-</u>	<u>8.57%</u>	<u>5.71%</u>	<u>8.78%</u>	

* These percentages have been computed based on average balances.

** includes general provision

42 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its holding company, associated undertaking, associated 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.

Banking transactions with the related parties are executed substantially on the same terms, except transactions with directors and key management personnel that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk.

	2014			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	----- Rupees '000 -----			
Deposits				
Balance at the beginning of the year	190,399	116,373	2,544	1,140,702
Placements during the year	2,206,535	1,638,924	3,882,338	67,752,154
Withdrawals during the year	(2,289,128)	(1,668,267)	(3,879,741)	(68,842,748)
Balance at end of the year	<u>107,806</u>	<u>87,030</u>	<u>5,141</u>	<u>50,108</u>
Advances *				
Balance at the beginning of the year	24,901	-	-	3,455,705
Disbursements during the year	50,123	-	-	1,778,823
Repayments during the year	(16,731)	-	-	(1,192,678)
Balance at end of the year	<u>58,293</u>	<u>-</u>	<u>-</u>	<u>4,041,850</u>
	2013			
	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	<u>190,399</u>	<u>116,373</u>	<u>2,544</u>	<u>1,140,702</u>
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	<u>24,901</u>	<u>-</u>	<u>-</u>	<u>3,455,705</u>

* Provision held against advances amounted to Rs 2,827.738 million (2013: Rs 2,583.053 million).

- 42.1** Balances pertaining to parties that were related at the beginning of the year but ceased to be so related during any part of the current period are not reflected as part of the closing balance. The same are accounted for through the movement presented above.
- 42.2** Details of outstanding investments and donations made during the year relating to related parties are given in note 11 and 30.4 to these financial statements. Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, loans due by directors, executives, subsidiary companies and other related parties are given in note 12.10 to these financial statements. Contributions to and accruals in respect of retirement benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan (refer notes 36 and 37 to these financial statements for the details of the plans). Remuneration of the President and Chief Executive Officer, directors' fee and certain related information are disclosed in note 38 and 30.3 to these financial statements. Such remuneration is determined in accordance with the terms of their employment. Details of disposal of vehicles to key management personnel and other executives are disclosed in Annexure IV to these financial statements. Details of shares held by the holding company are disclosed in note 21.3 to these financial statements.

Particulars	2014				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Shares / units purchased during the year	-	-	-	-	55,000
Shares / units sold during the year	-	-	-	-	222,722
Government securities purchased during the year	1,039,295	1,148,989	-	-	-
Government securities sold during the year	1,276,459	576,651	-	-	-
Profit paid / accrued	9,101	7,440	-	449	20,610
Profit return / earned	2,218	-	-	-	15,971
Remuneration of the key management personnel					
- Salaries and other short-term employee benefits	611,688	-	-	-	-
- Post-employment benefits	16,281	-	-	-	-
Contribution / charge relating to staff retirement benefits	-	196,807	-	-	-
Guarantees issued favouring related parties or on their behalf	-	-	-	-	29,397 *
Dividend Income	-	-	-	-	56,723
Capital gain	-	-	-	-	3,722

Particulars	2013				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Shares / units purchased during the year	-	-	-	-	2,441,913
Shares / units sold during the year	-	-	-	-	3,751,722
Government securities purchased during the year	1,352,730	-	-	-	-
Government securities sold during the year	1,360,004	561,001	-	-	-
Profit paid / accrued	8,132	16,876	-	238	21,405
Profit return / earned	2,198	-	-	-	352,139
Gain on realisation of proceeds on liquidation of a subsidiary	-	-	17,129	-	-
Remuneration of the key management personnel					
- Salaries and other short-term employee benefits	339,448	-	-	-	-
- Post-employment benefits	18,619	-	-	-	-
Contribution / charge relating to staff retirement benefits	-	231,236	-	-	-
Guarantees issued favouring related parties or on their behalf	-	-	-	-	37,013 *
Advisory fee paid	-	-	-	69,505	-
Dividend income	-	-	-	-	118,538
Facilitation fee received	-	-	-	2,413	-
Capital gain	-	-	-	-	47,332

* represents outstanding guarantee

43 CAPITAL - ASSESSMENT AND ADEQUACY BASEL SPECIFIC

The State Bank of Pakistan (SBP) has introduced new guidelines with respect to disclosure of capital adequacy related information in the financial statements of Banks vide its communication dated November 05, 2014. These disclosures are based on the requirements of Basel III which were introduced earlier by the SBP in August 2013 for implementation by Banks in Pakistan. The SBP has specified a transitional period till 2018 for the implementation of Basel III requirements.

The Basel III Capital Regulation (Basel III) is applicable to the Bank and its associate Faysal Asset Management Limited (FAML). The Bank has no subsidiary therefore as per regulatory guidelines, consolidation is not required for reporting / disclosure purpose.

Under Basel III framework, Bank's regulatory capital has been analysed into two tiers as follows:

- Tier 1 capital (going concern capital) which is sub divided into:
 - a) Common Equity Tier 1 (CET1), which includes fully paid up capital, reserve for bonus issue, general reserves and un-appropriated profits (net of losses), etc after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities (to the extent of 50%), reciprocal crossholdings and deduction for book value of intangibles.
 - b) Additional Tier 1 capital (AT1), which includes instruments issued by the Bank which meet the specified criteria after deduction of remaining 50% investment in the equity of subsidiary companies engaged in banking and financial activities and other specified deductions.

Presently the Bank does not have any AT1 capital.

- Tier II capital, which includes subordinated debt, general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets and available for sale investments after deduction of deficit on available for sale investments (as per Basel III phase in approach requirement).

The sub-ordinated debt is not entirely eligible under Basel III guidelines due to introduction of Loss absorbency clause. This instrument will be phased out from Tier 2 capital as per the defined phase out arrangement in the regulatory guidelines.

Banking operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to the specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.

Capital Management

The objective of capital management is to ensure the Bank's ability to operate as a going concern by maintaining appropriate capital base in line with minimum regulatory requirements. The Bank has implemented the applicable requirements of Basel III capital adequacy framework that applies to all Banks as prescribed under BPRD Circular No. 06 of August 15, 2013 and amendments made by State Bank of Pakistan through various circulars. The Bank has adopted Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

The Bank ensures that it:

- a) complies with the capital requirements set by the State Bank of Pakistan;
- b) safeguards the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and
- c) maintains a strong capital base to support the developments of its business.

Capital adequacy is regularly monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as per the requirements of the SBP. The required information is submitted to the SBP on a quarterly basis.

The SBP requires each Bank or Banking group to: (a) hold the minimum level of the paid-up capital of Rs 10 billion; and (b) maintain a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum level of 10%.

Book value of intangible assets including software are deducted from Tier 1 capital whereas investment in associate as disclosed in Note 11.1 is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital. The SBP through BPRD Circular No. 06 of August 15, 2013 has introduced new capital deductions under Basel III framework, such as Deferred Tax Asset (DTA), surplus on revaluation of assets etc. The newly prescribed deductions are applicable in a phased manner requiring 20% of applicable deductions from December 31, 2014. The deductions will increase by 20% each year and will be fully implemented from December 31, 2018.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflection of an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. A similar treatment is adopted for off balance sheet exposures, with some adjustments to reflect the more contingent nature of the associated risks.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The required capital adequacy ratio is achieved by the Bank through:

- (a) Adequate level of paid up capital;
- (b) Adequate risk profile of asset mix;
- (c) Ensuring better recovery management; and
- (d) Maintaining acceptable profit margins.

43.1 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy, under Basel III and Pre-Basel III treatment using Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk is presented below:

Particulars	2014	2013
	Amount	
	----- Rupees '000 -----	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
- Fully paid-up capital / capital deposited with the SBP	10,432,697	10,432,697
- Balance in share premium account	10,131	10,131
- Reserve for issue of bonus shares	-	-
- Discount on issue of shares	-	-
- General / statutory reserves	5,693,024	6,544,066
- Gain / (losses) on derivatives held as cash flow hedge	-	-
- Unappropriated profit	5,696,366	3,600,828
- Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before regulatory adjustments	21,832,218	20,587,722
Total regulatory adjustments applied to CET1 (Note 43.1.1)	2,397,151	1,878,699
Common Equity Tier 1 (a)	19,435,067	18,709,023
Additional Tier 1 (AT 1) Capital		
- Qualifying Additional Tier-1 instruments plus any related share premium of which:		
- classified as equity	-	-
- classified as liabilities	-	-
- Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties of which:		
- instrument issued by subsidiaries subject to phase out	-	-
AT1 before regulatory adjustments	-	-
Total regulatory adjustment applied to AT1 capital (Note 43.1.2)	-	-
Additional Tier 1 capital after regulatory adjustments	-	-
Additional Tier 1 capital recognised for capital adequacy (b)	-	-
Tier 1 Capital (CET1 + admissible AT1) (c=a+b)	19,435,067	18,709,023
Tier 2 Capital		
- Qualifying Tier 2 capital instruments under Basel III	-	-
- Tier 2 capital instruments subject to phase out arrangement	958,464	1,618,056
- Tier 2 capital instruments issued to third party by consolidated subsidiaries of which:		
- instruments issued by subsidiaries subject to phase out	-	-
- General provisions or general reserves for loan losses-up to maximum of 1.25% of credit risk weighted assets	439,524	406,365
- Revaluation reserves of which:		
- revaluation reserves on fixed assets	1,698,390	988,340
- unrealized gain / (loss) on AFS	805,011	(150,738)
- Foreign exchange translation reserves	-	-
- Undisclosed / other reserves (if any)	-	-
T2 before regulatory adjustments	3,901,389	2,862,023
Total regulatory adjustment applied to T2 capital (Note 43.1.3)	179,793	187,915
Tier 2 capital (T2) after regulatory adjustments	3,721,596	2,674,108
Portion of Tier 1 capital recognised in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy (d)	3,721,596	2,674,108
TOTAL CAPITAL (T1 + admissible T2) (e=c+d)	23,156,663	21,383,131
Total risk weighted assets (for details refer note 43.4)	189,528,741	189,419,298
Particulars	2014	2013
	Percentage	
Capital ratios and buffers (in percentage of risk weighted assets)		
- CET1 to total RWA (a / i)	10.25%	9.88%
- Tier-1 capital to total RWA (c / i)	10.25%	9.88%
- Total capital to RWA (e / i)	12.22%	11.29%
- Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:	5.50%	5.00%
- capital conservation buffer requirement	-	-
- counter cyclical buffer requirement	-	-
- Domestic Systemically Important Banks (SIB) or Global SIB buffer requirement	-	-
- CET1 available to meet buffers (as a percentage of risk weighted assets)	4.75%	4.88%
National minimum capital requirements prescribed by SBP		
- CET1 minimum ratio	5.50%	5.00%
- Tier 1 minimum ratio	7.00%	6.50%
- Total capital minimum ratio	10.00%	10.00%

Particulars	2014		2013	
	Amount	Pre - Basel III treatment*	Amount	Pre - Basel III treatment*

Rupees '000

43.1.1 Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	-	-	-	-
All other intangibles (net of any associated deferred tax liability)	1,709,903	-	1,840,785	-
Shortfall in provisions against classified assets	-	-	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	88,080	352,320	-	1,062,443
Defined-benefit pension fund net assets	-	-	-	-
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	426,733	-	-	-
Cash flow hedge reserve	-	-	-	-
Investment in own shares/ CET1 instruments	-	-	-	-
Securitization gain on sale	-	-	-	-
Capital shortfall of regulated subsidiaries	-	-	-	-
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	127,384	509,537	-	3,594,590
Amount exceeding 15% threshold	-	-	-	-
of which: significant investments in the common stocks of financial entities	-	-	-	-
of which: deferred tax assets arising from temporary differences	-	-	-	-
National specific regulatory adjustments applied to CET1 capital	-	-	-	-
Investments in TFCs of other banks exceeding the prescribed limit	-	-	-	-
Any other deduction specified by SBP (mention details)	-	-	-	-
Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	45,051	37,542	37,914	37,914
Total regulatory adjustments applied to CET1	2,397,151	899,399	1,878,699	4,694,947

43.1.2 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-	-	-
Investment in own AT1 capital instruments	-	-	-	-
Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-	-	-
Adjustments to additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
Total regulatory adjustment applied to AT1 capital	-	-	-	-

43.1.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	30,033	37,542	37,915	37,915
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	149,760	-	150,000	-
Investment in own Tier 2 capital instrument	-	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
Total regulatory adjustment applied to T2 capital	179,793	37,542	187,915	37,915

* This column highlights items that are still subject to Basel II treatment during the transitional period.

