



faysalbank

فيسال

2013

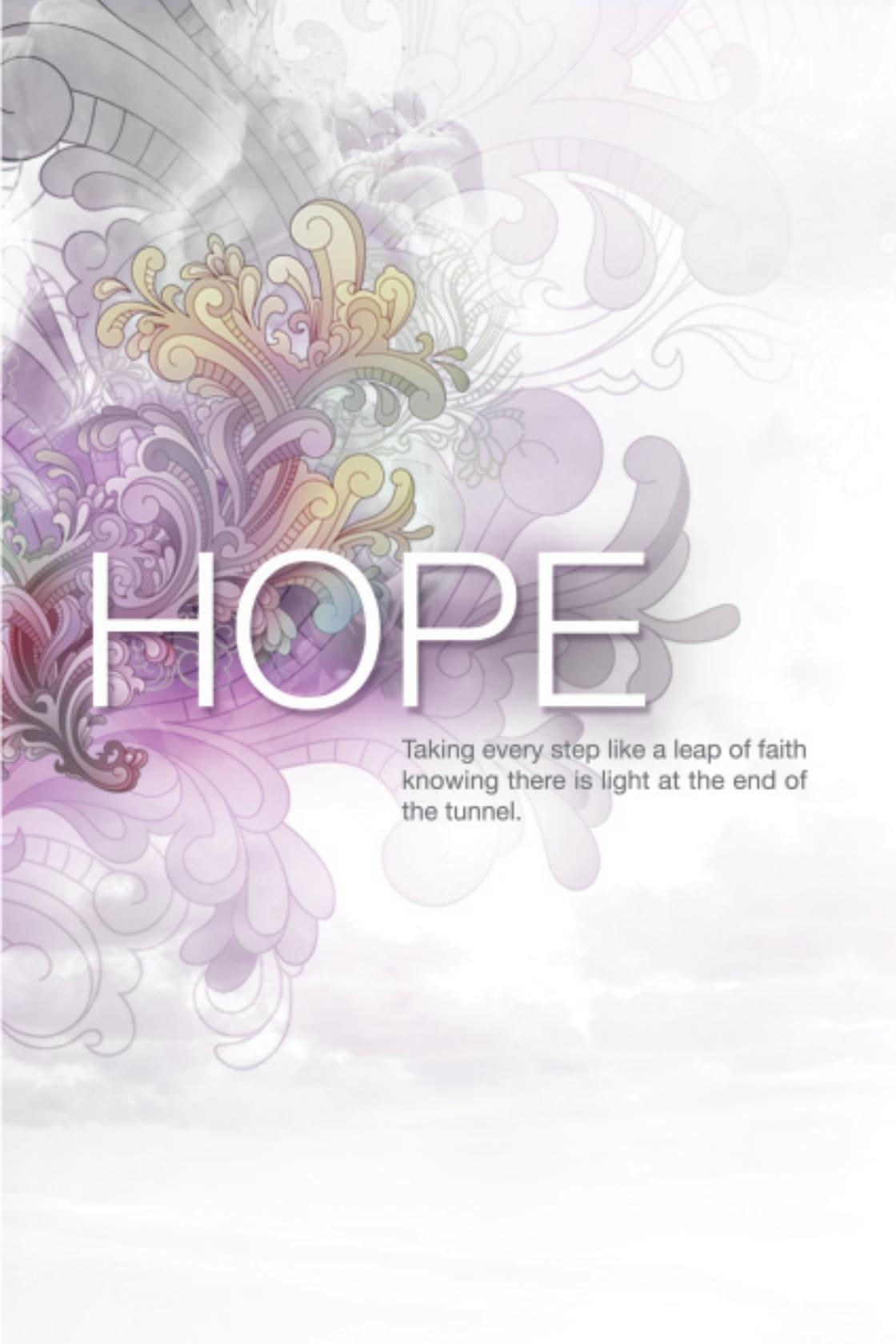
FIRST QUARTER

ENDED MARCH 31, 2013

UNAUDITED FINANCIAL STATEMENTS

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Registered Office
Faysal House, ST-2, Shara-e-Faisal, Karachi
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HOPE

Taking every step like a leap of faith
knowing there is light at the end of
the tunnel.

عہد وفا استوار رکھتے ہیں

جو نچھ سے عہد وفا استوار رکھتے ہیں
علاج گردش لیل و نہار رکھتے ہیں

CORPORATE INFORMATION

Board of Directors

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

Audit Committee (AC)

Lt. Gen. Muhammad Maqbool (Retd)	Chairman
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
Farooq Rahmatullah	Member
Naved A. Khan	Member
Shahid Ahmad	Member

On behalf of the Board of Directors, I am pleased to present Financial Statements of Faysal Bank Limited for the quarter ended March 31, 2013.

