faysalbank

2013

THIRD QUARTER

ENDED SEPTEMBER 30, 2013

UNAUDITED FINANCIAL STATEMENTS

CONTENTS

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

RISE

A new day comes when a daring few hit hard against the forces that make unfairness the fashion.

یہ مظلوم مخلوق گر سر اٹھائے

یہ مظلوم مخلوق گر سر اُٹھائے
تو انسان سب سرکشی بھول جائے

CORPORATE INFORMATION

Board of Directors

Syed Naseem Ahmad	Chairman
Naved A. Khan	President & CEO
Shahid Ahmad	Director
Farooq Rahmatullah	Director
Lt.Gen. Muhammad Maqbool (Retd)	Director
Imtiaz Ahmad Pervez	Director
Graham Roderick Walker	Director
Mohamed Abdulrahman Mohamed Husain Bucheeri	Director

Audit Committee (AC)

Lt.Gen. Muhammad Maqbool (Retd)	Chairman
Imtiaz Ahmad Pervez	Member
Graham Roderick Walker	Member

Board Risk Management Committee (BRMC)

Syed Naseem Ahmad	Member
Naved A. Khan	Member
Shahid Ahmad	Member
Farooq Rahmatullah	Member

Recruitment Nomination and Remuneration Committee (RNRC)

Syed Naseem Ahmad	Chairman
Naved A. Khan	Member
Shahid Ahmad	Member
Farooq Rahmatullah	Member

On behalf of the Board of Directors, I am pleased to present Financial Statements of Faysal Bank Limited for the nine months ended September 30, 2013.

ECONOMIC UPDATE

The economic performance during 1st Quarter of FY'14 remained sanguine subsequent to the re-entry into the USD 6.64 billion IMF Extended Fund Facility program, which was negotiated due to a precarious balance of payments position. With this program came the usual remedies; rapid devaluation of the PKR, reversal in interest rates and fiscal belt tightening. Though these measures are designed to produce dividends over the medium term and place the economy on sound footing the upfront impact is always painful for the population at large, as subsidies are withdrawn and money becomes a finite resource for the GOP leaving little space for contra cyclical fiscal stimulus.

The most heartening economic developments during FY'13 were the vast improvement in the current account balance and steep fall in CPI inflation, both of which are now expected by the SBP to deteriorate sharply. CPI inflation which was recorded at 7.4% in FY'13 is now expected by the SBP to resurge to 11-12% due to a sudden plunge in the PKR/USD parity, withdrawal of energy subsidies and monetary overhang due to debt monetization during the previous years. This lead to a sudden reversal in the interest rate trajectory as the SBP raised the policy rate by 50 bps only three months after reducing it by the same quantum. However the CPI data for the first quarter date has been rather satisfactory at 8.07%.

The performance of the current account witnessed a vast improvement in FY'13 wherein it recorded a deficit of USD 2.299 billion vs. 4.658 billion during the same period last year. However, during the first two months of FY'14 it was recorded at a deficit of USD 632 million vs. a surplus of USD 582 million during this time last year wherein the GOP had received USD 1.8 billion in CSF. Though the size of the deficit even at 1-2% of GDP is rather small for a developing economy but due to a deteriorating balance of Payments position (largely due to IMF repayments and drying up of FDI) funding even a small deficit has become a challenge. This subsequently lead to a draw down on foreign exchange reserves which declined to USD 9.92 billion as of 27th September'14 causing a panic in the currency market wherein the USD PKR parity briefly breached 110 before settling around at 106 subsequent to SBP actions.

Going forward the main challenges facing the economy are; energy shortages, security and reviving private investment which have to be addressed within the space provided in the IMF framework. Adherence to IMF bench marks is also aimed at paving the way for the resumption of program loans by multilateral agencies such as the World Bank, Asian Bank and ADB. It will also have a positive impact on Foreign Exchange Reserve accumulation and free up more money for the private sector.

PERFORMANCE UPDATE FOR THE NINE MONTHS OF 2013

Corporate and Investment Banking

The nine months of the current financial year was yet another challenging period, nevertheless the Investment Banking Department (IBD) was able to arrange and negotiate a wide range of tailor made financial solutions, ranging from structured & project finance to debt restructuring & advisory services, for the Bank's corporate client base.

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

- FBL structured and concluded for the re-profiling a PKR 2.5 billion syndicated permanent working capital facility extended to the first agri-corporate farming entity owned by one of the largest sugar and allied groups of the country
- The Bank successfully achieved financial close as Lead Advisor and Arranger for PKR 22 billion financing arrangement for expansion Isomerization and DHDS up gradation project of one of the largest and most reputable refineries in the Country
- FBL continued to act as Financial Advisor for setting up of an IPP which shall undertake coal conversion of two RFO based electricity generating units comprising of 560 mw owned by the largest Utility company of Karachi
- FBL was mandated and undertook the role of Financial Advisor to re-profile and restructure the outstanding debt of one of the largest spinning and weaving Group
- FBL has been mandated a sell side advisory role for a real estate transaction
- FBL successfully closed a joint mandate for arrangement of Syndicated Financing of PKR 4 billion for funding CAPEX of a large gas utility within Pakistan
- The Bank successfully concluded book building as Joint Lead Advisor and Arranger for a Sukuk issue of PKR 10 billion (inclusive of green shoe) for a large utility in the power sector
- The Bank successfully closed its joint mandate as Lead Advisor and Arranger for acquisition financing of a cement plant (leveraged buy-out)
- The Bank has been mandated by a large Refinery for arranging financing of PKR 2.5 billion for putting up an isomerization unit.
- The Bank was solely mandated to Advise and Arrange PKR 1,200 mln for a large textile Group, based in Faisalabad, to finance purchase of Air Jet Looms and associated machinery in setting up a weaving unit (backward integration)
- FBL was mandated and undertook the role of Financial Advisor to re-profile and restructure the outstanding debt and to sale the assets of one of the largest Denim manufacturer
- FBL was mandated to act as the manager to offer for an acquisition of a bank and has successfully closed the transaction

Retail Banking

Branch Banking, continued their focus on acquisition of low cost deposits namely Current and Saving Accounts (CASA). In the process, focus was on improving CASA mix by reducing expensive term deposits and engaging current & saving low cost core deposit. Staff efforts bear fruit and Bank was successful in improving CASA deposit mix from 60.9% in December 2012 to 64.2% in September 2013. This strategy, to mobilize low cost deposits and reduce high cost funds whilst has an offsetting impact on volumes, resulted in reduction in cost of deposits which positively contributed to the net margins of the bank.

Fresh accounts intake was at a significantly low cost of funds as compared to the market. A new revamped, market linked product was introduced by the Retail Banking team, which allowed the client's return to be linked with the KIBOR fluctuations witnessed recently. Our focus remains to be the best solution provider to our very large and diverse customer base.