43.1.4 "Risk Weighted Assets" subject to pre-Basel III treatment

	2014	2013
	----- Rupees '000 -----	
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)		
of which: deferred tax assets	861,857	-
of which: defined-benefit pension fund net assets	-	-
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	582,076	984,147
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	2,470,287	3,594,590
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	439,524	406,365
Cap on inclusion of provisions in Tier 2 under standardized approach	1,894,054	1,941,866
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

43.2 Capital Structure Reconciliation**43.2.1 Reconciliation of each financial statement line item to item under regulatory scope of reporting**

Particulars	Balance sheet as in published financial statements	Under regulatory scope of reporting
	-----Rupees '000-----	
Assets		
Cash and balances with treasury banks	20,285,851	20,285,851
Balances with other banks	1,422,699	1,422,699
Lendings to financial institutions	-	-
Investments	155,210,513	155,210,513
Advances	181,224,805	181,224,805
Operating fixed assets	11,543,356	11,543,356
Deferred tax assets - net	2,428,817	2,428,817
Other assets	16,009,743	16,009,743
Total assets	388,125,784	388,125,784
Liabilities and equity		
Bills payable	5,347,774	5,347,774
Borrowings	60,926,863	60,926,863
Deposits and other accounts	283,345,739	283,345,739
Sub-ordinated loans	2,995,200	2,995,200
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities - net	-	-
Other liabilities	9,207,632	9,207,632
Total liabilities	361,823,208	361,823,208
Represented by:		
Share capital	10,432,697	10,432,697
Reserves	5,703,155	5,703,155
Unappropriated profit	5,696,366	5,696,366
Surplus on revaluation of assets - net of tax	4,470,358	4,470,358
	26,302,576	26,302,576
Total liabilities and equity	388,125,784	388,125,784

43.2.2 Reconciliation of balance sheet to eligible regulatory capital

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
-----Rupees '000-----			
Assets			
Cash and balances with treasury banks		20,285,851	20,285,851
Balances with other banks		1,422,699	1,422,699
Lendings to financial institutions		-	-
Investments of which:		155,210,513	155,210,513
- non-significant capital investments in capital of other financial institutions exceeding 10% threshold	a	-	-
- significant capital investments in financial sector entities exceeding regulatory threshold	b	-	-
- mutual funds exceeding regulatory threshold	c	-	-
- reciprocal crossholding of capital instrument	d	576,493	576,493
- others	e	-	-
Advances		181,224,805	181,224,805
- shortfall in provisions / excess of total EL amount over eligible provisions under IRB	f	-	-
- general provisions reflected in Tier 2 capital	g	439,524	439,524
Operating fixed assets of which:		11,543,356	11,543,356
- Intangibles	k	1,709,903	1,709,903
Deferred tax assets of which:		2,428,817	2,428,817
- DTAs that rely on future profitability excluding those arising from temporary differences	h	440,400	440,400
- DTAs arising from temporary differences exceeding regulatory threshold	i	636,921	636,921
Other assets of which:		16,009,743	16,009,743
- goodwill	j	-	-
- defined-benefit pension fund net assets	l	-	-
Total assets		388,125,784	388,125,784
Liabilities and Equity			
Bills payable		5,347,774	5,347,774
Borrowings		60,926,863	60,926,863
Deposits and other accounts		283,345,739	283,345,739
Sub-ordinated loans of which:		2,995,200	2,995,200
- eligible for inclusion in AT1	m	-	-
- eligible for inclusion in Tier 2	n	958,464	958,464
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities of which:		-	-
- DTLs related to goodwill	o	-	-
- DTLs related to intangible assets	p	-	-
- DTLs related to defined pension fund net assets	q	-	-
- other deferred tax liabilities	r	-	-
Other liabilities		9,207,632	9,207,632
Total liabilities		361,823,208	361,823,208
Share capital			
- of which: amount eligible for CET1	s	10,432,697	10,432,697
- of which: amount eligible for AT1	t	-	-
Reserves of which:		5,703,155	5,703,155
- portion eligible for inclusion in CET1 - Statutory reserves	u	4,537,598	4,537,598
- portion eligible for inclusion in CET1 - General and other reserves	v	1,165,557	1,165,557
- portion eligible for inclusion in Tier 2	w	-	-
Unappropriated profit		5,696,366	5,696,366
Minority Interest of which:		-	-
- portion eligible for inclusion in CET1	x	-	-
- portion eligible for inclusion in AT1	y	-	-
- portion eligible for inclusion in Tier 2	z	-	-
Surplus on revaluation of assets of which:		4,470,358	4,470,358
- Revaluation reserves on fixed assets		3,032,840	3,032,840
- Unrealized gains / (losses) on AFS securities	aa	1,437,518	1,437,518
- In case of deficit on revaluation (deduction from CET1)	ab	-	-
Total liabilities and equity		388,125,784	388,125,784

43.2.3 Basel III Disclosure (with added column)

Particulars	Source based on reference number from 43.2.2	Component of regulatory capital reported by the Bank
		Rupees '000
Common equity Tier 1 capital (CET1): instruments and reserves		
1 Fully paid-up capital		10,432,697
2 Balance in share premium account	(s)	10,131
3 Reserve for issue of bonus shares		-
4 General / statutory reserves	(u)	5,693,024
5 Gain / (losses) on derivatives held as cash flow hedge	(w)	-
6 Unappropriated profit	(x)	5,696,366
7 Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	(x)	-
8 CET 1 before Regulatory Adjustments		21,832,218
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	(j) - (s)	
10 All other intangibles (net of any associated deferred tax liability)	(k) - (p)	1,709,903
11 Shortfall of provisions against classified assets	(f)	-
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h) - (r) * 20%	88,080
13 Defined-benefit pension fund net assets	(l) - (q) * 20%	-
14 Reciprocal cross holdings in CET1 capital instruments	(d)	426,733
15 Cash flow hedge reserve		-
16 Investment in own shares / CET1 instruments		-
17 Securitization gain on sale		-
18 Capital shortfall of regulated subsidiaries		-
19 Deficit on account of revaluation from bank's holdings of fixed assets / AFS securities	(ab)	-
20 Investments in the capital instruments of banking, financial and insurance - entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(a) - (ac) - (ae)	-
21 Significant investments in the capital instruments issued by banking, - financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(b) - (ad) - (af)	-
22 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i) * 20%	127,384
23 Amount exceeding 15% threshold of which: - significant investments in the common stocks of financial entities - deferred tax assets arising from temporary differences		- - -
24 National specific regulatory adjustments applied to CET1 capital of which: - investment in TFCs of other banks exceeding the prescribed limit - any other deduction specified by the SBP		- - -
25 Regulatory adjustment applied to CET1 due to insufficient AT1 and - Tier 2 to cover deductions		45,051
26 Total regulatory adjustments applied to CET1		2,397,151
Common equity tier 1		19,435,067
Additional Tier 1 (AT 1) Capital		
27 Qualifying additional Tier-1 instruments plus any related share premium of which: - classified as equity - classified as liabilities	(t) (m)	- -
28 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties - of which: instrument issued by subsidiaries subject to phase out	(y)	- -
29 AT1 before regulatory adjustments		-

Particulars	Source based on reference number from 43.2.2	Component of regulatory capital reported by the Bank
		Rupees '000
Additional Tier 1 Capital: regulatory adjustments		
30	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-
31	Investment in own AT1 capital instruments	-
32	Reciprocal cross holdings in additional Tier 1 capital instruments	-
33	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
	(ac)	
34	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
	(ad)	
35	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-
36	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-
37	Total of regulatory adjustment applied to AT1 capital	-
38	Additional Tier 1 capital	-
39	Additional Tier 1 capital recognised for capital adequacy	-
	Tier 1 Capital (CET1 + admissible AT1)	19,435,067
Tier 2 Capital		
40	Qualifying Tier 2 capital instruments under Basel III	-
41	Capital instruments subject to phase out arrangement from Tier 2	958,464
	(n)	
42	Tier 2 capital instruments issued to third party by consolidated subsidiaries - of which: instruments issued by subsidiaries subject to phase out	-
	(z)	
43	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	439,524
	(g)	
44	Revaluation reserves eligible for Tier 2 of which:	2,503,401
	- portion pertaining to fixed assets	1,698,390
	- portion pertaining to AFS securities	805,011
45	Foreign exchange translation reserves	-
	(v)	
46	Undisclosed / other reserves (if any)	-
47	T2 before regulatory adjustments	3,901,389
Tier 2 Capital: regulatory adjustments		
48	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	30,033
49	Reciprocal cross holdings in Tier 2 instruments	149,760
	(d)	
50	Investment in own Tier 2 capital instruments	-
51	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
	(ae)	
52	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
	(af)	
53	Amount of regulatory adjustment applied to T2 capital	179,793
54	Tier 2 capital (T2)	3,721,596
55	Tier 2 capital recognised for capital adequacy	3,721,596
56	Excess additional Tier 1 capital recognised in Tier 2 capital	-
57	Total Tier 2 capital admissible for capital adequacy	3,721,596
	TOTAL CAPITAL (T1 + admissible T2)	23,156,663

43.3 Main features of regulatory capital instruments

S.No	Main Features	Common Shares	Subordinated Debt 3 billion
1	Issuer	Faysal Bank Limited	Faysal Bank Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	FABL	N/A
3	Governing law(s) of the instrument	Listing regulations of Karachi, Lahore and Islamabad Stock Exchanges	TFC regulations of Securities and Exchange Commission of Pakistan
Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Tier 2
6	Eligible at solo / group / group & solo	Solo	Solo
7	Instrument type	Ordinary shares	Other Tier 2
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	10,432,697	958,464
9	Par value of instrument	10	5,000
10	Accounting classification	Shareholders' equity	Liability - fair value option
11	Original date of issuance	Various	December 27, 2010
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	N/A	December 27, 2017
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend / coupon	N/A	Floating
18	Coupon rate and any related index / benchmark	N/A	Kibor
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non - Cumulative	Non - Cumulative
23	Convertible or non-convertible	Non - Convertible	Non - Convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	Residual interest	Refer 43.3.1
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	No	No

43.3.1 The instrument is unsecured, subordinated as to payments of principal and profit to all other indebtedness of the Bank including deposits.