ECONOMIC UPDATE

The Economy has displayed a mixed performance during the first three quarters of FY'13 despite improvement in some key indicators such as inflation and the current account balance. The main challenges remain the high fiscal deficit which has become structural in nature and its financing. This in turn has taken its toll on GDP growth which is again expected to remain lackluster and remain close to FY'12 levels of 3.7%.

Inflationary pressures remained surprisingly subdued during FY'13 and CPI inflation has remained muted at 8% during the first 9 Months of FY'13 against 11% for full FY'12. This encouraging performance tilted the SBP's bias towards supporting economic growth and the discount rate in December '12 was brought down to single digit for the first time since 2007. We expect the CPI for full FY'13 to remain below SBPs targeted range of 8-9% and the real challenge from here on is to keep inflationary expectations anchored at low levels over the medium term which may face headwinds from a weakening external account and rising debt levels in the economy.

The performance of the current account has been stellar wherein it has recorded a meager deficit of USD 700 million vs. 3.2 billion during the same period last year. This contraction has been aided largely by the receipt of USD 1.8 billion in Coalition Support Fund, a marginal improvement in the trade balance and robust growth in worker remittances. This performance has somewhat helped ease the pressure on the balance of payments position - management of which has emerged as the primary challenge for the economy due to IMF principal repayments and a continuous decline in Foreign Direct Investment and financial flows. This has subsequently led to a draw down on foreign exchange reserves which have declined to USD 12.2 Billion as of 29th March '13 vs. USD 14.9 Billion at the onset of FY '13.

Besides the precarious balance of Payments position, the other main challenge facing Pakistan's economy is the fiscal deficit which is expected to miss the full year deficit target of 4.7% by a wide margin due to a projected short fall in tax collection and above target expenditures for subsidies related to the energy sector and the dismal performance of Public Sector Enterprises. Thus

DIRECTORS' REVIEW

FOR THE QUARTER ENDED MARCH 31, 2013

structural reforms are needed to make the fiscal position sustainable and restore macroeconomic stability so that the economy may embark on a path of sustainable growth.

PERFORMANCE UPDATE FOR THE FIRST QUARTER OF 2013

Corporate Banking

The first-quarter 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, IBD managed several unique first-of-its kind transactions, some of the notable transactions are highlighted below:

- FBL in the capacity of Lead Advisor and Arranger successfully achieved execution of Financing Documents for PKR 4,370 million Long Term Syndicated Facility to set-up Pakistan's first dedicated Coal and Clinker Terminal.
- FBL successfully closed an underwriting arrangement for issuance of Tier-II sub-debt IPO issue of a reputable and large commercial bank.
- 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 was jointly mandated as Lead Advisor to arrange PKR 22 billion for expansion Isomerization and PHDS 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 Groups.
- FBL has been mandated a sell side advisory role for a real estate transaction.

Retail Banking

Retail Banking continued its focus on mobilization of core deposits. During the quarter ratio of Current and Saving Deposits to total Deposits improved from 60.9% to 62.4%. High cost term deposits amounting to Rs. 4.1 bln reduced and low cost CASA increased by Rs 2.4 bln. The cost of

deposits reduced from 6.6% to 5.4% in the first quarter. The bank's efforts in mobilization of core deposits have been very successful and since Jan '12 there has been an increase in individual deposits of Rs 33 bln while cost of deposits reduced by 194 bps.

Islamic Banking

Barkat Islamic Banking continued its strategy to consolidate the existing potential of Islamic network by strengthening sales team during 1st quarter 2013. We aim to grow the Islamic balance sheet and profitability to provide sound footing for future expansion and growth. During 1st Quarter 2013, Barkat Islamic Banking Team launched "Computer Based Training" program on basic Islamic Banking to provide training across the board. In addition to improve existing Islamic product menu, Pakistan's first Shariah Compliant Barkat China Union Pay card was launched (currently for staff). Also Barkat Islamic Banking team launched Barkat Interbank Musharaka product specifically design to cater the needs of Islamic Treasury.

Launch of Upgraded Version of Core Banking System

Your bank is pleased to announce the successful launch of the upgraded version of "Symbols 8.5" during the first quarter of 2013. This is the most advanced version of Symbols Core Banking System and the first full suite implementation of Symbols 8.5 in the world. The new system provides a unified platform to all the branches through integration of all auxiliary systems. This will enable the Bank to provide with ease a wider range of products and services, across the network and electronic banking channels. The migration and implementation is the result of hard work, coordination and immense support from all stakeholders within business, operations, IT and all support functions. This achievement brings us a step closer to translating our vision 'EXCELLENCE IN ALL THAT WE DO' into reality.