Consumer Finance

Consumer Finance overall strategy is to aggressively grow book size in select profitable segments while prudently managing NPLs and operational cost. The consumer lending market has rallied in 2013 and the Bank in the last 9 months has increased its portfolio by almost PKR 3 billion, thereby growing portfolio by 20%. In the last quarter of the year we will continue to invest in the product suite and customer engagement while building further cost efficiencies and targeting cost saving of about 15% through process reengineering and structural changes. Besides continued growth in Cards, PIL and BTF, bank has also accelerated its efforts in booking loans in secured products.

One of the cornerstones of product and distribution strategy is to provide customer convenience at palatable cost. As a part of this strategy the Bank launched "mobile banking" service with the name of "Mobit" in the last quarter. This product provided numerous touch points to customers on a simple click option. FBL customers have welcomed the product and activity on Mobit is increasing day by day. This diversion will take some pressure off from branches and ATM's. The products covers variety of features like balance enquiry, interbank funds transfer, mini statement and utility bills payment etc.

Islamic Banking

Barkat Islamic Banking continues its strategy to consolidate existing potential of Islamic network by further expanding Islamic banking deposit business in conventional branches through Islamic Banking Windows manned by fully trained cherry picked conventional banking team members. This initiative aims to grow Islamic Banking in the bank as it will get more points of sale and sales force by leveraging on existing infrastructure of conventional bank.

To expand Islamic Banking product menu, Istisna (working capital finance) has been approved from BOD for Islamic customers.

Information Technology

Bank has successfully implemented IBAN (International Bank Account Number) comprising of 24 digits. IBAN is a universally accepted account number with built-in features that provide numerous benefits not only to member Banks but also to the customers. With this feature Bank will be able to offer wider range of products and services across the network.

One of the top globally benchmarked anti-money laundering applications has been implemented. This product will assist the bank in identifying suspicious transactions under seven major scenarios. With this implementation Bank is now complaint with SBP directives on AML transaction monitoring.

VDI (Virtual Desktop Infrastructure) is a new trend worldwide and Bank has successfully implemented its pilot phase. In the VDI project, all user data storage and processing is carried out at a central server while user retains only the monitor and a small gadget. By using VDI, users can work from a remote location without any difficultly. Major benefits of VDI are capital cost saving, data security, centralized efficient processing, low maintenance cost and bigger work space for the user. Presently, Bank has implemented VDI for about 150 users at 15 locations and plans to complete the project in 2014.

Financial Perspective

Bank has developed a comprehensive Transfer Pricing System for transferring interest rate and currency risk of business units to the Asset and Liability Management Desk and thus bringing FBL Transfer Pricing (TP) policy, at par with international best practices for management of spread earnings. The Bank is utilizing the TP system for acquiring appropriate rate hedge which is assisting in effective product profitability analysis.

RISK MANAGEMENT

Retail Risk Management function continued to play its pivotal role in setting the path for Consumer Finance business to grow in a profitable and sustainable manner. A number of new initiatives were taken which included exploration of new low risk segments and tailoring of policies to target preferred segments more effectively. Also, the existing processes were made more efficient to enhance the customer's on-boarding experience. Despite the economic challenges, Consumer Finance NPL losses remained on a declining trend. In-line with the Bank's sharp focus on rationalizing cost, various measures were taken to enhance staff productivity which helped to maintain the function's cost efficiency in increasing business volumes.

In order to align existing Credit Policy and Standard Operating Procedures with the revised Prudential Regulations (PR) for SMEs, an extensive joint exercise across business and support functions was carried out to implement the amendments. Similarly, as per new SME PRs, Urdu translation of Borrowers' Basic Fact Sheet, Loan Application Form and charge documents are now available to all customers.

With respect to Agri Business Line, the Bank has already exceeded its disbursement target for the year and is now the third largest amongst Commercial Banks in Agri credit despite a relatively smaller branch network.

Loan Origination System (LOS) was successfully introduced for SME business line. The new electronic system registers and monitors movement of "loan and service" requests. Further bank's aim is to improve response time to clients while reducing processing costs in a paper-free environment.

Organizational Development

Local Open Resourcing (LOR) was launched on August 01, 2013. It is an internal job posting program that aims to create the best possible match of our staff's skills and capabilities with opportunities available within FBL. It is a pragmatic, proven approach to staffing which if used in conjunction with external hiring strategy, ensures that the organization retains the talent it needs to succeed and prosper.

HR Policy Road Shows were held with a purpose to enhance the working knowledge and understanding of key HR policies & procedures across the Bank and to solicit candid feedback and recommendations on our Policies with a view to make HR more facilitative and responsive.

Learning & Development

The 3rd Quarter kicked off with the launch of FBL's **first annual learning calendar** for the year 2013-2014. The annual calendar included trainings planned on the feedback received from the annual TNA along with our regular induction programs. The interest in the calendar has been tremendous and our open enrollment programs are being booked full post their announcement thus embarking FBL on the next level of L&D strategy.

More than 2,700 participants have been trained both in class and through computer based trainings in the areas of technical and operational knowledge, soft skills, product knowledge and risk and compliance related issue.

Corporate Social Responsibility

Faysal Bank has in the year 2013, linked its CSR strategic objectives to the UN Millennium Development Goals (MDGs); the resultant goal being that all FBL contributions are coherent with the Pakistan Millennium Development Goals.

The Bank has been following a structured contribution plan where greater proportion of FBL CSR funds are channeled towards enhancement of infrastructure and capacity building, to achieve a sustainable longer term impact. Our area of impact is thematic, and proportionately divided into: Poverty Alleviation, Education and Health. We ensure that whilst giving back to the community we work through established organizations with pre-defined filters for selection. We actively monitor our donor relationships and seek to create sustainability.

We have in 2013, directly contributed approx. PKR 20 Million. Our focus remains to plan our initiatives, and yet have the flexibility to contribute in emergency situations e.g floods, earthquakes, etc. To weave our CSR motto, **"To not only give in Kind but also give in Time"**, as a living example, the efforts of our employees involved in the CSR are acknowledged with the Trustees displaying an active role.

Communications

During the third quarter of the current fiscal year, IC team updated FBL staff about the Bank's activities and managing recognition/reward related internal events. The major tools utilized by IC in the 3rd quarter were newsletter and intranet.

FINANCIAL HIGHLIGHTS

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

	Sep 30, 2013	Sep 30, 2012
	Rs in Million	
Operating profit	3,132	2,470
(Provision) / Reversal for non performing advances	(1,457)	(613)
Reversal / (Provision) for diminution in value of investments	44	(139)
	(1,413)	(752)
Profit before tax	1,719	1,718
Provision for taxation	(414)	(589)
Profit after tax	1,305	1,129
Earnings per share – Rupees	1.41	1.22

DIRECTORS' REVIEW

Profit after tax for the period ended September 30, 2013 at Rs 1,305 million is 13.4% higher than comparable period last year. The Bank managed to improve profitability due to its focus on asset growth and mobilization of low cost core deposits in the last couple of years despite reduction of 450 bps in discount rates since July 2011.