43.4 Risk Weighted Assets

	Capital Requirements		Risk Weighted Assets	
	2014	2013	2014	2013
Credit risk	Rupees '000			
On-Balance sheet				
<i>Portfolios subject to standardized approach (Comprehensive)</i>				
- Sovereign	3,507	11,053	35,071	110,531
- Public Sector entities	303,857	180,610	3,038,570	1,806,096
- Banks	76,707	95,186	767,074	951,859
- Corporate	8,091,516	8,290,180	80,915,155	82,901,794
- Retail	1,846,284	1,681,138	18,462,842	16,811,381
- Residential Mortgages	143,251	167,038	1,432,507	1,670,375
- Past Due loans	680,713	891,258	6,807,126	8,912,580
- Operating Fixed Assets	922,420	773,363	9,224,198	7,733,633
- Other assets	1,332,119	1,323,563	13,321,188	13,235,634
	13,400,374	13,413,389	134,003,731	134,133,883
Off-Balance sheet				
Non-market related				
- Loan Repayment Guarantees	1,069,138	1,256,692	10,691,384	12,566,917
- Purchase and Resale Agreements	9,021	6,837	90,206	68,368
- Performance Bonds etc	110,710	103,701	1,107,099	1,037,010
- Revolving underwriting Commitments	250,805	257,363	2,508,048	2,573,633
- Stand By Letters of Credit	196,591	321,018	1,965,905	3,210,177
Market related				
- Derivative Instruments	68	48,670	679	486,698
- Foreign Exchange Contracts	47,931	30,784	479,308	307,843
	1,684,264	2,025,065	16,842,629	20,250,646
Equity Exposure Risk in the Banking Book				
<i>Under simple risk weight method</i>				
- Listed Shares	66,799	95,478	667,992	954,780
- Unlisted Shares	993	993	9,932	9,932
	67,792	96,471	677,924	964,712
Total Credit Risk-Weighted Exposures	15,152,430	15,534,925	151,524,284	155,349,241
Market Risk - capital requirement for portfolios subject to standardised approach				
- Interest rate risk	454,073	458,494	4,540,725	4,584,940
- Equity position risk	338,700	179,691	3,387,000	1,796,908
- Foreign exchange risk	12,389	23,113	123,888	231,129
Total market risk	805,162	661,298	8,051,613	6,612,977
Operational Risk - Capital requirement for operational risks				
Total operational risk	2,995,284	2,745,708	29,952,844	27,457,080
	18,952,876	18,941,931	189,528,741	189,419,298
Capital Adequacy Ratio	2014		2013	
	Required	Actual	Required	Actual
CET1 to total RWA	5.50%	10.25%	5.00%	9.88%
Tier-1 capital to total RWA	7.00%	10.25%	6.50%	9.88%
Total capital to total RWA	10.00%	12.22%	10.00%	11.29%

43.5 The SBP through its letter BPRD (R&P-02)/625-99/2011/3744 dated March 28, 2011 has advised the Bank that the deduction of intangible assets, as appearing under Tier-I capital, would be limited to the extent of the amount of the intangible assets recognised as negative goodwill. Whereas, the portion of Deferred Tax Liabilities (DTL) created due to such intangible assets would not be netted against Deferred Tax Assets (DTA) for calculation of CAR.

43.6 In accordance with the Regulatory Capital Framework under Basel III issued by the SBP, Banks are required to deduct from Common Equity Tier I capital - regulatory adjustments, any shortfall in provisions required against classified assets irrespective of any relaxation allowed by the SBP. However, SBP has granted exemption to the Bank from making deductions on account of shortfall in provision against outstanding facilities extended to Dewan Group and Agritech Limited from above vide its letter No. BSD/BAI-3/615/5296/2011 dated April 26, 2011 and BPRD/BRD-(Policy) / 2014-11546 dated June 27, 2014.

43.7 The benefit of the FSV allowed by the SBP has not been deducted from Common equity Tier I capital - regulatory adjustments of the Bank based on a clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated April 27, 2009 in accordance with section 1.1 of the SBP Capital adequacy guidelines.

44 RISK MANAGEMENT

Risk Management Group (RMG) has been organized under the Chief Risk Officer (CRO). It has been authorized by the Board of Directors (BOD) to monitor the implementation of various risk policies via implementation of an integrated risk management framework across the Bank. As an ongoing exercise to integrate Risk related functions, RMG has been expanded, strengthened and entrusted to monitor the risk areas across the organization, with ultimate adoption of / convergence towards Basel guidelines on Risk Management.

The primary objective of this architecture is to inculcate risk management into the organization flows to ensure that risks are accurately identified and assessed, properly documented, approved and adequately monitored and managed in order to enhance long term earnings and to protect the interests of the Bank's depositors and shareholders.

The risk management framework at the Bank encompasses:

- Scope of risks to be managed;
- Process, systems and procedures to manage risk, and
- Roles and responsibilities of individuals involved in risk management.

The Bank has adopted an approach that gives an integrated view of the risks faced by the organization. This calls for aligning strategic vision, policy objectives and business processes / procedures with the Risk Management framework. The management of risk is integrated with the Bank's management of capital and strategy. This ensures that risks taken in pursuit of the Bank's strategic objectives are consistent with the desired return as well as the Bank's desired credit rating and risk appetite.

With this in view, the Risk Management framework endeavours to be a comprehensive and evolving guidelines to cater to changing business dynamics. The Risk Management framework includes:

- Clearly defined risk management policies
- Well constituted organizational structure
- Mechanism for ongoing review of credit policies and procedures and risk exposures

The Risk Management framework is built on the following elements:

- Comprehensive risk governance; and
- Effective risk processes.

Based on the guidelines issued by the SBP and industry best practices, a comprehensive governance and management structure and processes surrounding each risk area, including credit risk, market risk, liquidity risk, capital management and operational risk, have been developed and stand effectively implemented at the Bank.

The essential components which contribute in effective management of all these risks are as follows:

- Active Board / Senior Management strategic direction and centralized RMG oversight
- Sufficient policies, procedures and limits
- Adequate risk measurement, monitoring and management information systems
- Comprehensive internal controls

The Board of Directors (BoD) monitoring and oversight is facilitated through the Board Risk Management Committee (BRMC); comprising of Directors including the President & CEO, it is appointed and authorized by the BoD to assist in the design, regular evaluation and timely updating of the Risk Management framework. The BRMC has further authorized management committees such as Country Credit Committee (CCC), Enterprise Risk Management Committee (ERMC) and Assets & Liabilities Committee (ALCO) to supervise risk management activities within their respective scopes.

In order to have an effective and efficient risk assessment, and to closely align its functions with Business, RMG has separate Risk functions for Credit Risk Management (Corporate Risk Management, CBSME & Agri Risk Management and Retail Risk Management).

The common responsibilities of all three Credit Risk Management Units include:

- Conduct a thorough and independent due diligence of the proposed / existing exposures in the respective Risk portfolios.
- Work with Compliance to ensure conformity to the relevant Government regulations, SBP PRs as well as internal policies.
- Work with Business Units / Relationship teams to structure exposures such that they mitigate key risks, cater to customer requirements, remain economical in terms of risk weighted assets / capital allocation and result in maximization of overall returns from the relationship.

Retail Risk Management is responsible for managing the credit risk side of consumer finance products. This function operates on a program lending approach to manage, mitigate and approve risk on a portfolio level. The key role of this function is to manage the entire retail credit cycle and portfolio Key Performance Indicators (KPIs) in line with the business strategy. Retail credit cycle and its scope includes, Product Planning, Credit Acquisition & Underwriting, Portfolio & Account Management, Collections and Recovery.

The Risk Management architecture is further fostered by Enterprise Risk Management, Credit Administration and Risk Policy and Portfolio Management functions.

- The Enterprise Risk Management function is responsible for managing and controlling Market, Operational and Liquidity Risks at an enterprise level and monitoring regulatory capital requirements of the Bank.
- Credit Administration Department looks after the security, loan documentation, disbursement and post disbursement monitoring aspects of the credit portfolio.
- Risk Policy and Portfolio Management unit ensures formulation of synchronized and adhesive policies in conjunction with the Bank's strategy and practices while adhering to the local and regulatory guidelines within Corporate, Commercial and Retail business segments. This also encompasses detailed review of macro risk factors, NPL status and monitoring of internal credit rating models including model documentation and the coordination of analytics within the Enterprise Risk Management functionalities.

44.1 Credit Risk

Credit risk is the identification of probability that a counterparty will cause a financial loss to the Bank due to its inability or unwillingness to meet its contractual obligation. This credit risk arises mainly from both direct lending activities as well as contingent liabilities.

The Bank's credit risk philosophy is based on the Bank's overall business strategy / direction as established by the Board. The Bank is committed to the appropriate level of due diligence to ensure that credit risks have been properly analyzed, fully disclosed to the approving authorities and appropriately rated, appropriately structured, priced (in line with market practices) and documented.

The Bank deals with many different types of borrowers and borrowing structures across the wholesale and retail segments. The Bank manages customer credit risk exposures within appropriate limits to ensure that it does not provide a disproportionate level of credit to a single customer or group of connected clients. The Bank follows aggregation principles – summing of credit risk limits to the same customer, or group of connected clients – to identify and manage effectively all significant credit risk exposures to a single customer within an individual business and, where appropriate, across other business segments.

The Bank has well-defined credit approval and review processes under which senior officers with the requisite credit background, critically scrutinize and sanction financing. Besides financial, industry and transaction analysis, in order to quantify risks of counterparty, the credit evaluation also includes risk rating system to evaluate risk rating of the customers which is then monitored on a portfolio basis to gauge the Bank's credit portfolio quality. To avoid risk concentration, counterparty limits, counterparty group limits and industry concentration limits are also established, monitored and assessed in the light of changing counterparty and market conditions.

With a view to develop and effectively manage a diversified credit portfolio within each Business segment (as an integral part of the Credit Risk Management process), the Bank has adopted the concept of an industry / sector-wise exposure concentration grid which dictates target market exposures. Risk concentration may arise where total exposure to a particular group or industry is high in relation to shareholders' equity.

As part of the Bank's Portfolio strategy and planning activity, these industry concentration limits are continually overseen by the management against the Bank's approved exposures in these sectors and reviewed by the Board Risk Management Committee (BRMC) in its meetings with an aim to monitor the overall risk and to avoid high exposure to a single group or industry.

44.1.1 Segment by class of business

Credit Risk Management (CRM) Framework covers three areas: Corporate Risk Management, Commercial Risk Management and Retail Risk. Risk catering to the approvals of all exposures handled by the dedicated Risk Teams constituted for Business segments such as Corporate, Commercial, Retail and Agriculture. The common responsibilities of all three CRM Units include:

- Conduct a thorough and an independent due diligence of the proposed / existing exposures in the respective Risk portfolios.
- Work with Compliance to ensure conformity to the relevant Government regulations, SBP Prudential Regulations as well as internal policies.
- Work with the Business Units / Relationship teams to structure exposures such that they mitigate key risks, cater to customer requirements, remain economical in terms of risk weighted assets / capital allocation and result in maximization of overall returns from the relationship.

Retail Risk Management Framework covers and operates on a Program lending approach to manage, mitigate and approve risk on a portfolio level. Retail Risk Management is responsible for managing the entire retail credit cycle through the Retail Credit Policy and analytics teams in line with the business strategy on various Key Performance Indicators (KPIs). Retail credit cycle and its scope include, product planning, credit acquisition & underwriting, portfolio & account management, collections and recovery.

Segmental information in respect of the class of business, by sector including related provision and classified advances and geographical distribution of advances, deposits, and contingencies and commitments is given below:

	2014					
	Advances (Gross)		Deposits		Contingent liabilities *	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and pharmaceuticals	9,900,992	4.84	4,241,398	1.50	3,296,819	8.07
Agriculture	10,169,370	4.97	8,395,179	2.96	584,823	1.43
Textile	22,481,071	10.98	1,479,472	0.52	1,740,534	4.26
Cement	1,638,788	0.80	102,162	0.04	822,530	2.01
Sugar	4,368,052	2.13	409,292	0.14	52,595	0.13
Construction	2,067,728	1.01	3,934,655	1.39	1,043,936	2.56
Ready made garments	3,177,515	1.55	658,686	0.23	151,726	0.37
Footwear and leather garments	1,566,656	0.77	163,389	0.06	90,158	0.22
Automobile and transportation equipment	229,112	0.11	1,106,423	0.39	183,716	0.45
Financial	920,602	0.45	11,636,941	4.11	1,070,677	2.62
Oil refining / marketing	6,857,587	3.35	4,974,868	1.76	10,689,971	26.17
Distribution / trading	8,920,687	4.36	55,223,333	19.49	1,993,229	4.88
Electronics and electrical appliances	4,668,354	2.28	1,370,677	0.48	1,188,792	2.91
Production and transmission of energy	32,262,855	15.76	2,358,286	0.83	3,934,879	9.63
Iron and steel	5,162,912	2.52	751,413	0.27	782,794	1.92
Food and allied	18,163,144	8.87	2,472,762	0.87	913,089	2.24
Synthetic and rayon	5,532,709	2.70	65,571	0.02	1,893,494	4.64
Paper and board	1,597,359	0.78	105,370	0.04	532,593	1.30
Individuals	20,709,833	10.12	103,148,012	36.40	99,674	0.24
Telecommunication	6,606,338	3.23	1,673,131	0.59	3,568,789	8.74
Transportation, road and air	10,972,683	5.36	1,944,695	0.69	411,435	1.01
Mining and quarrying	3,584,495	1.75	203,703	0.07	1,315	0.00**
Others	23,117,230	11.31	76,926,321	27.15	5,803,760	14.20
	<u>204,676,072</u>	<u>100.00</u>	<u>283,345,739</u>	<u>100.00</u>	<u>40,851,328</u>	<u>100.00</u>