Financial Perspective

In the first quarter of 2013 the Bank has implemented a comprehensive Transfer Pricing System which transfers interest rate and currency risk from all business units to the Asset and Liability Management Desk and is thus at par with international best practices for management of spread earnings. This system will support the business units by providing appropriate rate hedge so that their focus remains on business growth. This will also provide the Bank with the most effective product profitability analysis.

DIRECTORS' REVIEW

FOR THE QUARTER ENDED MARCH 31, 2013

Corporate Brand Promotion

As a part of the Bank's effort of further enhancing its brand identity and making it a household name, the largest sporting event of the country, the Faysal Bank T20 Super 8 Cup 2012-13 was held from 26th to 31st March 2013, at Gaddafi Stadium, Lahore. The event was once again a huge success in terms of the quality of cricket displayed on the ground, the fan following in the stadium and through mass media channels, and the projection that Faysal Bank brand and our different businesses gained during its course. The tournament was a great opportunity for Customer Engagement, as a large number of high valued customers and contacts were entertained in the stadium during the matches. Faysal Bank Customers were also invited to be the Chief Guest to give away the awards at the Prize Distribution Ceremonies at the end of the games.

The tournament was utilized to the full extent to derive Brand Building and Marketing mileage. The event itself was promoted through FM Radio spots, Newspaper advertisements, Outdoor communication, and Faysal Cricket Face Book page. The association of Faysal Bank brand with the T20 form of entertaining cricket has earned it high recall and mass goodwill. During the live television transmission, Faysal Bank's portfolio of products and services was continuously advertised. Similarly, ground and stadium branding with the Corporate Brand and its Promise: Faysal Bank – Bank on Ambition, and with the Product and Service propositions, offered exposure to the spectators and television audience in millions.

Corporate Social Responsibility (CSR)

Faysal Bank's CSR focus for the first quarter 2013, remains thematic on education, health and poverty alleviation. During the first quarter ended March 2013, an amount of PKR 8.06 Million was donated to various non-profit organizations through WAQF Faisal. Some of the beneficiaries include:

- The Hunar Foundation - as sponsorship renewal towards vocational training of 40 students in 2013.
- The Indus Hospital - for the purchase of the laryngoscope machine.
- The Cardiovascular Foundation - towards funding of heart surgeries
- The Professional Education Foundation - as sponsorship of ten students
- The Children Cancer Foundation - towards operational costs of the children's treatment

DIRECTORS' REVIEW

FOR THE QUARTER ENDED MARCH 31, 2013

FINANCIAL HIGHLIGHTS

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

	March 31, 2013	March 31, 2012
	Rs in Million	
Operating profit	775,960	537,816
(Provision) / Reversal for non performing advances	(487,580)	(295,351)
(Provision) / Reversal for diminution in value of investments	30,313	95,872
	(457,267)	(199,479)
Profit before tax	318,693	338,337
Provision for taxation	(56,108)	(71,571)
Profit after tax	262,585	266,766
Earnings per share – Rupees	0.28	0.29

The Bank's focus of asset growth and mobilization of core deposits in the last couple of years has significantly improved its earning profile and as a result despite a reduction of 450 bps in interest rates over this period, net markup / interest income has increased by Rs 569 million or 33%.

The non funded revenue streams of the Bank remained diversified across the branch banking, consumer asset and corporate portfolios. During the first quarter of the year the bank earned non markup income of Rs 1.05 Billion as against Rs 1.38 billion during last year. The fee based revenue levels remained consistent in the quarter; however, the reduction is due to lower capital gains and unrealized profits on the trading portfolio.

Administrative costs remained an area of focus and the Bank continued to take measures that create cost synergies within its operations. Building efficiencies, better utilization of premises, cutting down on power and generation costs are some of the areas that are being targeted by all business and support functions. The optimization of technology infrastructure and network supporting all applications has also resulted in cost savings for the Bank. The overall administrative costs remained at Rs 2.53 Billion for the quarter in 2013 which is the same level as last year, despite minimum inflation level of 8-10% driven primarily by the energy and fuel crisis since last year.

DIRECTORS' REVIEW

FOR THE QUARTER ENDED MARCH 31, 2013

The non performing loans and advances of the Bank are at Rs 27.5 Billion which is the same level as at December 31, 2012. The net provisioning against non performing advances charged to the current year profit and loss was Rs 488 million as against PKR 295 million in the corresponding period last year. The increase in the provision requirement is mainly due to subjective provisioning, additional provisioning upon downgrading and withdrawal of FSV benefit during the quarter.

Profit after tax for the period ended March 31, 2013 amounted to Rs 262.6 million, which is 1.6% lower than the comparable period last year. This translates into an EPS of Rs 0.28 per share as against EPS of PKR 0.29 in the corresponding period last year. The bank prudently took an accelerated provision of Rs. 86 million in this quarter on Azgardnine / Agritech Group. Excluding this provisioning, the EPS of the bank showed an increase from Rs 0.29 per share to Rs 0.34 per share.