The non funded revenue streams of the Bank remained diversified across the branch banking, consumer asset and corporate portfolios. The fee based revenue levels showed gradual progress and bank earned fee and commission income of Rs 1.7 billion as against Rs 1.4 billion during the corresponding period last year.

Administrative costs remained an area of focus and measures were taken to bring it down without affecting operations. Business units concentrated on building efficiencies in processes, better utilization of premises and cutting down on power costs. The optimization of technology infrastructure and network supporting all applications has also resulted in major cost savings for the Bank. The overall administrative costs were Rs 7.99 billion for nine months of 2013 as compared to Rs. 8.21 billion in the same period of last year representing net saving of Rs. 225 million, despite 8% inflation and higher energy cost.

The non performing loans and advances of the Bank have improved and stand at Rs 27.083 billion as compared to Rs. 27.549 billion as at December 31, 2012. The net provisioning against non performing advances / investments charged to the current year profit and loss was Rs 1,413 million as against PKR 752 million in the corresponding period last year. The increase in the provision requirement is mainly due to impact of change in classification and withdrawal of FSV benefit during the period.

CREDIT RATING

JCR-VIS Credit Rating Company Limited (JCR) and Pakistan Credit Rating Agency Limited (PACRA) have re-affirmed the following entity ratings based on the financial statements for the year ended December 31, 2012:

Long-Term	AA
Short-Term	A1+

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

ACKNOWLEDGEMENT

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

On behalf of the Board of Directors

President & CEO

Karachi
Dated: October 22, 2013

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2013

	Note	Un-audited September 30, 2013	Audited December 31, 2012 Restated
		------------ Rupees in '000 ------------	
ASSETS			
Cash and balances with treasury banks		28,914,741	24,508,852
Balances with other banks	9	1,063,579	1,209,313
Lendings to financial institutions		300,000	-
Investments	10	78,369,047	87,995,224
Advances	11	182,504,658	172,299,205
Operating fixed assets	12	10,399,113	10,859,963
Deferred tax assets - net		5,221,462	4,395,728
Other assets	13	11,837,173	11,839,474
		318,609,773	313,107,759
LIABILITIES			
Bills payable		5,765,628	4,244,494
Borrowings		34,067,441	35,568,109
Deposits and other accounts	14	246,707,099	240,712,826
Sub-ordinated loans		3,745,500	4,195,001
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		7,015,924	7,365,998
		297,301,592	292,086,428
NET ASSETS		21,308,181	21,021,331
REPRESENTED BY			
Share capital		9,273,508	9,273,508
Reserves		6,215,433	6,309,083
Unappropriated profit		4,554,320	3,189,727
		20,043,261	18,772,318
Surplus on revaluation of assets - net of tax		1,264,920	2,249,013
		21,308,181	21,021,331
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The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2013

	Note	Quarter ended September 30, 2013	Quarter ended September 30, 2012 Restated	Nine months ended September 30, 2013	Nine months ended September 30, 2012 Restated
		Rupees '000			
Mark-up / return / interest earned		7,078,532	7,549,617	20,469,530	21,594,543
Mark-up / return / interest expensed		3,918,700	5,065,331	12,832,043	15,042,882
Net mark-up / interest income		3,159,832	2,484,286	7,637,487	6,551,661
Provision against non-performing loans and advances - net	11.2	648,553	310,390	1,289,573	630,646
Provision for loans general - net	11.3	37,997	5,522	95,682	11,007
Provision against off balance sheet obligations		(2,795)	-	4,186	-
(Reversal of provision) / provision for diminution in the value of investments - net	10.6	150,901	142,157	(43,650)	139,659
Bad debts written-off directly / (Recoveries against written-off debts)		100,212	(2,060)	67,165	(28,348)
		934,868	456,009	1,412,956	752,964
Net mark-up / interest income after provisions		2,224,964	2,028,277	6,224,531	5,798,697
Non mark-up / interest income					
Fee, commission and brokerage income		675,300	474,622	1,746,842	1,389,286
Dividend income		42,866	80,769	470,129	389,810
Income from dealing in foreign currencies		176,704	241,450	550,757	542,043
Gain on sale of securities		105,180	654,236	307,002	977,977
Unrealised (loss) / gain on revaluation of investments classified as held for trading - net		(67,301)	25,734	(84,511)	49,229
Other income		422,591	441,430	605,383	846,878
Total non mark-up / interest income		1,355,340	1,918,241	3,595,602	4,195,223
		3,580,304	3,946,518	9,820,133	9,993,920
Non mark-up / interest expenses					
Administrative expenses		2,848,423	2,913,424	7,991,590	8,216,017
Other provisions - net		(74,749)	5,383	16,021	24,496
Other charges		11,030	21,020	93,132	35,634
Total non mark-up / interest expenses		2,784,704	2,939,827	8,100,743	8,276,147
		795,600	1,006,691	1,719,390	1,717,773
Extraordinary / unusual items		-	-	-	-
Profit before taxation		795,600	1,006,691	1,719,390	1,717,773
Taxation - Current		406,399	379,528	755,434	587,862
Taxation - Prior years		-	-	(90,309)	21,853
Taxation - Deferred		(160,924)	4,035	(250,514)	(20,530)
		245,475	383,563	414,611	589,185
Profit after taxation		550,125	623,128	1,304,779	1,128,588
		Rupees			
Earnings per share	16	0.59	0.67	1.41	1.22

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

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2013

	For the quarter ended		For the nine months ended	
	September 30, 2013	September 30, 2012 Restated	September 30, 2013	September 30, 2012 Restated
	Rupees '000			
Profit after tax for the period	550,125	623,128	1,304,779	1,128,588
Items that may not be reclassified to profit and loss account				
Components of comprehensive income reflected in equity				
Remeasurements of post employment obligations - net of tax	-	11,855	-	35,566
Comprehensive income transferred to equity	550,125	634,983	1,304,779	1,164,154
Items that may be reclassified to profit and loss account				
Components of comprehensive income not transferred to equity				
- Surplus on revaluation of available for sale securities - net	(1,810,579)	1,440,137	(1,449,482)	1,806,111
- Deferred tax liability on revaluation of available for sale securities - net	672,208	(482,007)	517,601	(610,846)
	(1,138,371)	958,130	(931,881)	1,195,265
Total comprehensive income for the period	(588,246)	1,593,113	372,898	2,359,419