	2013					
	Advances (Gross)		Deposits		Contingent liabilities *	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and pharmaceuticals	10,116,814	4.95	3,768,195	1.39	4,357,071	8.74
Agriculture	8,684,048	4.25	7,219,363	2.66	866,223	1.74
Textile	27,029,981	13.23	1,476,129	0.54	2,871,870	5.76
Cement	2,965,229	1.45	162,389	0.06	589,370	1.18
Sugar	2,899,388	1.42	138,978	0.05	71,113	0.14
Construction	2,729,910	1.34	4,384,778	1.62	1,037,864	2.08
Ready made garments	3,465,961	1.70	470,038	0.17	174,889	0.35
Footwear and leather garments	1,219,025	0.60	139,437	0.05	111,303	0.22
Automobile and transportation equipment	499,911	0.24	965,223	0.36	16,982	0.03
Financial	478,458	0.23	9,966,233	3.68	2,634,792	5.28
Oil refining / marketing	861,822	0.42	6,982,871	2.58	13,746,940	27.56
Distribution / trading	10,878,106	5.32	52,309,386	19.29	3,512,020	7.04
Electronics and electrical appliances	4,726,177	2.31	827,398	0.31	665,585	1.33
Production and transmission of energy	34,923,614	17.09	5,176,659	1.91	4,437,192	8.90
Iron and steel	6,008,580	2.94	522,564	0.19	1,514,482	3.04
Food and allied	9,174,289	4.49	1,835,941	0.68	1,844,217	3.70
Synthetic and rayon	2,062,936	1.01	39,480	0.01	1,419,965	2.85
Paper and board	1,413,146	0.69	91,200	0.03	1,049,380	2.10
Individuals	20,307,326	9.94	98,380,089	36.28	75,511	0.15
Telecommunication	2,952,617	1.44	796,560	0.29	4,851,280	9.73
Transportation, road and air	8,196,835	4.01	772,946	0.29	277,480	0.56
Mining and quarrying	4,570,281	2.24	91,588	0.03	1,458	0.00**
Others	38,178,732	18.69	74,616,858	27.53	3,747,425	7.52
	<u>204,343,186</u>	<u>100.00</u>	<u>271,134,303</u>	<u>100.00</u>	<u>49,874,412</u>	<u>100.00</u>

44.1.2 Segment by sector

	2014					
	Advances (Gross)		Deposits		Contingent liabilities *	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	38,797,844	18.96	17,433,526	6.15	6,318,540	15.47
Private	<u>165,878,228</u>	<u>81.04</u>	<u>265,912,213</u>	<u>93.85</u>	<u>34,532,788</u>	<u>84.53</u>
	<u>204,676,072</u>	<u>100.00</u>	<u>283,345,739</u>	<u>100.00</u>	<u>40,851,328</u>	<u>100.00</u>

	2013					
	Advances (Gross)		Deposits		Contingent liabilities *	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	44,796,423	21.92	18,801,440	6.93	11,313,260	22.68
Private	<u>159,546,763</u>	<u>78.08</u>	<u>252,332,863</u>	<u>93.07</u>	<u>38,561,152</u>	<u>77.32</u>
	<u>204,343,186</u>	<u>100.00</u>	<u>271,134,303</u>	<u>100.00</u>	<u>49,874,412</u>	<u>100.00</u>

* Contingent liabilities in this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities, trade related contingent liabilities and indemnity issued.

** Due to rounding off

44.1.3 Details of non-performing advances and specific provisions by class of business segment

	2014		2013	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	Rupees '000			
Chemical and Pharmaceuticals	702,062	558,731	783,997	476,332
Agriculture	1,203,706	645,766	1,297,129	595,440
Textile	6,800,961	5,698,797	7,391,086	5,032,384
Cement	292,077	202,918	426,522	276,241
Sugar	58,898	14,041	93,797	17,476
Construction	772,810	535,679	786,459	413,745
Ready made garments	2,072,949	1,845,832	1,991,298	1,509,280
Footwear and leather garments	337,225	125,652	118,015	69,868
Automobile and transport equipment	174,462	101,749	140,567	59,458
Financial	105,852	105,308	155,852	155,308
Oil refining / marketing	91,761	82,427	54,963	10,241
Distribution / trading	1,085,123	899,153	2,474,525	1,900,692
Electronics and electrical appliances	1,426,084	1,225,849	1,433,067	1,097,875
Production and transmission of energy	2,958,787	2,954,414	2,952,281	2,936,369
Iron and steel	2,010,066	835,159	701,763	602,685
Food and allied	970,374	612,519	659,074	468,270
Synthetic and rayon	1,499,983	1,208,691	482,084	458,076
Paper and board	131,107	111,311	100,178	87,455
Transportation, road and air	152,492	117,302	1,897,812	996,116
Telecommunications	5,833	4,521	3,408	3,316
Individuals	2,213,683	1,480,590	190,156	126,488
Mining and quarrying	203,450	135,539	21,957	5,742
Others	4,023,575	3,509,795	3,462,629	2,447,660
	<u>29,293,320</u>	<u>23,011,743</u>	<u>27,618,619</u>	<u>19,746,517</u>

44.1.4 Details of non-performing advances and specific provisions by sector

Public / Government	-	-	829	192
Private	29,293,320	23,011,743	27,617,790	19,746,325
	<u>29,293,320</u>	<u>23,011,743</u>	<u>27,618,619</u>	<u>19,746,517</u>

44.1.5 Geographical segment analysis

	2014			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities *
	Rupees '000			
Pakistan	3,551,785	388,125,784	26,302,576	40,851,328
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>3,551,785</u>	<u>388,125,784</u>	<u>26,302,576</u>	<u>40,851,328</u>

	2013			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities *
	Rupees '000			
Pakistan	2,160,779	355,279,707	22,166,193	49,874,412
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>2,160,779</u>	<u>355,279,707</u>	<u>22,166,193</u>	<u>49,874,412</u>

* Contingent liabilities for the purpose of this note are presented at cost and includes direct credit substitutes, transaction related contingent liabilities, trade related contingent liabilities and indemnity issued.

44.2 Credit Risk: General disclosures Basel II specific

The Bank has adopted the Standardised Approach under Basel. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on public sector entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 62.21% (2013: 64.7%) of the total exposure, 3.44% (2013: 2.01%) represents claims on PSEs and 13.62% (2013: 12.32%) exposure pertains to claims categorized as retail portfolio.

44.2.1 Credit Risk: Disclosures for portfolio subject to Standardised Approach

For domestic claims, External Credit Assessment Institutions (ECAIs) recommended by the SBP, namely Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) are used. For claims on foreign entities, ratings assigned by Standard and Poor's, Fitch and Moody's are used. Foreign exposures not rated by any of the aforementioned rating agencies were categorized as unrated.

Types of exposure for which each agency is used in the year ended December 31, 2014 are as follows:

Exposures	PACRA	JCR-VIS	Standard and Poor's	Moody's	Fitch
Corporate	✓	✓	-	-	-
Banks	✓	✓	✓	✓	✓
Sovereigns	-	-	✓	-	-
SMEs	-	✓	-	-	-

The SBP indicative mapping process as instructed in the SBP's circular "Minimum Capital Requirements for Banks and DFIs" (indicated in table below) was used to map alpha numeric ratings of PACRA, JCR-VIS, S&P's, Moody's, Fitch Ratings, and numeric scores of ECAs, to the SBP's rating grades.

SBP Rating	ECA Scores	PACRA	JCR-VIS	S & P	Moody's	Fitch
1	0,1	AA- and above	AA- and above	AA- and above	Aa3 and above	AA- and above
2	2	A+ to A-	A+ to A-	A+ to A-	A1 to A3	A+ to A-
3	3	BBB+ to BBB-	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	4	BB+ to BB-	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	5,6	B+ to B-	B+ to B-	B+ to B-	B1 to B3	B+ to B-
6	7	CCC+ & Below	CCC+ & Below	CCC+ & Below	Caa1 & Below	CCC+ & Below

For exposure amounts after risk mitigation subject to the standardized approach, amount of Bank's / DFI's outstanding (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net Amount
Rupees '000				
- Cash and Cash Equivalent		7,429,258	-	7,429,258
- Corporate	1	19,636,121	-	19,636,121
	2	16,702,912	512,024	16,190,888
	3,4	767,310	-	767,310
	5,6	-	-	-
	Unrated	48,807,878	1,903,342	46,904,536
	Unrated-2	18,521,326	68,595	18,452,731
- Public Sector Entities	1	9,318,870	3,510	9,315,360
	2,3	-	-	-
	Unrated	2,350,995	-	2,350,995
- Banks	1,2,3	3,375,005	1,500	3,373,505
	4,5,6	61,739	-	61,739
	Unrated	23,273	-	23,273
- Sovereigns etc.	1	-	-	-
	2	-	-	-
	3	-	-	-
	4,5	35,071	-	35,071
	6	-	-	-
	Unrated	-	-	-
- Government of Pakistan		136,907,957	-	136,907,957
- SBP		4,891,518	-	4,891,518
- Retail		28,358,266	3,741,143	24,617,123
- Residential Mortgage		4,148,142	55,264	4,092,878
- Past Dues Loans		6,069,172	391,911	5,677,261
- Past Dues against Residential Mortgage		582,873	7,338	575,535
- Significant investment in Commercial entities		144,063	-	144,063
- Significant investment and DTAs above 15% threshold		1,960,750	-	1,960,750
- Unlisted Equity Investments		6,621	-	6,621
- Listed Equity Investments		964,640	296,648	667,992
- Operating Fixed Assets		9,224,198	-	9,224,198
- Other Assets		6,978,683	-	6,978,683
		327,266,641	6,981,275	320,285,366

Collaterals used by the Bank for Credit Risk Mitigation (CRM) were as follows:

- Cash margin
- Government securities
- Guarantees of governments and banks
- Shares listed on recognized stock exchange.

44.3 Market risk

It is the risk that the value of on-balance sheet and off-balance sheet positions of the Bank will be adversely affected by movements in market rates or prices such as interest rates, equity prices and / or commodity prices resulting in a loss to earnings and capital. Market risks arise generally from trading activities, open foreign currency positions, holding common equity and other products. All such instruments and transactions are exposed to general and specific market movements.

The Bank seeks to mitigate market risk by employing strategies that correlate price, rate and spread movements of its earning assets, liabilities and trading activities. Treasury front office, Market risk management and Treasury middle office perform market risk management activities within the Bank. The Bank has enterprise risk management committee. The committee is responsible for recommending market risk policies and strategies for Board approval and its subsequent implementation and quarterly review. The market risk is further divided into various sub-categories, which are defined as follows:

44.4 Foreign exchange risk / currency risk

Foreign exchange risk / currency risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. It refers to the impact of adverse movements in currency exchange rates on the value of open foreign currency positions. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing.

The Bank undertakes currency risk mostly to support its trade services and maintains overall foreign exchange risk position to the extent of statutory Foreign Exchange Exposure Limit (FEEL) prescribed by the SBP. Foreign exchange risk exposures are managed by matching future maturities.

Exposure limits such as counterparty, gap, net open position, dealer and bucket-wise currency delta limits are in place in accordance with the Bank's approved policies in order to manage associated risk and concentration at the acceptable tolerance levels.