CREDIT RATING

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

Long-Term	AA
Short-Term	A1+

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

ACKNOWLEDGEMENT

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

On behalf of the Board of Directors

President & CEO

Karachi
Dated: April 19, 2013

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013

	Note	Un-audited March 31, 2013	Audited December 31, 2012
Rupees '000			
ASSETS			
Cash and balances with treasury banks		22,008,624	24,508,852
Balances with other banks	9	1,867,627	1,209,313
Lendings to financial institutions		15,291,134	-
Investments	10	86,097,595	87,995,224
Advances	11	172,493,349	172,299,205
Operating fixed assets		10,707,868	10,859,963
Deferred tax assets - net		4,642,839	4,419,111
Other assets		11,745,250	11,772,664
		324,854,286	313,064,332
LIABILITIES			
Bills payable		3,669,622	4,244,494
Borrowings		48,935,130	35,568,109
Deposits and other accounts	14	238,933,461	240,712,826
Sub-ordinated loans		3,995,481	4,195,001
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		8,372,151	7,365,998
		303,905,845	292,086,428
NET ASSETS		<u>20,948,441</u>	<u>20,977,904</u>
REPRESENTED BY			
Share capital		9,273,508	9,273,508
Reserves		6,277,866	6,309,083
Unappropriated profit		3,495,497	3,146,300
		19,046,871	18,728,891
Surplus on revaluation of assets - net of tax		1,901,570	2,249,013
		<u>20,948,441</u>	<u>20,977,904</u>
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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

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CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER ENDED MARCH 31, 2013

	Note	March 31, 2013	March 31, 2012
Rupees '000			
Mark-up / return / interest earned		6,582,637	6,776,704
Mark-up / return / interest expensed		<u>4,292,445</u>	<u>5,055,192</u>
Net mark-up / interest income		2,290,192	1,721,512
Provision against non-performing loans and advances - net	11.2	501,926	321,330
Provision / (reversal of provision) for consumer loans - general	11.3	11,488	(2,341)
Provision against off balance sheet obligations		6,981	-
Provision for diminution in the value of investments - net	10.6	(30,313)	(95,872)
Bad debts written-off directly / (recoveries)		<u>(32,815)</u>	<u>(23,638)</u>
Net mark-up / interest income after provisions		1,832,925	1,522,033
Non mark-up / interest income			
Fee, commission and brokerage income		397,876	419,070
Dividend income		146,400	198,900
Income from dealing in foreign currencies		196,536	172,358
Gain / (loss) on sale of securities		233,386	308,377
Unrealised gain / (loss) on revaluation of investments classified as held for trading		(4,362)	117,156
Other income		<u>76,148</u>	<u>159,383</u>
Total non mark-up / interest income		<u>1,045,984</u>	<u>1,375,244</u>
Non mark-up / interest expenses			
Administrative expenses		2,532,967	2,534,073
Other provisions - net		18,946	17,909
Other charges		8,303	6,958
Total non mark-up / interest expenses		<u>2,560,216</u>	<u>2,558,940</u>
Extraordinary / unusual items		-	-
Profit before taxation		<u>318,693</u>	<u>338,337</u>
Taxation - Current		108,312	74,484
Taxation - Prior years		(50,309)	-
Taxation - Deferred		<u>(1,895)</u>	<u>(2,913)</u>
Profit after taxation		<u>56,108</u>	<u>71,571</u>
		<u>262,585</u>	<u>266,766</u>
Rupees			
Basic earnings per share	16	<u>0.28</u>	<u>0.29</u>

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

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CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

	March 31, 2013	March 31, 2012
	Rupees '000	
Profit for the period	262,585	266,766
Components of comprehensive income reflected in equity		
Effect of change in accounting policy with respect to accounting for actuarial gains and losses	-	18,239
Components of comprehensive income not reflected in equity		
- Surplus / (deficit) on revaluation of available for sale securities	(532,664)	15,671
- Deferred tax (liability) / asset on revaluation of available for sale securities	204,304	(68,836)
	(328,360)	(53,165)
Total comprehensive income for the period	(65,775)	231,840