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

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

	Share capital	Reserves						Unappro-priated profit	Total
		Capital				Statutory reserve	Total		
		Reserve for issue of bonus shares	Share premium	Non-distributable Capital Reserve (NCR) - gain on bargain purchase (note 17)	Reserve arising on amalgama-tion				
	Rupees '000								
Balance as at January 1, 2012 as previously reported	8,243,118	-	10,131	3,169,399	23,952	3,387,649	6,591,131	2,959,178	17,793,427
Effect of change in accounting policy (note 6.1)	-	-	-	-	-	-	-	(4,327)	(4,327)
Balance as at January 1, 2012 - restated	8,243,118	-	10,131	3,169,399	23,952	3,387,649	6,591,131	2,954,851	17,789,100
Amortisation of intangible assets - customer relationship - net of deferred tax (note 17)	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Provision identified by the Banking Inspection Department of the SBP in respect of acquired portfolio of RBS Pakistan	-	-	-	(175,332)	-	-	(175,332)	-	(175,332)
Comprehensive income for the period September 30, 2012 - restated (note 6.1)	-	-	-	-	-	-	-	1,164,154	1,164,154
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	59,405	59,405
Balance as at September 30, 2012 - restated	8,243,118	-	10,131	2,900,417	23,952	3,387,649	6,322,149	4,178,410	18,743,677
Transfer to reserve for issue of bonus shares	-	1,030,390	-	-	-	-	1,030,390	(1,030,390)	-
Bonus shares issued	1,030,390	(1,030,390)	-	-	-	-	(1,030,390)	-	-
Amortisation of intangible assets - customer relationship - net of deferred tax (note 17)	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Comprehensive income for the period ended October to December 31, 2012 - restated (note 6.1)	-	-	-	-	-	-	-	306,482	306,482
Transfer to statutory reserve	-	-	-	-	-	284,576	284,576	(284,576)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	19,801	19,801
Provision identified by the Banking Inspection Department of the SBP in respect of acquired portfolio of RBS Pakistan	-	-	-	(266,425)	-	-	(266,425)	-	(266,425)
Balance as at December 31, 2012 - restated	9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,189,727	18,772,318
Amortisation of intangible assets - customer relationship - net of deferred tax (note 17)	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Profit after tax for the nine months ended September 30, 2013	-	-	-	-	-	-	-	1,304,779	1,304,779
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	59,814	59,814
Balance as at September 30, 2013	9,273,508	-	10,131	2,509,125	23,952	3,672,225	6,215,433	4,554,320	20,043,261

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

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

	September 30, 2013	September 30, 2012 Restated
	------------ Rupees in '000 ------------	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,719,390	1,717,773
Less: dividend income	(470,129)	(389,810)
	1,249,261	1,327,963
Adjustments for non-cash and other items:		
Depreciation	585,435	722,190
Amortisation	99,064	79,823
Workers' Welfare Fund	35,301	4,788
Provision against non-performing loans and advances - net	1,289,573	630,646
Provision for loans general - net	95,682	11,007
(Reversal of provision) / provision for diminution in the value of investments - net	(43,650)	139,659
Provision for other assets	16,021	24,496
Provision against off balance sheet obligations	4,186	-
Unrealised loss / (gain) on revaluation of investments classified as held for trading	84,511	(49,229)
Net profit on disposal of property and equipment	(98,692)	(7,364)
Charge for defined benefit plan	70,606	81,328
Amortisation of prepaid employee benefits	128,740	161,053
Bad debts written-off / (Recoveries against written-off debts)	67,165	(28,348)
	2,333,942	1,770,049
	3,583,203	3,098,012
(Increase) / decrease in operating assets		
Lendings to financial institutions	(300,000)	-
Held for trading securities	(5,214,263)	4,121,770
Advances	(11,657,873)	(27,556,439)
Other assets	562,971	661,225
	(16,609,165)	(22,773,444)
Increase / (decrease) in operating liabilities		
Bills payable	1,521,134	1,143,326
Borrowings	(5,409,425)	(3,163,654)
Deposits and other accounts	5,994,273	12,525,328
Other liabilities	(358,153)	(4,169,990)
	1,747,829	6,335,010
	(11,278,133)	(13,340,422)
Income tax paid	(1,376,640)	(611,362)
Contribution to gratuity fund	(70,606)	(81,712)
Net cash used in operating activities	(12,725,379)	(14,033,496)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	13,795,572	12,834,309
Net investment in held to maturity securities	(445,475)	945,225
Dividend income received	449,717	354,361
Investment in operating fixed assets	(388,915)	(899,893)
Proceeds realised on disposal of operating fixed assets	119,881	16,197
Net cash generated from investing activities	13,530,780	13,250,199
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of sub-ordinated loan	(449,501)	(200,480)
Dividends paid	(4,502)	772
Net cash used in financing activities	(454,003)	(199,708)
Increase / (decrease) in cash and cash equivalents	351,398	(983,005)
Cash and cash equivalents at beginning of the period	25,693,981	23,010,563
Cash and cash equivalents at end of the period	26,045,379	22,027,558

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

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

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 267 branches (December 31, 2012: 265); including 52 Islamic banking branches (December 31, 2012: 52).

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% (December 31, 2012: 66.78%) of the shareholding of the Bank. Dar Al-Maal Al-Islami Trust (DMI), (ultimate parent of the Bank) is the holding company of Ithmaar Bank B.S.C. The DMI group owns and operates an international network of Islamic Banks, Investments Banks and Insurance Companies.

1.2 Based on the financial statements of the Bank for the year ended December 31, 2012, the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited have determined the Bank's long-term rating as 'AA' and the short term rating as 'A1+'.

2 BASIS OF PRESENTATION

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

The condensed interim financial information of the Islamic banking branches have been consolidated in this condensed interim financial information for reporting purposes only. Inter branch transactions and balances have been eliminated. In accordance with the directives issued by the SBP, the un-audited statement of financial position of islamic banking branches is disclosed in note 20 to this condensed interim financial information.

3 STATEMENT OF COMPLIANCE

3.1 This condensed interim financial information has been prepared in accordance with 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 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 Banking Companies Ordinance, 1962, or the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFASs notified under the Companies Ordinance, 1984 or the directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFASs notified under the Companies Ordinance, 1984 or the requirements of the said directives issued by the SECP and SBP prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has also deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of this condensed interim financial information. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.3 IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their condensed interim financial information in line with the format prescribed under BSD Circular Letter No. 2 dated May 12, 2004. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in this condensed interim financial information is based on the requirements laid down by the SBP.

3.4 The SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the surplus / deficit on revaluation of available for sale (AFS) securities only, may be included in the 'Statement of Comprehensive Income'. However, it should continue to be shown separately in the statement of financial position below equity. Accordingly, the above requirements have been adopted in the preparation of this condensed interim financial information.

3.5 The disclosures made in this condensed interim financial information have been limited based on the format prescribed by the State Bank of Pakistan through BSD Circular Letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34, "Interim Financial Reporting". They do not include all of the information required for the full annual financial statements and this condensed interim financial information should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2012.

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

a) Presentation of Items of other comprehensive income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendment requires that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment does not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The impact of this change has been incorporated in this condensed interim financial information.

b) The Securities and Exchange Commission of Pakistan (SECP) has notified Islamic Financial Accounting Standard (IFAS) 3, 'Profit and Loss Sharing on Deposits' issued by the Institute of Chartered Accountants of Pakistan. IFAS 3 shall be followed by the Bank for the purpose of preparation of financial statements for the year ending December 31, 2013 while accounting for transactions relating to 'Profit and Loss Sharing on Deposits' as defined by the said standard. The standard is effective from June 12, 2013 and has no impact on this condensed interim financial information. The standard would result in certain new disclosures in the annual financial statements for the year ending December 31, 2013.

c) IAS 19 (revised) 'Employee benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The impact relating to change in IAS 19 is given in note 6.1 to this condensed interim financial information.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in this condensed interim financial information.