44.4.1 Currency Risk

	2014			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
----- Rupees '000 -----				
Pakistan rupee	378,767,780	335,780,917	(16,582,867)	26,403,996
United States dollar	7,646,636	20,327,520	12,556,996	(123,888)
Great Britain pound	1,229,262	3,407,647	2,183,267	4,882
Japanese yen	15,587	8,719	(6,727)	141
Euro	453,688	2,298,405	1,847,273	2,556
Other currencies	12,831	-	2,058	14,889
	<u>388,125,784</u>	<u>361,823,208</u>	<u>-</u>	<u>26,302,576</u>
	2013			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
----- Rupees '000 -----				
Pakistan rupee	345,735,975	305,533,026	(17,836,649)	22,366,300
United States dollar	8,204,497	21,701,328	13,265,701	(231,130)
Great Britain pound	788,908	3,497,953	2,718,711	9,666
Japanese yen	9,351	6,733	(2,006)	612
Euro	496,886	2,372,474	1,880,551	4,963
Other currencies	44,090	2,000	(26,308)	15,782
	<u>355,279,707</u>	<u>333,113,514</u>	<u>-</u>	<u>22,166,193</u>

44.5 Equity position risk

Equity position risk is the risk arising from unfavourable fluctuations in prices of shares in which the Bank carries long positions as part of its trading book. It is a risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank. Price risk associated with equities could be systematic or unsystematic. Systematic risk is due to sensitivity of portfolio's value to changes in overall level of equity prices, while unsystematic risk is associated with price volatility that is determined by the specific characteristics of the investee company.

The Bank's equity position is governed by position limits imposed by State Bank of Pakistan for overall investment and per scrip exposure. Additionally, there are internal limits set to manage overall earnings in the form of stop loss limits and maintain a diverse portfolio through sector concentration limits.

44.6 Mismatch of Interest Rate Sensitive Assets and Liabilities / Yield / Interest Rate Risk

		2014										
		Exposed to Yield / Interest risk										
Effective Yield / Interest rate	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments	
----- Rupees '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	20,285,851	-	-	-	-	-	-	-	-	-	20,285,851	
Balances with other banks	0.4	1,422,699	-	-	-	-	-	-	-	-	1,422,699	
Lendings to financial institutions	9.8	-	-	-	-	-	-	-	-	-	-	
Investments	10.5	155,210,513	2,951,073	26,048,971	33,959,110	29,320,836	26,581,015	16,486,943	2,818,290	13,504,287	3,539,988	
Advances	10.6	181,224,805	22,960,763	31,175,866	22,504,375	29,735,078	16,831,428	14,896,842	23,629,123	8,953,997	6,281,577	
Other assets		9,741,900	-	-	-	-	-	-	-	-	9,741,900	
		367,885,768	25,911,836	57,224,837	56,463,485	59,055,914	43,412,443	31,383,785	26,447,413	22,458,284	4,255,756	41,272,015
Liabilities												
Bills payable		5,347,774	-	-	-	-	-	-	-	-	-	5,347,774
Borrowings	9.4	60,926,863	42,761,677	11,965,756	3,075,024	69,812	63,055	197,301	583,544	2,210,694	-	-
Deposits and other accounts	5.3	283,345,739	50,967,508	37,731,760	73,522,910	24,457,237	3,227,551	2,577,426	765,750	139,151	-	89,956,446
Sub-ordinated loans	11.2	2,995,200	-	-	2,995,200	-	-	-	-	-	-	-
Other liabilities		8,750,766	-	-	-	-	-	-	-	-	-	8,750,766
		361,366,342	93,729,185	49,697,516	79,593,134	24,527,049	3,290,606	2,774,727	1,349,294	2,349,845	-	104,054,986
On-balance sheet gap		6,519,426	(67,817,349)	7,527,321	(23,129,649)	34,528,865	40,121,837	28,609,058	25,098,119	20,108,439	4,255,756	(62,782,971)
Off-balance sheet financial instruments												
Forward Lending												
Cross currency and interest rate swaps		-	-	-	-	-	-	-	-	-	-	-
Forward foreign exchange contracts		35,354,657	14,482,846	16,626,167	4,096,549	149,095	-	-	-	-	-	-
		35,354,657	14,482,846	16,626,167	4,096,549	149,095	-	-	-	-	-	-
Forward Borrowing												
Cross currency and interest rate swaps		67,864	-	-	-	67,864	-	-	-	-	-	-
Forward foreign exchange contracts		18,378,945	10,290,103	8,045,186	43,656	-	-	-	-	-	-	-
		18,446,809	10,290,103	8,045,186	43,656	67,864	-	-	-	-	-	-
Off-balance sheet gap		16,907,848	4,192,743	8,580,981	4,052,893	81,231	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		(63,624,606)	16,108,302	(19,076,756)	34,610,096	40,121,837	28,609,058	25,098,119	20,108,439	4,255,756	-	-
Cumulative Yield / Interest Risk Sensitivity Gap		(63,624,606)	(47,516,304)	(66,593,060)	#####	8,138,873	36,747,931	61,846,050	81,954,489	86,210,245	-	-
		2013										
		Exposed to Yield / Interest risk										
Effective Yield / Interest rate	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments	
----- Rupees '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	28,422,497	-	-	-	-	-	-	-	-	-	28,422,497	
Balances with other banks	0.09	1,011,980	-	-	-	52,662	-	-	-	-	959,318	
Lendings to financial institutions	10.7	300,000	300,000	-	-	-	-	-	-	-	-	
Investments	9.54	113,319,478	22,354,040	46,173,162	14,173,918	1,897,326	2,777,527	1,008,406	8,155,834	11,799,573	4,979,692	
Advances	10.10	184,190,304	56,921,744	64,642,061	23,451,286	15,462,245	4,212,426	3,356,988	4,991,530	1,629,945	1,767,977	
Other assets		7,213,886	-	-	-	-	-	-	-	-	7,213,886	
		334,458,145	79,575,784	#####	37,625,204	17,412,233	6,989,953	4,365,394	13,147,364	13,429,518	1,767,977	49,329,495
Liabilities												
Bills payable		4,968,610	-	-	-	-	-	-	-	-	-	4,968,610
Borrowings	8.58	45,446,528	26,672,677	10,783,943	4,273,254	83,457	106,764	34,704	596,354	2,895,375	-	-
Deposits and other accounts	5.25	271,134,303	50,586,669	51,466,581	60,723,932	24,091,306	1,269,162	1,147,605	609,545	147,680	-	81,091,823
Sub-ordinated loans	11.4	3,495,400	-	3,495,400	-	-	-	-	-	-	-	-
Other liabilities		7,750,655	-	-	-	-	-	-	-	-	-	7,750,655
		332,795,496	77,259,346	65,745,924	64,997,186	24,174,763	1,375,926	1,182,309	1,205,899	3,043,055	-	93,811,088
On-balance sheet gap		1,662,649	2,316,438	45,069,299	(27,371,982)	(6,762,530)	5,614,027	3,183,085	11,941,465	10,386,463	1,767,977	(44,481,593)
Off-balance sheet financial instruments												
Forward Lending												
Cross currency and interest rate swaps		19,830,245	-	-	-	19,486,713	138,960	204,572	-	-	-	-
Forward foreign exchange contracts		33,363,041	2,150,907	10,575,894	13,522,008	7,114,232	-	-	-	-	-	-
		53,193,286	2,150,907	10,575,894	13,522,008	26,600,945	138,960	204,572	-	-	-	-
Forward Borrowing												
Cross currency and interest rate swaps		300,103	-	300,103	-	-	-	-	-	-	-	-
Forward foreign exchange contracts		15,285,681	11,494,419	145,037	3,646,225	-	-	-	-	-	-	-
		15,585,784	11,494,419	445,140	3,646,225	-	-	-	-	-	-	-
Off-balance sheet gap		37,607,502	(9,343,512)	10,130,754	9,875,783	26,600,945	138,960	204,572	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		(7,027,074)	55,200,053	(17,496,199)	19,838,415	5,752,987	3,387,657	11,941,465	10,386,463	1,767,977	-	-
Cumulative Yield / Interest Risk Sensitivity Gap		(7,027,074)	48,172,979	30,676,780	50,515,195	56,268,182	59,655,839	71,597,304	81,983,767	83,751,744	-	-

44.6.1 Yield curve risk is the risk that a financial instrument will suffer either a decline in income or capital because future changes in prevailing interest rates impact assets more or less than they impact liabilities.

Maturities of Assets and Liabilities (based on expected withdrawal pattern)

Total	2013									
	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
----- Rupees '000 -----										
Assets										
Cash and balances with treasury banks	28,422,497	279,962	278,540	839,885	1,975,364	5,042,151	4,652,763	8,336,318	6,136,417	881,097
Balances with other banks	1,011,980	1,011,980	-	-	-	-	-	-	-	-
Lendings to financial institutions	300,000	300,000	-	-	-	-	-	-	-	-
Investments	113,319,478	27,625,533	43,474,003	5,047,433	5,266,129	9,483,746	2,297,230	8,695,548	11,354,027	75,829
Advances	184,190,304	23,680,457	34,047,744	29,316,072	31,819,860	20,749,854	17,137,607	17,572,795	6,867,097	2,998,818
Operating fixed assets	10,250,910	12,391	3,255	21,294	58,320	151,757	533,245	1,199,090	1,207,849	7,063,709
Deferred tax assets - net	3,980,541	-	-	-	-	-	1,221,004	2,059,102	700,435	-
Other assets	13,803,997	927,795	1,012,405	6,829,703	2,605,326	-	-	2,428,768	-	-
	355,279,707	53,838,118	78,815,947	42,054,387	41,724,999	35,427,508	25,841,849	40,291,621	26,265,825	11,019,453
Liabilities										
Bills payable	4,968,610	4,968,610	-	-	-	-	-	-	-	-
Borrowings	45,446,528	26,248,446	10,783,943	4,273,254	83,457	106,764	34,704	596,354	3,319,606	-
Deposits and other accounts	271,134,303	37,857,770	21,926,246	16,714,502	36,007,996	31,598,574	29,506,616	51,893,408	39,890,588	5,738,603
Sub-ordinated loans	3,495,400	-	250,100	250,100	250,100	1,200	1,497,000	1,497,000	-	-
Other liabilities	8,068,673	959,879	711,915	2,552,105	1,218,622	685,376	782,017	1,141,357	17,402	-
	333,113,514	70,034,705	33,422,104	23,789,961	37,560,175	32,391,914	31,820,337	55,128,119	43,227,596	5,738,603
Net assets	22,166,193	(16,196,587)	45,393,843	18,264,426	4,164,824	3,035,594	(5,978,488)	(14,836,498)	(16,961,771)	5,280,850
Share capital	10,432,697									
Reserves	6,554,197									
Unappropriated profit - restated	3,600,828									
	20,587,722									
Surplus on revaluation of assets - net	1,578,471									
	22,166,193									

44.8 OPERATIONAL RISK

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business / operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromises, regulatory non-compliance, loss of key staff and social and environmental impacts.

The operational risk management policy of the Bank is approved by the Board of Directors. Regular updates on operational risk status is presented to Enterprise Risk Management Committee (ERMC) and the Board of Directors through the Board Risk Management Committee (BRMC).

The Bank has implemented an effective Operational Risk Management (ORM) framework for managing operational risk. Each department has processes and system controls in place to address operational risks within their area. The Bank's ORM framework consists of tools such as Risk and Controls Self Assessment (RCSA), Loss Database and Key Risk Indicators (KRIs). Additionally, known material Operational Risk issues and losses are escalated to Head ERM on a periodic basis.

45 TRUST ACTIVITIES

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These are not assets of the Bank and, therefore, are not included in the statement of financial position. The following is the list of assets held under trust:

Category	2014				
	No. of IPS Accounts	Securities Held (Face Value)			Total
		Market Treasury Bills	Pakistan Investment Bonds	Government t Ijara Sukuks	
Corporate	29	3,068,340	888,900	-	3,957,240
Insurance Companies	2	-	25,000	-	25,000
Asset Management Companies	40	2,468,500	1,064,700	-	3,533,200
Employees Funds	141	823,020	7,287,770	12,275	8,123,065
Charitable Institution / NGO'S	21	161,000	1,018,100	-	1,179,100
Individuals	309	321,420	1,359,580	21,400	1,702,400
Related Parties	10	-	1,195,800	-	1,195,800
Others	5	32,000	79,300	-	111,300
	557	6,874,280	12,919,150	33,675	19,827,105

2013					
Category	No. of IPS Accounts	Securities Held (Face Value)			Total
		Market Treasury Bills	Pakistan Investment Bonds	Government Ijara Sukuks	
Rupees '000					
Corporate	26	4,834,980	-	-	4,834,980
Insurance Companies	2	-	20,700,000	-	20,700,000
Asset Management Companies	40	6,185,700	-	4,053	6,189,753
Employees Funds	120	3,475,610	3,009,450	10,825	6,495,885
Charitable Institution/NGO'S	17	962,200	32,900	-	995,100
Individuals	250	559,650	295,230	22,400	877,280
Related Parties	20	525,230	1,505,870	-	2,031,100
Others	5	575,000	1,720	-	576,720
	480	17,118,370	25,545,170	37,278	42,700,818

46 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 26, 2014 by the Board of Directors of the Bank.