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

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

FOR THE QUARTER ENDED MARCH 31, 2013

	Reserves							Unappropriated profit	Total
	Capital				Statutory reserve	Total			
	Share capital	Reserve for issue of bonus shares	Share premium	Non-distributable Capital Reserve (NCR) - gain on bargain purchase (note 17)			Reserve arising on amalgamation		
	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 relating to prior period note - 7.1	-	-	-	-	-	-	-	(6,657)	(6,657)
Balance as at January 1, 2012	8,243,118	-	10,131	3,169,399	23,952	3,387,649	6,591,131	2,952,521	17,786,770
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Profit after tax for the period ended March 31, 2012	-	-	-	-	-	-	-	266,766	266,766
Other comprehensive income actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	-	-	18,239	18,239
Transfer from surplus on revaluation of fixed assets	-	-	-	-	-	-	-	18,639	18,639
Balance as at March 31, 2012	8,243,118	-	10,131	3,138,182	23,952	3,387,649	6,559,914	3,256,165	18,059,197
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	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Profit after tax for the period from April to December 31, 2012 (restated)	-	-	-	-	-	-	-	1,156,628	1,156,628
Other comprehensive income actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	-	-	54,716	54,716
Transfer to statutory reserve	-	-	-	-	-	284,576	284,576	(284,576)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	60,567	60,567
Provision identified by the Banking Inspection Department of the SBP in respect of acquired portfolio of RBS Pakistan	-	-	-	(441,757)	-	-	(441,757)	-	(441,757)
Balance as at December 31, 2012	9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,213,110	18,795,701
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Profit after tax for the period ended March 31, 2013	-	-	-	-	-	-	-	262,585	262,585
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	19,802	19,802
Balance as at March 31, 2013	<u>9,273,508</u>	<u>-</u>	<u>10,131</u>	<u>2,571,558</u>	<u>23,952</u>	<u>3,672,225</u>	<u>6,277,866</u>	<u>3,495,497</u>	<u>19,046,871</u>

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

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DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE QUARTER ENDED MARCH 31, 2013

	March 31, 2013	March 31, 2012
	Rupees '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	318,693	338,337
Less: dividend income	<u>(146,400)</u>	<u>(198,900)</u>
	172,293	139,437
Adjustments for non-cash and other items:		
Depreciation	195,258	237,567
Amortisation	20,924	26,855
Workers' Welfare Fund	8,296	6,905
Provision against non-performing loans and advances - net	501,926	321,330
Provision / (reversal of provision) for consumer loans - general	11,488	(2,341)
Provision for diminution in value of investments - net	(30,313)	(95,872)
Provision for other assets	18,946	17,909
Provision against off balance sheet obligations	6,981	-
Unrealised (gain) / loss on revaluation of investments classified as held for trading	4,362	(117,156)
Net profit on disposal of property and equipment	(273)	(516)
Charge for defined benefit plan	23,535	26,998
Bad debts written-off directly / (recoveries)	<u>(32,815)</u>	<u>(23,638)</u>
	<u>728,315</u>	<u>398,041</u>
	900,608	537,478
(Increase) / decrease in operating assets		
Lendings to financial institutions	(15,291,134)	(200,000)
Held for trading securities	5,219,830	(17,198,802)
Advances	(674,743)	(12,921,956)
Other assets	<u>364,120</u>	<u>895,008</u>
	(10,381,927)	(29,425,750)
Increase / (decrease) in operating liabilities		
Bills payable	(574,872)	322,946
Borrowings	13,180,505	6,355,413
Deposits and other accounts	(1,779,365)	805,191
Other liabilities	<u>1,041,287</u>	<u>1,277,755</u>
	<u>11,867,555</u>	<u>8,761,305</u>
	2,386,236	(20,126,967)
Income tax paid	(314,288)	(209,211)
Contribution to gratuity fund	<u>(23,535)</u>	<u>(26,998)</u>
Net cash (used in) / generated from operating activities	<u>2,048,413</u>	<u>(20,363,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	(4,050,692)	18,990,467
Net investment in held to maturity securities	221,778	173,419
Dividend income received	65,706	49,587
Investment in operating fixed assets	(112,895)	(245,519)
Proceeds realised on disposal of operating fixed assets	<u>1,097</u>	<u>3,781</u>
Net cash generated from / (used in) investing activities	<u>(3,875,006)</u>	<u>18,971,735</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of sub-ordinated loan	(199,520)	(199,520)
Dividends paid	<u>(2,317)</u>	<u>(34)</u>
Net cash used in financing activities	<u>(201,837)</u>	<u>(199,554)</u>
Increase / (decrease) in cash and cash equivalents	<u>(2,028,430)</u>	<u>(1,590,995)</u>
Cash and cash equivalents at beginning of the period	25,693,981	23,010,563
Cash and cash equivalents at end of the period	<u><u>23,665,551</u></u>	<u><u>21,419,568</u></u>

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

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NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

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 265 branches (2012: 265); including 52 Islamic banking branches (2012: 52).

The Registered Office of the Bank is located at Faysal House, ST-02, Shakra-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% (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, 2011, the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited have determined the Bank's long-term rating as 'AA' and the short term rating as 'A1+'.