4 BASIS OF MEASUREMENT

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

5 FUNCTIONAL AND PRESENTATION CURRENCY

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012, except for the change as disclosed in note 6.1.

6.1 Change in accounting policy and disclosure

IAS 19 (revised) 'Employee benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The standard requires "remeasurements" to be recognised in the Statement of Financial Position immediately, with a charge or credit to other comprehensive income in the periods in which they occur. The Bank has applied the standard retrospectively in accordance with the transitional provision of the standard and comparative figures have been restated. The effects have been summarised below:

	December 31, 2012	December 31, 2011
	------------ Rupees in '000 ------------	
Impact on Statement of Financial Position		
Increase / (decrease) in other assets	66,810	(6,657)
(Decrease) / Increase in deferred tax asset	(23,384)	2,330
Impact on Statement of Changes in Equity		
Increase / (decrease) in unappropriated profit		
- Cumulative effect - prior years	(4,327)	(4,327)
- Impact for the year ended December 31, 2012	47,753	-

	(Un-audited)	
	Quarter ended	Nine months ended
	September 30, 2012	September 30, 2012
	------------ Rupees in '000 ------------	
Impact on condensed interim profit and loss account		
Decrease in Administrative expenses	(128)	(384)
Increase in Taxation - Current	45	134
Increase in other comprehensive income		
Remeasurements of post employment obligations	11,855	35,566
Earning per share (Rupees) *	-	-

* The impact of restatement has no material impact on the EPS of the Bank.
** There was no impact of change in accounting policy on the condensed interim cash flow statement.

The Bank intends to have an actuarial valuation for 2013 conducted at the year end. Hence, the resulting impact on this condensed interim financial information is not quantifiable and is also considered immaterial by the management.

7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis and the methods used for critical accounting estimates and judgments adopted in this condensed interim financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012.

8 FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended December 31, 2012.

9 BALANCES WITH OTHER BANKS

	Un-audited September 30, 2013	Audited December 31, 2012
	------------ Rupees in '000 ------------	
In Pakistan		
- Current accounts	518,512	677,630
Outside Pakistan		
- Current accounts	465,520	366,529
- Deposit account	79,547	165,154
	1,063,579	1,209,313

10 INVESTMENTS

10.1 Investments by type

	Note	Un-audited September 30, 2013			Audited December 31, 2012		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
		---------- Rupees '000 ----------					
Held for trading securities							
Market Treasury Bills		11,787,869	-	11,787,869	7,290,934	-	7,290,934
Pakistan Investment Bonds		742,785	-	742,785	546,307	-	546,307
Fully paid up ordinary shares / certificates of closed end mutual funds		520,350	-	520,350	-	-	-
Ijara Sukuk Bonds		500	-	500	-	-	-
		13,051,504	-	13,051,504	7,837,241	-	7,837,241
Available for sale securities							
Market Treasury Bills		10,913,384	9,446,501	20,359,885	16,403,998	16,451,346	32,855,344
Pakistan Investment Bonds		22,580,034	-	22,580,034	19,579,271	-	19,579,271
Ijara Sukuk Bonds		15,710,075	-	15,710,075	17,112,183	-	17,112,183
Units of open end mutual funds							
- Faysal Balanced Growth Fund		7,480	-	7,480	80,374	-	80,374
- Faysal Income Growth Fund		64,919	-	64,919	200,000	-	200,000
- Faysal Savings Growth Fund		115,411	-	115,411	407,411	-	407,411
- Faysal Islamic Savings Growth Fund		100,000	-	100,000	100,000	-	100,000
- Faysal Money Market Fund		540,000	-	540,000	1,100,000	-	1,100,000
- Faysal Asset Allocation Fund		10,491	-	10,491	300,000	-	300,000
- Faysal Financial Sector Opportunity		56,000	-	56,000	-	-	-
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	10.5	2,429,950	-	2,429,950	3,968,636	-	3,968,636
Fully paid up preference shares		222,652	-	222,652	122,652	-	122,652
Term finance certificates	10.2 & 10.3	960,522	-	960,522	1,019,120	-	1,019,120
		53,710,918	9,446,501	63,157,419	60,393,645	16,451,346	76,844,991
Held to maturity securities							
Term finance certificates	10.4	3,377,513	-	3,377,513	2,637,030	-	2,637,030
Sukuk Bonds	10.4	1,918,040	-	1,918,040	2,213,048	-	2,213,048
		5,295,553	-	5,295,553	4,850,078	-	4,850,078
Associate							
Fully paid up ordinary shares of Faysal Asset Management Limited		45,000	-	45,000	45,000	-	45,000
Subsidiary							
Fully paid up ordinary shares of Faysal Management Services (Private) Limited	10.7	-	-	-	108,000	-	108,000
Investments at cost		72,102,975	9,446,501	81,549,476	73,233,964	16,451,346	89,685,310
Less: Provision for diminution in the value of investments	10.6	(2,276,136)	-	(2,276,136)	(2,319,786)	-	(2,319,786)
Investments (net of provisions)		69,826,839	9,446,501	79,273,340	70,914,178	16,451,346	87,365,524
(Deficit) / surplus on revaluation of held for trading securities - net		(80,275)	-	(80,275)	4,236	-	4,236
(Deficit) / surplus on revaluation of available for sale securities - net		(824,120)	102	(824,018)	432,643	192,821	625,464
Total investments at market value		68,922,444	9,446,603	78,369,047	71,351,057	16,644,167	87,995,224

10.2 These include Pre IPO investment of Rs 500 million made in the unlisted term finance certificates (TFCs) of Dewan Cement Limited. The State Bank of Pakistan through its letter BPRD/BLRD-3/DMG/2011-1035 had advised the Banks to maintain provision at least at the level of 90% in five quarters (commencing from December 31, 2010) by December 31, 2011. The Bank, as per the above directive, had availed the relaxation and maintained a provision of Rs 450 million against this investment. Had the provision been made as per the time based criteria specified in the Prudential Regulations issued by the SBP, the provision for diminution in the value of investments for the period ended September 30, 2013 would have been higher by Rs 50 million

(December 31, 2012: Rs 50 million) and the profit before taxation for the period ended September 30, 2013 would have been lower by Rs 50 million (December 31, 2012: Rs 50 million).

10.3 This includes term finance certificates of Rs 51.48 million (2012: Rs 51.48 million) in respect of Azgard Nine Limited. The impact of relaxation availed by the Bank for maintaining provision against this investment is disclosed in note 11.2.1 to this condensed interim financial information.

10.4 This includes term finance certificates and Sukuk Bonds of Rs 999.172 million (2012: Rs 999.172 million) and Rs 500 million (2012: Rs 500 million) respectively issued by Agritech Limited. The impact of relaxation availed by the Bank for maintaining the provision against these investments is disclosed in note 11.2.1 to this condensed interim financial information.