47 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors has proposed a final stock dividend for the year ended December 31, 2014 at 15% (2013: Nil) amounting to Rs 1,565 million (2013: Nil) in its meeting held on February 26, 2015 for the approval of the members at the annual general meeting to be held on March 27, 2015. The financial statements for the year ended December 31, 2014 do not include the effect of this proposed distribution which will be accounted for in the financial statements for the year ending December 31, 2015. In 2013, the bank declared interim stock dividend of 12.5% amounting to Rs 1,159 million which was accounted for in the financial statements of 2013.

48 GENERAL

- 48.1 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary, to facilitate comparison and to conform with changes in presentation in the current year.
- 48.3 Figures have been rounded off to the nearest thousand rupees unless other wise stated.
- 48.4 Captions as prescribed in BSD circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan in respect of which no amounts are outstanding have not been reproduced in these financial statements except in the statement of financial position and the profit and loss account.

PRESIDENT & CEO

DIRECTOR

DIRECTOR

DIRECTOR

FAYSAL BANK LIMITED
ANNEXURE I TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Statement showing details of investments in ordinary and preference shares / certificates of listed and unlisted companies / modarabas / mutual funds and Term Finance Certificates and bonds.

1. Details of investments in fully paid-up shares of listed companies / modaraba certificates / certificates of closed end mutual funds are as follows:

2014	2013	Name of company / modaraba / mutual fund	At Cost		Market Values		Quality of Available for Sale Securities	
			2014	2013	2014	2013	2014	2013
Ordinary shares / certificates of Rs 10 each			Rupees '000		Rupees '000		Medium to Long Term Rating Assigned (where available)	
Equity Investment Instruments								
523,176	488,950	NAMCO Balanced Fund	4,890	4,890	5,123	3,173	MFR 1-Star	MFR 1-Star
Banks / Financial Services								
1,762,772	1,762,772	Prudential Investment Bank Limited * / ***	12,528	12,528	-	-	-	-
925,500	3,006,500	Bank AL Habib Limited**	28,653	93,079	44,933	124,920	AA+	AA+
3,938,000	11,500,423	Habib Metropolitan Bank Limited**	76,816	224,331	146,887	288,316	AA+	AA+
2,202,500	-	Askari Bank Limited	49,656	-	50,812	-	AA	-
1,255,000	-	Bank Al-Falah Limited	34,065	-	43,774	-	AA	-
352,700	-	Habib Bank Limited	71,757	-	76,275	-	AAA	-
593,160	-	United Bank Limited	103,126	-	104,817	-	AA+	-
514,500	-	National Bank of Pakistan Limited	30,640	-	35,737	-	AAA	AAA
Construction, Materials, Paints and Cements								
10,600	10,665	Dadabhoj Construction Technology Limited***	16	16	1	1	-	-
599,000	1,709,500	Akzo Nobel Pakistan Limited	89,049	249,127	214,160	215,161	-	-
129,500	-	D.G Khan Cement Company Limited	10,735	-	14,313	-	-	-
25,000	-	Lucky Cement Limited	9,803	-	12,507	-	-	-
2,617,500	-	Lafarage Pakistan Cement Limited	45,226	-	45,413	-	-	-
800,000	-	Fauji Cement Limited	17,366	-	20,672	-	-	-
Oil and Gas								
283,800	-	Pakistan State Oil Limited	98,958	-	101,575	-	AA+	AA+
311,100	145,900	Pakistan Oilfields Limited	146,774	73,258	118,019	72,616	-	-
392,500	-	Oil & Gas Development Company Limited	99,825	-	80,804	-	AAA	-
602,100	-	Pakistan Petroleum Limited	129,305	-	106,283	-	-	-
Electricity and Energy								
1,491,000	1,407,500	Hub Power Company Limited	96,279	100,034	116,835	85,464	AA+	AA+
617,000	-	Kot Addu Power Company Limited	37,571	-	48,706	-	AA+	-
Personal Goods, Textile & Spinning								
53,500	53,500	(Colony) Sarhad Textile Limited ***	27	27	-	-	-	-
1,500	1,547	Al-Qaim Textile Mills Limited ***	3	3	-	-	-	-
178,645	178,648	Crown Textile Mills Limited ***	1,239	1,239	-	-	-	-
80	80	Fateh Textile Mills Limited	29	29	6	6	-	-
41,600	41,612	Hakkim Textile Mills Limited ***	10	10	-	-	-	-
-	9,075	Indus Dyeing Manufacturing Company Limited	-	2,247	-	10,618	A+	A
8,500	8,500	Mehr Dastgir Textile Mills Limited ***	2	2	13	13	-	-
1,038,001	1,045,001	Pakistan Synthetic Limited	20,417	20,554	15,591	18,079	-	-
1,000	1,000	Service (Textile) Industries Limited ***	1	1	18	1	-	-
-	-	Service Fabrics Limited ***	-	-	-	-	-	-
-	359	Sind Fine Textile Mills Limited	-	2	-	2	-	-
69,000	69,000	Sunshine Cotton Mills Limited ***	69	69	-	-	-	-
79,300	79,306	Zahoor Cotton Mills Limited ***	22	22	-	-	-	-
2,567,046	2,567,046	Zahoor Textile Mills Limited ***	2,500	2,500	-	-	-	-
1,727,500	-	Nishat Chunian Limited	85,184	-	78,463	-	A-	-
225,000	-	Nishat Mills Limited	27,513	-	27,222	-	AA	-
Balance carried forward			1,330,054	783,968	1,508,959	818,370		

* The Bank holds more than 10% of investees' capital in Prudential Investment Bank Limited – 17.10% (2013: 17.10%)

** 925,000 shares of Bank AL Habib Limited and 3,938,000 shares of Habib Metropolitan Bank Limited are classified as strategic investment

*** Delisted companies. However, in certain cases last available market value has been disclosed in the current and previous year.

2014	2013	Name of company / modaraba / mutual fund	At Cost		Market Values		Quality of Available for Sale Securities	
			2014	2013	2014	2013	2014	2013
Ordinary shares / certificates of Rs 10 each			Rupees '000		Rupees '000		Medium to Long Term Rating Assigned (where available)	
		Balance brought forward	1,330,054	783,968	1,508,959	818,370		
		Non Life Insurance						
-	1,559,311	TPL Direct Insurance Limited	-	15,938	-	15,515	A-	A-
500,000	-	Adamjee Insurance Company Limited	23,518	-	24,730	-	AA	-
		Food Producers						
9,500	9,500	Morafoo Industries Limited ***	126	126	97	97	-	-
9,900	9,927	Al-Hussaniy Industries Limited	-	-	-	-	-	-
9,000	9,000	Suraj Ghee Industries Limited ***	117	117	-	-	-	-
		Chemicals and Fertilizers						
15,868,843	15,868,843	Agritech Limited	519,824	519,824	122,984	201,058	D	D
160,000	-	Engro Fertilizers Limited	9,812	-	12,496	-	A+	-
879,700	-	Fauji Fertilizer Company Limited	101,960	-	103,022	-	-	-
92,300	-	Engro Corporation Limited	16,220	-	20,446	-	AA-	-
-	23	Sardar Chemical Industries Limited	-	-	-	-	-	-
		Industrial Metals and Mining						
1,000	1,000	Quality Steel Works Limited ***	13	13	-	-	-	-
		Health Care Equipment and Services						
48,000	48,000	Medi Glass Limited ***	38	38	-	-	-	-
146,399	156,399	Al-Abid Silk Mills Limited	4,082	4,361	1,757	2,533	-	-
		Fixed Line Telecommunication						
1,831,000	-	Pakistan Telecommunication limited	45,337	-	42,168	-	-	-
		Tobacco						
-	400	Pakistan Tobacco Company	-	46	-	225	-	-
		General Industrials / Others						
225	225	VISA Incorporation - Class C Shares	-	-	6,032	5,235	-	-
102,500	102,500	Fatima Enterprises Limited ***	1,789	1,789	-	-	-	-
26,000	26,000	Hashmi Can Company Limited ***	156	156	-	-	-	-
39,018	39,018	Siemens Pakistan Engineering Company Limited	49,584	49,584	43,489	53,416	-	-
223	223	Syed Match Company Limited ***	3	3	3	3	-	-
9,900	9,927	Al-Hussaniy Industries Limited	-	-	-	-	-	-
			2,102,633	1,375,963	1,886,183	1,096,452		

*** Delisted companies. However, in certain cases last available market value has been disclosed in the current and previous year.
Provision for diminution in the value of investments against above shares amounts to Rs 461.243 million (2013: Rs 480.002 million)

Note: The Bank hold various delisted and non-traded shares, certificates of modarabas and units of closed end mutual funds having Nil carrying value which have not been disclosed individually.

2. Details of investments in unlisted companies classified as available for sale are as follows:

	2014		2013		Quality of Available for Sale Securities	
	2014	2013	2014	2013	2014	2013
	At Cost		Market Values		Medium to Long Term Rating Assigned (where available)	
	-----Rupees '000-----		-----Rupees '000-----			
Al Hamra Avenue (Private) Limited ** / + 28,812,500 (2013: 28,812,500) ordinary shares of Rs 10 each The Bank holds 17.99% (2013: 17.99%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 12.41 (2013: Rs 12.48) Period of financial statements: June 30, 2012 (audited)	265,938	265,938	Not Applicable	-	-	
Al Hamra Hills (Private) Limited * / + 500 (2013: 500) ordinary shares of Rs 10 each	5	5	Not Applicable	-	-	
DHA Cogen Limited * / + 63,694,475 (2013: 63,694,475) ordinary shares of Rs 10 each The Bank holds 19.10% (2013: 19.10%) of investee's capital. Chief Executive: Siraj ul Haq Break up value per share: Rs. (29.1) Period of financial statements: December 31, 2013 (audited)	325,001	325,001	Not Applicable	-	-	
Himont Chemical (Private) Limited * 810,000 (2013: 810,000) ordinary shares of Rs 10 each	1,037	1,037	Not Applicable	-	-	
Pace Barka Properties Limited 5,200,000 (2013: 5,200,000) ordinary shares of Rs 10 each The Bank holds 1.70% (2013: 1.70%) of investee's capital. Chief Executive: Aamna Taseer Break up value per share: Rs. 17.336 Period of financial statements: June 30, 2012 (audited)	51,998	51,998	Not Applicable	-	-	
Pakistan Export Finance Guarantee Agency Limited * 568,044 (2013: 568,044) ordinary shares of Rs 10 each	5,687	5,687	Not Applicable	-	-	
	649,666	649,666				

* Fully provided investments

+ Strategic investments

** Includes 24,375,000 shares of Al Hamra Avenue (Private) Limited classified as strategic investment

Provision for diminution in the value of investments against above shares amounts to Rs 498.983 million (2013: Rs 498.983 million)

3. Preference shares – Listed companies

2014	2013	Name of Company	Rate	2014		2013		Quality of Available for Sale Securities	
				2014	2013	2014	2013	2014	2013
				At Cost		Market Values		Medium to Long Term Rating Assigned (where available)	
Share of Rs 10 each				-----Rupees '000-----		-----Rupees '000-----			
2,249,000	2,249,000	Azgard Nine Limited	8.95%	22,490	22,490	-	-	D	D
40,000,000	40,000,000	Silk Bank Limited	Cumulative 14% Non - Cumulative Convertible	100,000	100,000	100,000	100,000	A-	A-
-	36,066	Maple Leaf Cement Factory Limited	9.75% Cumulative Convertible	-	162	-	-	-	BB
				122,490	122,652	100,000	100,000		