2 BASIS OF PRESENTATION

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

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

3 STATEMENT OF COMPLIANCE

- 3.1 This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP), the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, or the directives issued by the SECP and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962, IFAS notified by the SECP or the directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, IFAS notified by the SECP or the requirements of the said directives issued by the SECP and SBP prevail.
- 3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has also deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of this condensed interim financial information. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3 IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their condensed interim financial information in line with the format prescribed under BSD Circular Letter No. 2 dated May 12, 2004. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in this condensed interim financial information is based on the requirements laid down by the SBP.
- 3.4 The SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

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 SBP vide BSD Circular Letter No. 03 of 2013 dated January 22, 2013 has made certain changes to the 'Revised Forms of Annual Financial Statements' as applicable to the Islamic branches of the Bank, which have been made effective for the financial statements as on December 31, 2012 and onwards. As required under the directives issued by the SBP, the Bank has changed the presentation and disclosure of financing and related assets for Islamic Banking Business as under:

- a) The head 'Financing and receivables' in the Islamic Banking Business in note 20 to this condensed interim financial information has been renamed as 'Islamic financing and related assets'.
- b) All financings, advances (against murabaha etc), inventories and related assets for Islamic Banking Business previously being reported under 'other assets' have been made part of 'Islamic financing and related assets' in the Islamic Banking Business in note 20 to this condensed interim financial information.

Disclosure relating to Islamic banking branches (as given in note 20) has been amended to conform to the revised presentation specified by the SBP. The effect of this change on the financial statements of the Islamic banking branches is disclosed in note 20 to this condensed interim financial information.

There is no impact of this change on the profit after taxation and earnings per share for the current or prior years. The above change has only been made in the disclosure relating to Islamic branches as given in note 20 to this condensed interim financial information and this change has had no impact on the Statement of Financial Position of the Bank which has been presented in a manner consistent with the previous year.

3.6 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.

4 BASIS OF MEASUREMENT

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

6 FUNCTIONAL AND PRESENTATION CURRENCY

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012, except for as disclosed in note 7.1.

7.1 Changes in accounting policies and disclosures - Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

That have an impact on the Bank's financial statements

IAS 19 Employee Benefits (amended 2011) is effective for annual periods beginning on or after 1 January 2013. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated. The effect of the change in accounting policy on the current and prior period financial statements have been summarised below:

	March 31, 2013	December 31, 2012	December 31, 2011
	----- (Rupees in '000) -----		
Impact on statement of financial position			
Increase / (decrease) in other assets	(267)	66,810	(6,657)
		December 31, 2012	December 31, 2011
		----- (Rupees in '000) -----	
Impact on statement of changes in equity			
Unappropriated profit as previously reported		3,146,300	2,959,178
Adjustments due to change in accounting policy		73,467	25,564
Cumulative effect from prior years		(6,657)	(32,221)
Unappropriated profit as restated		3,213,110	2,952,521
		March 31, 2013	March 31, 2012
		----- (Rupees in '000) -----	
Impact on profit and loss account and EPS			
Increase/(decrease) in administrative expenses		(267)	128
Impact on other comprehensive income			
Increase/(decrease) in other comprehensive income		-	18,239

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.

	Un-audited March 31, 2013	Audited December 31, 2012
	Rupees '000	
9 BALANCES WITH OTHER BANKS		
In Pakistan		
- Current accounts	597,279	677,630
Outside Pakistan		
- Current accounts	1,107,922	366,529
- Deposit account	162,426	165,154
	<u>1,867,627</u>	<u>1,209,313</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