10.5 This includes 8,868,843 shares of Agritech Limited 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 against these shares is disclosed in note 11.2.1 to this condensed interim financial information.

	Un-audited September 30, 2013	Audited December 31, 2012
	------------ Rupees in '000 ------------	
10.6 Particulars of provision for diminution in the value of investments		
Opening balance	2,319,786	1,905,084
Charge for the period / year	492,026	921,683
Reversals during the period / year	(535,676)	(506,981)
	(43,650)	414,702
Closing balance	2,276,136	2,319,786

10.7 On October 1, 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL) [a subsidiary of the Bank in which the Bank has 60% shareholding] decided to voluntarily wind up the company and accordingly, resolved to initiate proceedings of winding up by the members of FMSL under the Companies Ordinance, 1984. An Official Assignee was appointed by the Court in 2012 to distribute the net assets of the Company. The Official Assignee of FMSL has realised assets [held in the form of cash equivalents of the Company] and has distributed cash to respective shareholders in February 2013.

	Note	Un-audited September 30, 2013	Audited December 31, 2012
11 ADVANCES		------------ Rupees in '000 ------------	
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1	186,358,042	178,073,391
Net investment in finance lease – in Pakistan		9,504,628	7,050,189
		195,862,670	185,123,580
Bills discounted and purchased			
(excluding government treasury bills)			
Payable in Pakistan		4,219,565	3,455,602
Payable outside Pakistan		1,889,381	2,149,893
		6,108,946	5,605,495
Margin financing / reverse repo transactions		114,200	122,200
Gross advances		202,085,816	190,851,275
Provision against non-performing advances	11.1	(19,201,657)	(18,268,251)
Provision for loans general- net	11.3	(379,501)	(283,819)
		(19,581,158)	(18,552,070)
Advances - net of provision		182,504,658	172,299,205

11.1 Advances includes Rs. 27,082 million (December 31, 2012: Rs. 27,549 million) which have been placed under non-performing status as detailed below:

	September 30, 2013 (Un-audited)								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other Assets Especially Mentioned (Agri financing)	428,292	-	428,292	-	-	-	-	-	-
Substandard	1,735,027	-	1,735,027	278,114	-	278,114	278,114	-	278,114
Doubtful	2,542,384	-	2,542,384	766,519	-	766,519	766,519	-	766,519
Loss	22,377,111	-	22,377,111	18,157,024	-	18,157,024	18,157,024	-	18,157,024
	27,082,814	-	27,082,814	19,201,657	-	19,201,657	19,201,657	-	19,201,657

	December 31, 2012 (Audited)								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other Assets Especially Mentioned (Agri financing)	190,656	-	190,656	-	-	-	-	-	-
Substandard	2,038,178	-	2,038,178	369,360	-	369,360	369,360	-	369,360
Doubtful	2,552,484	-	2,552,484	796,566	-	796,566	796,566	-	796,566
Loss	22,768,411	-	22,768,411	17,102,325	-	17,102,325	17,102,325	-	17,102,325
	27,549,729	-	27,549,729	18,268,251	-	18,268,251	18,268,251	-	18,268,251

11.2 Particulars of provision against non-performing advances	**Un-audited September 30, 2013**	**Audited December 31, 2012**
	Rupees in '000	
Opening balance	18,268,251	17,062,123
Charge for the period / year	2,434,766	3,064,747
Reversals during the period / year	(1,145,193)	(2,100,846)
Net charge	1,289,573	963,901
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve	-	441,757
	1,289,573	1,405,658
Amounts written-off	(356,167)	(199,530)
Closing balance	19,201,657	18,268,251

11.2.1 This includes classified advances of Rs 397.138 million and Rs 150.444 million disbursed to Agritech Limited (AGL) and Azgard Nine Limited (ANL) respectively. In addition, as disclosed in note 10.3 and 10.4 the Bank has also made investments in term finance certificates and Sukuk of Rs 1,050.648 million and Rs 500 million respectively issued by AGL and ANL. During 2012 the existing lenders (including the Bank) had restructured the outstanding facilities of ANL loans under a debt to asset swap arrangement. Under the arrangement the ANL's existing debt was partially swapped with the company's entire shareholding in AGL. As per the arrangement the Bank acquired 8,868,843 shares of AGL representing 2.26% shares of AGL's paid-up capital from ANL for the total sale consideration of Rs 310.410 million at an agreed price of Rs 35 per share (market value as at the date of acquisition was Rs 12.56 per share). Subsequent to this arrangement, the Bank has incurred impairment loss of Rs 207.71 million representing the difference between the acquisition cost and market value of shares as at September 30, 2013.

In accordance with the requirements of approved accounting standards as applicable in Pakistan the Bank was required to maintain a provision of Rs. 2,166.95 million as at September 30, 2013 against the non-performing outstanding facilities of AGL and ANL and impairment loss on acquired shares of AGL.

Full provision has not been maintained by the Bank as the SBP has given the relaxation to the Bank in making the provisioning against outstanding facilities of AGL and ANL. The Bank is now required to make the provisions against the outstanding exposures in the following phased manner:

- In respect of AGL, at least 30%, 40%, 50%, 60%, 75%, 85% and 100% of the required provision as at June 30, 2013, September 30, 2013, December 31, 2013, March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014 respectively against outstanding facilities; and

- In respect of ANL, at least 10%, 25%, 50%, 75% and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 respectively against outstanding facilities.

Following the relaxation provided by the SBP, the Bank has recorded total provision of Rs 849.99 million (December 31, 2012: Rs. 423.394 million) in respect of outstanding exposure of AGL and ANL and recorded impairment loss of Rs 81.59 million (December 31, 2012: Rs. 20.69 million) as at September 30, 2013.

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower by Rs 1,109.24 million and the provision against advances and investments would have been higher by Rs 246.09 million and Rs 863.15 million respectively.

11.2.2 As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs. 4,198.5 million (December 31, 2012: Rs. 3,876.8) [Rs 4,141.1 million (December 31, 2012: Rs 3,775.7 million) relating to advances and Rs. 57.5 million (December 31, 2012: Rs.101.1 million) relating to investments] while determining the provisioning requirement against non-performing financing (including investments) as at September 30, 2013. The additional profit arising from availing the FSV benefit - net of tax as at September 30, 2013 which is not available for distribution as either cash or stock dividend to shareholders amounted to approximately Rs 2,729.1 million (December 31, 2012: Rs 2,519.9 million).

	Un-audited September 30, 2013	Audited December 31, 2012
11.3 Particulars of provision against loans general	------------ Rupees in '000	------------
Opening balance	283,819	259,212
Charge during the period / year	95,682	24,607
Closing balance	379,501	283,819

11.3.1 General provision represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio and 5 percent of the unsecured regular portfolio of consumer loans and 1 percent of the fully secured regular portfolio and 2 percent of the unsecured regular portfolio of small enterprise portfolio as per the requirements of the Prudential Regulations issued by the SBP.