Provision for diminution in the value of investments against above shares amounts to Rs 22.490 million (2013: Rs 22.652 million)

4. Preference shares – Unlisted companies

2014	2013	Name of Company	Rate	2014		2013		Quality of Available for Sale Securities	
				2014	2013	2014	2013	2014	2013
				At Cost		Market Values		Medium to Long Term Rating Assigned (where available)	
Share of Rs 10 each				-----Rupees '000-----		-----Rupees '000-----			
7,700,302	7,700,302	Pak Elektron Limited Chief Executive: Mr. Naseem Saigol The Bank holds 17.13% (2013: 17.13%) of Class A preference shares in investee's capital.	9.50% Cumulative Convertible	75,000	75,000	Not Applicable	-	A-	A
				75,000	75,000				

Provision for diminution in the value of investments against above shares amounts to Rs 18.750 million (2013: Nil)

5. Details of investments in open ended mutual funds:

2014	2013	Name of the Fund	2014		2013		Quality of Available for Sale Securities	
			At Cost	Net Asset Values	2014	2013	2014	2013
			Rupees '000	Rupees '000	Medium to Long Term Rating Assigned (where available)			
Open ended Mutual funds								
542,665	589,512	Faysal Income Growth Fund	57,919	62,919	60,724	62,583	A+(f)	A+(f)
1,516,220	980,470	Faysal Savings Growth Fund	155,412	100,411	164,268	100,557	AA-(f)	AA-(f)
850,000	880,000	Faysal Islamic Savings Growth Fund	85,000	88,000	90,177	90,086	AA-(f)	AA-(f)
5,429,608	7,368,048	Faysal Money Market Fund	549,000	745,000	571,466	749,478	AA+(f)	AA+(f)
227,692	227,692	Faysal Asset Allocation Fund	15,491	15,491	16,685	15,496	MFR 4-Star	MFR 3-Star
203,373	203,373	Faysal Balanced Growth Fund *	12,480	12,480	13,624	12,515	MFR 1-Star	MFR 1-Star
389,222	538,923	Faysal Financial Sector Opportunity Fund	39,000	54,000	40,954	54,485	AA-(f)	-
			914,302	1,078,301	957,898	1,085,200		

* 121,940 units of Faysal Balanced Growth Fund represents Strategic investment

Provision for diminution in the value of investments against the units of above funds amounts to Rs 1.368 million (2013: Rs 1.486 million)

6. Term Finance Certificates - Listed

	2014		2013		Quality of Available for Sale Securities		
	At Cost	Market / Carrying Values	2014	2013	2014	2013	
							Medium to Long Term Rating Assigned (where available)
							Rupees '000
Azgard Nine Limited 31,640 (2013: 31,640) certificates of Rs 5,000 each Mark-up: Different spread over six months KIBOR rate in different years with no floor and cap Redemption: 12 unequal semi annual instalments, 2012-2015: 47% and 2016-2017: 53% of the outstanding amount Maturity: September 2017 Chief Executive Officer: Mr. Ahmed H. Shaikh	51,476	51,476	-	10,709	D	D	
Financial Receivables Securitization Company Limited Nil (2013: 20,000) certificates of Rs 5,000 each Mark-up: 2.00% above six months KIBOR rate, floor-8%, cap-16% Redemption: Equal Semi annual installment with a grace period of 1 year Maturity: January 2014 Chief Executive Officer: Mr. Suleman Kanjijyani	-	9,600	-	9,601	A+	A+	
Telecard Limited 70,233 (2013: 70,233) certificates of Rs 5,000 each Mark-up: 5.04% above three months KIBOR rate, with no floor and no cap Redemption: Ten unequal semi-annual installments commencing 18 months from the last date of public subscription. Maturity: May 2015 Chief Executive Officer: Mr. Syed Aamir Hussain	111,500	128,766	-	-	-	-	
Bank Alfalah Limited - Fifth Issue 12,250 (2013: 12,250) certificates of Rs. 5,000 each Mark-up: 1.25% above six months KIBOR rate with no floor and cap Redemption: 0.30% semi annually in first 90 months, balance of 99.70% at maturity in the 96th Month Maturity: February 2021 Chief Executive Officer: Mr. Atif Aslam Bajwa	61,213	61,238	60,779	62,570	AA-	AA-	
							224,189
							251,080
							60,779
							82,880

Provision for diminution in the value of investments against above TFCs amounts to Rs 162.976 million (2013: Rs 167.902 million)

7. Term Finance Certificates - Unlisted

	2014		2013		Quality of Available for Sale Securities	
	At Cost	Market / Carrying Values	2014	2013	2014	2013
	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Medium to Long Term Rating Assigned	(where available)
Dewan Cement Limited	500,000	500,000	50,000	50,000	-	D
100,000 (2013: 100,000) certificates of Rs. 5,000 each Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui						
Bank Alfalah Limited - Fourth Issue	199,600	199,680	206,552	210,992	AA-	AA-
40,000 (2013: 40,000) certificates of Rs. 5,000 each Mark-up: 2.50% above six months KIBOR rate with no floor and cap Redemption: Three equal semi annual instalments commencing 84th months after the issue date Maturity: December 2017 Chief Executive Officer: Mr. Atif Aslam Bajwa						
Dewan Sugar Mills Limited	8,511	9,513	-	9,513	-	-
10,000 (2013: 10,000) certificates of Rs 5,000 each Mark-up: SBP discount rate less 2% p.a. with 6% floor and 12% cap Maturity: June 2008 Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui						
	708,111	709,193	256,552	270,505		

Provision for diminution in the value of investments against above TFCs amounts to Rs 458.511 million (2013: Rs 450 million)

FAYSAL BANK LIMITED
ANNEXURE II TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2014 as referred in note 12.9 to these financial statements.

S. No.	Name of the borrower	Address	Name of Individuals / Partners/ Directors/NIC	Father's / Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest / Mark-up written-off	Other Financial Reliefs provided	Total (10+11+12)
					Principal	Interest / Mark-up	Others	Total (6+7+8)				
1	2	3	4	5	6	7	8	9	10	11	12	13
----- Rupees '000 -----												
1	TANVEER AHMED KHAN	HOUSE # 138-B/2, KH-E-BADAR PH-7, D.H.A KARACHI PAKISTAN	4230142936171	MUHAMMAD BASHIRUDDIN KHAN	492	14	-	506	482	26	-	508
2	INAM AHMED SIDDIQUI / GHAZALA	APPARTMENT#3, 2ND FLOOR, BLOCK-7/8, C.P BERAR COOPRATIVE HOUSING SOCIETY PECHS KARACHI	4220165962062	MAQBOOL AHMED SIDDIQUI	2,561	530	-	3,091	-	726	-	726
3	MOHIUDDIN AHMED / SARWAR	B-88, SECTOR-1, BLOCK-10/A, CENTRAL GOVT EMPLOYEES CO-OPERATIVE HOUSING SOCIETY GULSHAN-E-IQBAL KARACHI	4200005012663	MUHAMMAD BAQI RAFIUDDIN	9,506	3,372	-	12,878	-	4,556	-	4,556
4	MASROOR SARWAR KHAN	HOUSE / PLOT NO. 26, BLOCK INDUS, SITUATED IN GREEN FORTS - 2, FARM HOUSING SCHEME, LAHORE	6110189037231	RANA MUHAMMAD SARWAR KHAN	15,143	9,798	-	24,941	-	9,824	-	9,824
5	MUHAMMAD TARIQ	FLAT NO.A-803, 8TH FLOOR, SEA-CASTLE APARTMENT,PLOT NO CA-2, BLOCK#4, CLIFTON KARACHI	4220169315657	HAFIZ ABDUL HAMID	4,479	3,138	-	7,617	-	3,412	-	3,412
6	ZAHID NAZIR	217-A, JOHAR TOWN, LAHORE.	3310074402961	CHAUDHARY NAZEER AHMED	2,647	1,113	-	3,760	-	1,116	-	1,116
7	MUHAMMAD ASIF KAMRAN	ANMOL HOUSE, GT ROAD, FEROUZ WALA, SHAHDRA, LAHORE.	3450118614789	MUHAMMAD ASLAM JUTT	10,116	3,761	-	13,877	-	3,761	-	3,761
8	RAO MUHAMMAD FAHIM	B-493, BLOCK-B, F.B AREA, KARACHI.	4210198782635	RAO MUHAMMAD TASLEEM	5,212	1,305	-	6,517	-	1,421	-	1,421
9	RIAZ UL HASSAN	CAPITAL HOISERY, SHOP # 24-25, AKBAR MARKET, RAJA BAZAR, RAWALPINDI.	6110119309587	ABDUL KHALIQ	6,284	3,986	-	10,270	-	3,543	-	3,543
10	WAZIR ALI BHATTI	HOUSE # 327, STREET # 10, PHASE IV-EE, DHA, LAHORE.	3520239322601	MUHAMMAD SHAFI BHATTI	6,295	2,444	-	8,739	-	2,444	-	2,444
11	NABILA TARIQ	10-B, MODEL TOWN, LAHORE	3520270585002	TARIQ AHMED ALI	16,932	14,568	-	31,500	-	14,737	-	14,737
12	TARA CHAND	SEABREEZE SUPER STAR, FLAT NO. B-04, GROUND FLOOR, FL-05, BLOCK 07, CLIFTON, KARACHI	5150307437719	TAK CHAND	4,084	1,911	-	5,995	-	1,691	-	1,691
13	UMER SHARIF	HOUSE NO. 117-B, BLOCK 03, GULSHAN-E-IQBAL, KARACHI	3520269151627	SHEIKH MUHAMMAD SULEMAN	13,684	7,992	-	21,676	-	7,992	-	7,992
14	ZULFIQAR ALI	B-64, WARD NO. 02, GOLACHI, BADIN	4110288041671	HAKHEEM MUHAMMAD YOUSAF	8,977	1,265	-	10,242	-	1,265	-	1,265
15	SH. ZAHID AHMED	C/O ASAD & CO, H-180/A, ASKARI MANDI, LAHORE	3520230363373	SH AHMAD BUKSH	4,410	527	-	4,937	-	565	-	565
16	HUSSAINY ZEESHAN HAIDER	G-1/IV, MAYMAR LAKE VIEW APPT, CLIFTON, BLOCK 05, NEAR PIZZA HUT, KARACHI	4220199595781	SYED SHAHABUDDIN SHAHI HUSSAINY	4,951	1,664	-	6,615	-	1,718	-	1,718
17	MUHAMMAD REHAN HUSSAIN	C/O HI TECH, FL# 08, 3RD FLOOR, HONGKONG PLAZA, 5TH ROAD, S TOWN, RAWALPINDI	3310008477213	MISAL KHAN	2,699	2,219	-	4,918	-	2,103	-	2,103
18	SHEIKH MUHAMMAD SOHAIL	HOUSE # 15, STREET # 03 NEAR HARLEY STREET, RAWALPINDI	3740549224863	SHEIKH MOHAMMAD YOUNUS	3,905	2,546	-	6,451	-	2,025	-	2,025
19	JAVED ANWAR	HOUSE # 21-C, GULBERG COLONY, FAISALABAD.	3310006130697	MUHAMMAD HUSSAIN BUKSH	2,537	947	-	3,484	-	919	-	919
20	S. AHSAN GILLANI	555, KAMRAN BLOCK, ALLAMA IQBAL TOWN, LAHORE.	3310453309473	SYED ALTAH HUSSAIN GILLANI	5,863	4,381	-	10,244	-	4,188	-	4,188
21	REHAN SHAKOOR	RIO TRAVEL, D-3, BLOCK-8, CH. KALIQUE UZ ZAMAN ROAD, CLIFTON, KARACHI.	4230194169639	ABDUS SHAKOOR	18,941	9,003	-	27,944	-	9,199	-	9,199
22	AAMIR MEHMOOD	C/O MADINA OLD & NEW BOOKS, 1-2-G SHAMIM SQUARE 13-F,MAIN MARKET GULBURG 2 LAHORE PAKISTAN	3520225213603	RASHID MEHMOOD	3,325	989	-	4,314	-	1,022	-	1,022
23	PURSHUTAM KUMAR	C/O KARPALANI TRADERS,SH#19 BILLY'S HEIGHT GULISTAN E JOHAR BLK-18 KARACHI PAKISTAN	4120719461719	HAIMANDAS	2,258	620	-	2,878	-	726	-	726
24	IMRAN KHUSHNOOD BUTT	A-95-F, SCHEME # 45, GULSHAN-E-MAYMAR, KARACHI.	4220104636489	KHUSHNOOD UL HASSAN BUTT	3,216	778	-	3,994	-	951	-	951
25	ATIF ALI	C/O ATIF TRADERS 214E/E MARKET PECHS BLOCK-6 KARACHI.	3520230870691	SHAUKAT ALI	6,907	5,908	-	12,815	-	6,270	-	6,270
26	MUHAMMAD MUNIR	12-A PARADISE VALLEY NR GATWALA PULL SHEIKHUPURA RD FAISALABAD.	3310078886867	MEHMOOD ALI	26,267	11,130	-	37,397	-	12,619	-	12,619
27	KHALID SAEED	163-L, JOHAR TOWN, LAHORE.	3520025702101	ABDUL REHMAN	8,008	3,711	-	11,719	-	2,668	-	2,668
28	MUHAMMAD SAIM KHATTAK	KHATTAK SONS PVT.LTD.PLOT 155 SERVICE RD, NORTH MAIN DRY PORT ROAD SECTOR I-9/3 INDUSTRIAL AREA ISLAMABAD	6110119421015	MOHD FARIDOON KHATTAK	471	53	165	689	97	117	380	594
29	MUHAMMAD ANIS KHAN	MUJAHID GENERAL STORE, SHOP#1446 ALAMGIR ROAD LALKURTI, RAWALPINDI	3740506154473	MUHAMMAD HUSSAIN KHAN	538	78	52	668	66	211	495	772
30	MUHAMMAD HAROON PATEL	RAIN CENTRE DANDIA BAZAR JODIA BAZAR KARACHI	4220193686313	ABDUL SATTAR PATEL	25,905	23,862	555	50,322	10,705	23,862	555	35,122
					226,613	123,613	772	350,998	11,350	125,677	1,430	138,457