10 INVESTMENTS

10.1 Investments by type

Note	Un-audited March 31, 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	1,956,879	-	1,956,879	7,290,934	-	7,290,934
Pakistan Investment Bonds	36,208	-	36,208	546,307	-	546,307
Fully paid up ordinary shares / certificates of closed end mutual funds	22,062	-	22,062	-	-	-
Ijara Sukuk Bonds	602,262	-	602,262	-	-	-
	2,617,411	-	2,617,411	7,837,241	-	7,837,241
Available for sale securities						
Market Treasury Bills	10,652,525	27,235,865	37,888,390	16,403,998	16,451,346	32,855,344
Pakistan Investment Bonds	18,633,619	-	18,633,619	19,579,271	-	19,579,271
Ijara Sukuk Bonds	17,780,489	-	17,780,489	17,112,183	-	17,112,183
Units of open end mutual funds						
- Faysal Balanced Growth Fund	80,374	-	80,374	80,374	-	80,374
- Faysal Income Growth Fund	200,000	-	200,000	200,000	-	200,000
- Faysal Savings Growth Fund	407,411	-	407,411	407,411	-	407,411
- Faysal Islamic Savings Growth Fund	100,000	-	100,000	100,000	-	100,000
- Faysal Money Market Fund	1,100,000	-	1,100,000	1,100,000	-	1,100,000
- Faysal Asset Allocation Fund	300,000	-	300,000	300,000	-	300,000
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	3,319,949	-	3,319,949	3,968,636	-	3,968,636
Fully paid up preference shares	222,652	-	222,652	122,652	-	122,652
Term finance certificates	970,799	-	970,799	1,019,120	-	1,019,120
	53,767,818	27,235,865	81,003,683	60,393,645	16,451,346	76,844,991
Held to maturity securities						
Term finance certificates	2,593,234	-	2,593,234	2,637,030	-	2,637,030
Sukuk Bonds	2,035,066	-	2,035,066	2,213,048	-	2,213,048
	4,628,300	-	4,628,300	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	-	-	-	108,000	-	108,000
Investments at cost						
	61,058,529	27,235,865	88,294,394	73,233,964	16,451,346	89,685,310
Less: Provision for diminution in the value of investments	(2,289,473)	-	(2,289,473)	(2,319,786)	-	(2,319,786)
Investments (net of provisions)						
	58,769,056	27,235,865	86,004,921	70,914,178	16,451,346	87,365,524
Surplus / (deficit) on revaluation of held for trading securities - net						
	(126)	-	(126)	4,236	-	4,236
Surplus / (deficit) on revaluation of available for sale securities - net						
	95,322	(2,522)	92,800	432,643	192,821	625,464
Total investments at market value						
	58,864,252	27,233,343	86,097,595	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 March 31, 2013 would have been higher by Rs 50 million (December 31, 2012: Rs 50 million) and the profit before taxation for the period ended March 31, 2013 would have been lower by Rs 50 million (December 31, 2012: Rs 50 million).

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

- 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 the 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 equity 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 for impairment against these shares is disclosed in note 11.2.1 to this condensed interim financial information.

	Un-audited March 31, 2013	Audited December 31, 2012
Rupees '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	139,833	921,683
Reversals during the period / year	(170,146)	(506,981)
	(30,313)	414,702
Closing balance	<u>2,289,473</u>	<u>2,319,786</u>

- 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 after obtaining permission from the High Court to distribute the cash balances in his custody to shareholders of FMSL and has distributed cash to respective shareholders in February 2013.

	Note	Un-audited March 31, 2013	Audited December 31, 2012
Rupees '000			
11 ADVANCES			
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1	178,520,671	178,073,391
Net investment in finance lease – in Pakistan		<u>7,340,056</u>	<u>7,050,189</u>
		185,860,727	185,123,580
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		3,521,197	3,455,602
Payable outside Pakistan		<u>2,028,361</u>	<u>2,149,893</u>
		5,549,558	5,605,495
Margin financing / reverse repo transactions		<u>120,200</u>	<u>122,200</u>
Gross advances		191,530,485	190,851,275
Provision against non-performing advances	11.1	(18,741,829)	(18,268,251)
Provision against consumer loans - general	11.3	(295,307)	(283,819)
		(19,037,136)	(18,552,070)
Advances - net of provision		<u>172,493,349</u>	<u>172,299,205</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

- 11.1** Advances includes Rs. 27,493 million (December 31, 2012: Rs. 27,549 million) which have been placed under non-performing status as detailed below:

	March 31, 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)	314,265	-	314,265	-	-	-	-	-	-
Substandard	2,210,823	-	2,210,823	355,929	-	355,929	355,929	-	355,929
Doubtful	1,721,222	-	1,721,222	554,415	-	554,415	554,415	-	554,415
Loss	23,246,350	-	23,246,350	17,831,485	-	17,831,485	17,831,485	-	17,831,485
	<u>27,492,660</u>	<u>-</u>	<u>27,492,660</u>	<u>18,741,829</u>	<u>-</u>	<u>18,741,829</u>	<u>18,741,829</u>	<u>-</u>	<u>18,741,829</u>
	----- Rupees '000 -----								
	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
	<u>27,549,729</u>	<u>-</u>	<u>27,549,729</u>	<u>18,268,251</u>	<u>-</u>	<u>18,268,251</u>	<u>18,268,251</u>	<u>-</u>	<u>18,268,251</u>

11.2 Particulars of provision against non-performing advances

	Un-audited March 31, 2013	Audited December 31, 2012
	Rupees '000	
Opening balance	18,268,251	17,062,123
Charge for the period / year	1,042,192	3,064,747
Reversals during the period / year	(540,266)	(2,100,846)
Net charge / (reversals)	501,926	963,901
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve	-	441,757
	501,926	1,405,658
Amounts written off	(28,348)	(199,530)
Closing balance	<u>18,741,829</u>	<u>18,268,251</u>

- 11.2.1** This includes classified advances of Rs 409.172 million and Rs 166.371 million disbursed to Agritech Limited (AGL) and Azgard Nine Limited (ANL) respectively. In addition, as disclosed in note 10.3 to 10.5 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 210.01 million representing the difference between the acquisition cost and market value of shares as at March 31, 2013.