	Un-audited Nine months ended	
12 OPERATING FIXED ASSETS	**September 30, 2013**	**September 30, 2012**
	------------ Rupees in '000	------------
12.1 Additions to operating fixed assets - cost		
Leasehold property and improvements	72,518	69,561
Office furniture, fixtures, equipment and computers	390,740	51,467
Vehicles	54,945	7,719
Capital work-in-progress	366,163	447,620
12.2 Additions to Intangibles		
Software	387,490	-
12.3 Disposals of operating fixed assets - cost		
Leasehold property and improvements	3,554	-
Office furniture, fixtures, equipment and computers	13,874	381
Vehicles	4,904	14,964

13 OTHER ASSETS

These include non-banking assets acquired in satisfaction of claims amounting to Rs 2,520.473 million (December 31, 2012: 2,240.298 million) classified as held for sale. 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.

	Un-audited September 30, 2013	Audited December 31, 2012
14 DEPOSITS AND OTHER ACCOUNTS	----------- Rupees in '000 -----------	
Customers		
Fixed deposits	75,076,712	92,187,537
Saving deposits	90,209,813	73,676,936
Current accounts – Remunerative	1,717,607	1,659,044
Current accounts – Non-remunerative	67,261,624	60,912,771
Margin accounts	2,142,973	2,298,894
	236,408,729	230,735,182
Financial Institutions		
Remunerative deposits	10,054,168	9,759,282
Non-remunerative deposits	244,202	218,362
	10,298,370	9,977,644
	246,707,099	240,712,826

15 CONTINGENCIES AND COMMITMENTS

15.1 Direct credit substitutes

Contingent liability in respect of guarantees favouring:		
- Banking companies and other financial institutions	797,795	966,911
Acceptances		
- Others	8,200,099	11,513,312

15.2 Transaction-related contingent liabilities

Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
- Government	8,505,109	8,150,674
- Banking companies and other financial institutions	12,592	60,332
- Others	1,600,408	2,670,724
	10,118,109	10,881,730

15.3 Trade-related contingent liabilities

Letters of credit		
- Government	6,466,718	4,841,029
- Others	19,719,730	15,760,764
	26,186,448	20,601,793

15.4 Other Contingencies

i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh. The Bank's legal advisors are confident that the Bank has a strong case	2,500,000	2,500,000
ii) Indemnity issued favouring the High Court in the above case	457,543	457,543
iii) Claims against the Bank not acknowledged as debt	32,252,167	33,362,656

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 (December 31, 2012: Rs. 25,299 million) in respect of a suit filed against the Bank for declaration, recovery of monies, release of securities, rendition of account and damages. Based on legal advice and / or internal assessments, management is confident that the matters will be decided in the Bank's favour and the possibility of any outcome against the Bank is remote and accordingly no provision has been made in this condensed interim financial information.

(iv) Income tax assessments of the Bank have been finalised upto the tax year 2012 (Accounting year 2011). Return of income for tax year 2013 will be e-filed within due date.

The department and the Bank have disagreements on various matters for tax years from 1994 to 2012. These include disallowance on initial depreciation of leases, provision for bad debts, bad debts written off, taxability of dividend, excess perquisites and certain other allocation of expenses. Recently, Appellate Tribunal Inland Revenue has decided certain issues in favor of the Bank for tax year 2004 to 2008. For rest of the matters, the bank has filled reference in High Court against the order of ATIR.

The management of the Bank is confident that the decision in respect of these matters will be in the Bank’s favour and, accordingly, no provision has been made in this condensed interim financial information in this respect.

15.5 Commitments to extend credits

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

	Un-audited September 30, 2013	Audited December 31, 2012
	------------ Rupees in ‘000	------------
15.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	534,851	1,215,250
- Banks	21,670,777	20,816,450
	22,205,628	22,031,700
Sale		
- Customers	880,598	686,361
- Banks	12,096,146	7,310,088
	12,976,744	7,996,449
15.7 Commitments for the acquisition of operating fixed assets	195,759	234,680
15.8 Commitments in respect of repo transactions		
Repurchase	9,442,852	16,646,373
Resale	114,200	289,265
15.9 Other		
Interest rate swaps and cross currency swaps (notional principal)	20,650,027	26,013,457

16 EARNINGS PER SHARE

	Un-audited			
	For the quarter ended		For the nine months ended	
	September 30, 2013	September 30, 2012 Restated	September 30, 2013	September 30, 2012 Restated
	Rupees '000			
Profit after tax for the period	550,125	623,128	1,304,779	1,128,588
	Number of shares in thousands			
Weighted average number of ordinary shares	927,351	927,351	927,351	927,351
	Rupees			
Earnings per share - basic	0.59	0.67	1.41	1.22

16.1 Diluted earning per share has not been presented as the Bank does not have any convertible instruments in issue at September 30, 2013 and September 30, 2012 which would have any effect on the earnings per share if the option to convert is exercised.

17 NON-DISTRIBUTABLE CAPITAL RESERVE - GAIN ON BARGAIN PURCHASE

As per the directive of the State Bank of Pakistan (SBP) vide letter BPRD (R&P -02)/625-99/2011/3744 dated March 28, 2011, gain arising on bargain purchase of Pakistan operations of Royal Bank of Scotland (RBS Pakistan) was credited directly into equity as Non-Distributable Capital Reserve. The SBP allowed the Bank the option to adjust amortisation of intangible asset against the portion of reserve which arose on account of such assets. The directives of the SBP further specified that any subsequent provision / deficit identified by the Banking Inspection Department (BID) of the SBP in the acquired portfolio of RBS Pakistan will be adjusted against this reserve. The balance amount of reserve after incorporation of the above adjustment as identified by BID and amortisation of intangible asset will be available for distribution only as stock dividend after the prior approval of SBP.

The BID of the SBP finalised inspection of the Bank and issued a final inspection report in 2013. The BID identified an adjustment of Rs 441.757 million which essentially represented the additional provision suggested by the BID in the acquired loans and advances portfolio of the RBS Pakistan. In accordance with the above directive of the SBP the management adjusted the aforementioned amount against the NCR at the time of finalisation of the financial statements of the Bank for the year ended December 31, 2012. As mentioned above, the remaining gain after incorporating the adjustments and amortisation of intangible assets, will be available for distribution with the prior approval of the SBP.

The management of the Bank has written to the SBP seeking its approval for the transfer of bargain purchase gain (net of unamortised balance of intangible assets) amounting to Rs. 1,221.567 million to unappropriated profit which may become available for distribution as stock dividend to the shareholders of the Bank.

Pending approval of the SBP, a portion of the gain on bargain purchase has been shown as part of NCR which may be transferred by the management to unappropriated profit after the approval of the SBP.