FAYSAL BANK LIMITED
ANNEXURE III TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

The Bank is operating 58 Islamic banking branches (2013: 53) and 1 Islamic sub-branch (2013: Nil). The statement of financial position and profit and loss account of these branches for the year ended December 31, 2014 are as follows:

(A) Statement of financial position as at December 31, 2014	Note	2014	2013
		Rupees '000	
ASSETS			
Cash and balances with treasury banks		2,929,341	2,267,282
Balances with other banks		158,367	73,246
Due from financial institutions		-	-
Investments		20,694,546	17,514,498
Islamic financing and related assets	(A3)	11,373,893	9,257,260
Operating fixed assets		204,408	290,574
Deferred tax assets		19,727	-
Other assets		825,349	876,076
		<u>36,205,631</u>	<u>30,278,936</u>
LIABILITIES			
Bills payable		320,765	266,100
Due to financial institutions		1,350,000	1,550,000
Deposits and other accounts	(C)		
- Current accounts		12,482,760	10,650,189
- Saving accounts		7,781,254	6,936,737
- Term deposits		9,697,708	6,481,043
- Others		34,876	36,323
- Deposits from financial institutions - remunerative		355,698	2,488,263
- Deposits from financial institutions - non-remunerative		5,797	6,752
Due to head office		1,818,327	227,813
Other liabilities		593,652	240,266
		<u>34,440,837</u>	<u>28,883,486</u>
NET ASSETS		<u>1,764,794</u>	<u>1,395,450</u>
REPRESENTED BY			
Islamic banking fund		880,000	880,000
Reserves		-	-
Unappropriated profit		921,429	421,350
		<u>1,801,429</u>	<u>1,301,350</u>
(Deficit) / Surplus on revaluation of assets - net of tax		(36,635)	94,100
		<u>1,764,794</u>	<u>1,395,450</u>
(A1) Remuneration to shariah advisor		<u>2,844</u>	<u>2,630</u>
(A2) CHARITY FUND			
Opening balance		233	1,031
Additions during the year		1,047	4,026
Payments / utilization during the year		(943)	(4,824)
Closing balance		<u>337</u>	<u>233</u>
Sector wise details of charity disbursement			
Health		643	3,100
Education		200	724
Social Work		100	1,000
		<u>943</u>	<u>4,824</u>
(A3) Islamic Financing and related assets	(A3.1)	<u>11,373,893</u>	<u>9,257,260</u>
(A3.1) Islamic Mode of Financing			
Murabaha		1,788,521	2,840,462
Musharika cum Ijara		2,752	12,071
Diminishing Musharika		7,637,270	5,551,138
Advance against Murabaha Financing		227,605	65,515
Advance against Murabaha ERF		-	300,000
Advanced against Diminishing Musharika		1,198,877	453,821
Fixed Assets Ijara Financing (net)		514,532	28,538
Advance against Ijara		4,336	5,715
		<u>11,373,893</u>	<u>9,257,260</u>

FAYSAL BANK LIMITED
ANNEXURE III TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

(B) Profit and loss account

	2014	2013
	Rupees '000	
Profit / return earned on financing and investments	2,926,100	2,325,513
Profit / return expensed	1,377,042	1,235,735
Net spread earned	<u>1,549,058</u>	<u>1,089,778</u>
(Reversal) / provision against non-performing financings - net	25,156	59,046
Provision against consumer financings - general	8,548	11,602
Reversal against provision for diminution in the value of investments	-	(5,285)
Recoveries against written off debts	(556)	-
	<u>33,148</u>	<u>65,363</u>
	<u>1,515,910</u>	<u>1,024,415</u>
Other income		
Fee, commission and brokerage income	92,188	78,720
Dividend income	-	-
Income from dealing in foreign currencies - net	16,868	13,318
Gain on sale of securities - net	-	1,251
Unrealized gain / (loss) on revaluation of investments classified as held for trading	-	-
Other income	3,760	11,903
Total other income	<u>112,816</u>	<u>105,192</u>
	<u>1,628,726</u>	<u>1,129,607</u>
Other expenses		
Administrative expenses	1,128,647	865,410
Other provision / write-offs	-	-
Other charges	-	-
Total other expenses	<u>1,128,647</u>	<u>865,410</u>
	<u>500,079</u>	<u>264,197</u>
Extraordinary items / unusual items	-	-
Profit for the year	<u><u>500,079</u></u>	<u><u>264,197</u></u>

(C) Sectors and avenues of deposits and funds

The deposits and funds accepted under the pools mentioned in note (D) are provided to diversified sectors and avenues of the economy / business.

	2014	2013
	Rupees '000	
Government and other securities	20,694,546	17,522,424
Textiles, chemicals, pharmaceuticals, food and allied	2,141,264	3,313,121
Production and transmission of energy	7,130,054	4,484,158
Transportation	1,575,048	988,264
Construction / Housing	731,120	636,728
	<u>32,272,032</u>	<u>26,944,695</u>

Musharaka investments from the SBP under Islamic Export Refinance Scheme (IERS) are channelled towards the export sector of the economy.

FAYSAL BANK LIMITED
ANNEXURE III TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

(D) Pool management

The Bank's Islamic Banking Division (FBL IBD) has maintained the following pools:

- i. 'General Pool' for local and foreign currency deposits
- ii. 'Islamic Export Refinance Pool'
- iii. 'Treasury Musharaka Pool'

Key features and risk & reward characteristics of all pools

- The 'General Pool' for both local and foreign currency is catered for all FBL IBD depositors and provide profit / loss based on Modaraba and Musharaka.
- The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.
- The 'Treasury Musharaka Pool' is to provide Shariah compliant mechanism for Interbank Money Market transactions and manage the liquidity position of FBL IBD balance sheet by creating sub pools against each FBL IBD money market deals.
- The risk characteristics of each pool mainly depends on the asset and liability profile of each pool.

(D1) Profit / (loss) distribution to depositor's pool

Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:

Gross income generated from relevant assets, calculated at the end of the month is first divided between FBL IBD and investors / depositors in the ratio of FBL IBD's equity commingled in a pool on pro rata basis, and then amongst FBL IBD and the depositors as per agreed mudarib fee and weightages declared before start of a month, respectively. All Modaraba and Musharika based deposits are fully invested in respective Pools to produce returns for them. In case where FBL IBD is unable to utilise all funds available for investment, priority is given to the deposit account holders.

All remunerative accounts such as savings account, term deposits, business kamil accounts are opened on the basis of Modaraba, Musharaka, Wakalah or a combination of Modaraba and Musharaka. Return on these deposits is calculated on the basis of Profit and Loss sharing (PLS). Unless specified, all remunerative local currency and foreign currency deposits are taken as General Modaraba and Musharaka pool.

Profit share is determined using weight and profit sharing ratio assigned to each category of deposit within a pool. These weightages and profit sharing ratios are declared by FBL IBD in compliance with the requirements of the SBP.

The allocation (of income and expenses to different pools) is based on pre-defined basis and accounting principles / standards. The direct expenses are charged to respective pool. The indirect expenses including the establishment cost is borne by FBL IBD as Mudarib. The direct expenses charged to the pool include depreciation of Ijara assets, cost of sales of inventories, insurance / takaful expenses of pool assets, stamp fee, documentation charges, brokerage fee for the purchase of securities / commodities, impairment / losses due to physical damages to specific assets in pools etc. Provisions against any non-performing assets of the pool are not passed on to the pool except on the actual loss / write-off of such non-performing asset and suspension of income against non-performing assets. The profit of the pool is shared between the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

Particulars	2014		2013	
	Rupees '000	Percent	Rupees '000	Percent
- Mudarib share amount and percentage of distributable income	922,162	50.50	773,564	49.29
- Amount and percentage of mudarib share transferred to depositors through Hiba	391,224	42.42	285,737	36.94
- Profit rate earned (annualised)	-	9.77	-	10.27
- Profit rate distributed (annualised)	-	6.84	-	6.97

FAYSAL BANK LIMITED
ANNEXURE IV TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Details of disposal of fixed assets to executives, and other persons having cost of more than Rs.1 million or net book value of Rs. 250,000 or above are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss) on disposal	Mode of disposal	Particulars of purchaser / Insurer / addresses (only in case of individuals)
----- Rupees '000 -----							
Owned - Vehicles							
Toyota Prado	2,500	2,000	500	3,005	2,505	Bid	Abdul Basit - Individual House # 17 Hussaini Corporative Housing Society, Block-3 Shaheed-e- Millat Road, Karachi.
Honda Civic	1,942	1,191	751	1,750	999	Insurance Claim	Adamjee Insurance Company Limited
Mercedez Benz E200	7,000	1,960	5,040	5,040	-	As per Bank Policy	Nauman Ansari - Executive
Toyota Corolla	1,725	1,380	345	1,186	841	Bid	Zahid Qadri - Individual House # R-536-15-A,4 Buffarzone, Karachi.
Honda City	1,024	819	205	891	686	Bid	Mohammad Asghar Bhatti - Individual House # 105-L Phase-8 DHA Lahore Cantt.
Honda City	1,309	1,047	262	1,000	738	Bid	Imdad Ahmed Wahidy - Individual House # A-28, Gulshan-e-Ameen, Towers Gulistan-e-Jauhar Karachi.
Owned - Office furniture, fixtures, equipments, and computers							
Computer Hardware	28,180	28,180	-	-	-	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Digital Teleset M3905	3,634	3,634	-	-	-	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Owned - Leasehold Improvement							
Civil Work Honda Building	6,006	2,002	4,004	4,245	241	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Refurbishment Honda Building	1,792	627	1,165	1,236	71	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Air Conditioner	24,184	24,184	-	-	-	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Cable Work	760	101	659	695	36	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Carpet Honda Building	876	102	774	815	41	Bid	M/s Lealgar Enterprises 321, Sector P, Korangi # 2 1/2, Karachi.
Assets written off	676	85	591	-	(591)	Write off	-
Owned - Land							
Land - Valencia Plot No A-79	7,000	-	7,000	9,020	2,020	Bid	Ehsen Ullah & Mansha Toor 430-AA, Phase IV, DHA, Lahore Cantt.