18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

The Bank is organised into four major business segments:

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

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

September 30, 2013	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
	Rupees '000				
Total income - net	132,150	1,533,617	7,419,491	2,147,831	11,233,089
Total expenses	(67,950)	(153,311)	(7,324,664)	(1,967,774)	(9,513,699)
Net income	64,200	1,380,306	94,827	180,057	1,719,390
Segment assets (Gross)	-	79,092,017	98,943,634	162,447,437	340,483,088
Segment non performing loans	-	-	4,977,731	22,105,083	27,082,814
Segment provision required against loans *	-	-	(2,027,715)	(17,173,942)	(19,201,657)
Segment liabilities	-	(20,956,175)	(242,535,849)	(33,809,568)	(297,301,592)
Segment return on assets (ROA) (%) **	-	2.57%	0.31%	0.03%	
Segment cost of funds (%) **	-	6.87%	5.92%	8.99%	

December 31, 2012	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
	Restated				
	Rupees '000				
Total income - net	108,563	2,556,457	8,177,684	3,402,420	14,245,124
Total expenses	(59,464)	(787,948)	(8,634,357)	(2,922,742)	(12,404,511)
Net income / (loss)	49,099	1,768,509	(456,673)	479,678	1,840,613
Segment assets (Gross)	-	82,203,790	76,942,114	175,371,755	334,517,658
Segment non performing loans	-	-	4,167,698	23,382,031	27,549,729
Segment provision required against loans *	-	-	(1,859,770)	(16,692,300)	(18,552,070)
Segment liabilities	-	(21,278,382)	(219,863,393)	(50,944,653)	(292,086,428)
Segment return on assets (ROA) (%) **	-	2.66%	1.33%	1.37%	
Segment cost of funds (%)**	-	8.09%	7.21%	10.24%	

* includes general provision
** These percentages have been computed based on average balances.

19 RELATED PARTY TRANSACTIONS

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

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

	September 30, 2013 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Deposits					
Balance at the beginning of the period	126,680	55,800	-	2,053	86,234
Placements during the period	1,801,908	946,627	-	1,715,065	4,828,140
Withdrawals during the period	(1,836,664)	(549,781)	-	(1,715,456)	(4,776,918)
Balance at end of the period	91,924	452,646	-	1,662	137,456
Advances					
Balance at the beginning of the period	39,434	-	-	-	4,440,121
Disbursements during the period	4,569	-	-	-	5,723,806
Repayments during the period	(18,877)	-	-	-	(162,124)
Balance at end of the period	25,126	-	-	-	10,001,803

	December 31, 2012 (Audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Deposits					
Balance at the beginning of the year	105,537	12,500	480	3,140	29,871
Placements during the year	2,187,008	1,262,147	-	815,186	48,506,510
Withdrawals during the year	(2,165,865)	(1,218,847)	(480)	(816,273)	(48,450,147)
Balance at end of the year	126,680	55,800	-	2,053	86,234
Advances					
Balance at the beginning of the year	40,266	-	-	-	2,854,555
Disbursements during the year	35,370	-	-	-	4,261,088
Repayments during the year	(36,202)	-	-	-	(2,675,522)
Balance at end of the year	39,434	-	-	-	4,440,121

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

* represents outstanding guarantee

Particulars	September 30, 2012 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Subsidiary	Associate	Group Companies and associated undertakings
	Rupees '000				
Shares / units purchased during the period	-	-	-	-	602,650
Shares / units sold during the period	-	-	-	-	683,636
Government securities purchased during the period	601,236	96,536	-	-	-
Government securities sold during the period	704,440	664,521	-	-	-
Profit paid / accrued	2,435	2,539	-	192	2,699
Profit return / earned	2,160	-	-	-	400,742
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	191,672	-	-	-	-
- Post-employment benefits	9,360	-	-	-	-
Contribution to staff retirement benefits	-	183,596	-	-	-
Guarantees issued favouring related parties or on their behalf *	-	-	-	-	29,397
Advisory fee	-	-	-	16,853	-

* represents outstanding guarantee

20 ISLAMIC BANKING BUSINESS

The Bank is operating 52 Islamic banking branches (December 31, 2012: 52). The statement of financial position of the Islamic Banking Business as at September 30, 2013 is as follows:

	Note	Un-audited September 30, 2013	Audited December 31, 2012
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		1,983,431	1,604,543
Balances with other banks		87,862	83,450
Due from financial institutions		-	-
Investments		16,568,005	14,579,922
Islamic financing and related assets	(a)	6,922,465	5,467,073
Operating fixed assets		293,232	99,242
Deferred tax assets		-	-
Other assets		962,033	312,856
		26,817,029	22,147,086
LIABILITIES			
Bills payable		469,734	203,224
Due to financial institutions		500,000	165,000
Deposits and other accounts			
- Current accounts		7,901,569	7,489,799
- Saving accounts		6,171,051	5,397,752
- Fixed deposits		5,942,418	5,240,046
- Margin accounts		59,815	171,769
- Deposits from financial institutions - remunerative		2,277,298	1,240,767
- Deposits from financial institutions - non-remunerative		12,394	3,505
Due to head office		2,089,112	884,901
Other liabilities		171,880	246,715
		25,595,271	21,043,478
NET ASSETS		1,221,758	1,103,608
REPRESENTED BY			
Islamic banking fund		880,000	880,000
Reserves			-
Unappropriated profit	20.1	317,245	157,153
		1,197,245	1,037,153
Surplus on revaluation of assets - net of tax		24,513	66,455
		1,221,758	1,103,608
Remuneration to shariah advisor		2,010	2,455

	Note	Un-audited September 30, 2013	Audited December 31, 2012
		----------- Rupees in '000	-----------
CHARITY FUND			
Opening balance		1,031	1,778
Additions during the period / year		3,791	1,583
Payments / utilization during the period / year		(3,200)	(2,330)
Closing balance		1,622	1,031
(a) Islamic Financing and Related Assets	(b)	6,922,465	5,467,073
(b) Islamic Mode of Financing			
Murabaha		2,795,888	1,451,159
Ijara		12,764	7,715
Diminishing Musharika		3,683,401	3,511,999
Advance against Murabaha Financing		184,784	265,765
Advance against Murabaha ERF			165,000
Advanced against Diminishing Musharika		207,661	62,607
Advance against Ijarah		33,129	-
Others		4,838	2,828
		6,922,465	5,467,073

20.1 The Bank has not taken the impact of restatement due to change in accounting policy (as disclosed in note 6.1) in the statement of financial position of Islamic banking branches as it is not quantifiable and likely to be immaterial.

21 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on October 22, 2013 by the Board of Directors of the Bank.

21.1 Non-Adjusting Events

The board of directors in its meeting held on October 22, 2013 has proposed a bonus issue of 12.5% (2012: 12.5%)

22 GENERAL

22.1 Comparative information has been re-classified and re-arranged in this condensed interim financial information, wherever necessary, to facilitate comparison and to conform with changes in presentation in the current period. Earnings per share for the period have been restated consequent to the issue of bonus shares.

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

PRESIDENT & CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

Bank on Ambition

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

111 06 06 06
www.faysalbank.com

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