In accordance with the requirements of approved accounting standards as applicable in Pakistan the Bank was required to maintain a provision of Rs. 1,939.43 million as at March 31, 2013 against the non-performing outstanding facilities of AGL and ANL and impairment loss on acquired shares of AGL. The SBP through its letter no. BPRD/BRD-(Policy) / 2013-1857 dated February 15, 2013 has provided relaxation to Banks under which they can make provisioning against their outstanding exposure (including impairment loss on shares acquired) in a phased manner and maintain 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.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

Following the relaxation provided by the SBP, the Bank has recorded total provision of Rs 518.826 million (December 31, 2012: Rs. 423.394 million) in respect of outstanding exposure of AGL and ANL and recorded impairment loss of Rs 52.50 million (December 31, 2012: Rs. 20.69 million) as at March 31, 2013.

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower by Rs 1,368.103 million and the provision against advances and investments would have been higher by Rs 353.481 million and Rs 1,014.622 million respectively.

- 11.2.2** This includes classified advances of Rs 319 million disbursed to Gulistan Textile Mills Limited as at March 31, 2013. In accordance with the requirements of the Prudential Regulations issued by the SBP, the Bank was required to maintain a provision of Rs 84.034 million against this customer. The SBP through its letter no. BPRD/BRD-04/FAYSAL/2013/1695 dated February 13, 2013 has provided relaxation to Banks to create provision against classified exposure of Gulistan Group companies (including Gulistan Textile Mills Limited) in a phased manner and maintain at least 25%, 50%, 75% and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013 respectively. In view of this relaxation, the Bank has recorded provision amounting to Rs 68.3 million after taking the impact of the aforementioned relaxation.
- 11.2.3** As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs. 3,774.4 million (December 31, 2012: Rs. 3,876.8 [Rs 3,673.3 million (December 31, 2012: Rs 3,775.7 million) relating to advances and Rs. 101.1 million (December 31, 2012: Rs.101.1 million) relating to investments] while determining the provisioning requirement against non-performing financing (including investments) as at March 31, 2013. The additional profit arising from availing the FSV benefit - net of tax as at March 31, 2013 which is not available for distribution as either cash or stock dividend to shareholders amounted to approximately Rs 2,453.3 million (December 31, 2012: Rs 2,519.9 million).

11.3 Particulars of provision against consumer loans - general	Un-audited March 31, 2013	Audited December 31, 2012
	Rupees '000	
Opening balance	283,819	259,212
Charge / (reversals) during the period / year	<u>11,488</u>	<u>24,607</u>
Closing balance	<u>295,307</u>	<u>283,819</u>

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

12 FIXED ASSETS	Un-audited For the quarter ended	
	March 31, 2013	March 31, 2012
Rupees '000		
12.1 Additions to operating fixed assets - cost		
Leasehold property and improvements	36,603	54,429
Office furniture, fixtures, equipment and computers	48,429	34,842
Vehicles	22,564	7,413
Capital work-in-progress	5,300	148,835
12.2 Additions to Intangibles		
Software	-	-
12.3 Disposals of operating fixed assets - cost		
Office furniture, fixtures, equipment and computers	99	176
Vehicles	2,748	10,469

13 OTHERASSETS

This includes non-banking assets acquired in satisfaction of claims amounting to Rs 2,511.052 million (December 31, 2012: 2,511.052 million) classified as held for sale.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED MARCH 31, 2013

14 DEPOSITS AND OTHER ACCOUNTS	Un-audited March 31, 2013	Audited December 31, 2012
	Rupees '000	
Fixed deposits	89,809,208	94,005,843
Saving deposits	83,761,433	81,617,912
Current accounts – Remunerative	1,590,815	1,877,406
Current accounts – Non-remunerative	61,641,859	60,912,771
Margin accounts	<u>2,130,146</u>	<u>2,298,894</u>
	<u>238,933,461</u>	<u>240,712,826</u>
15 CONTINGENCIES AND COMMITMENTS		
15.1 Direct credit substitutes		
Contingent liability in respect of guarantees favouring:		
- Banking companies and other financial institutions	<u>1,251,706</u>	<u>966,911</u>
Acceptances		
- Others	<u>14,004,393</u>	<u>11,513,312</u>
15.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
- Government	<u>8,565,632</u>	<u>8,150,674</u>
- Banking companies and other financial institutions	<u>179,080</u>	<u>60,332</u>
- Others	<u>1,795,824</u>	<u>2,670,724</u>
	<u>10,540,536</u>	<u>10,881,730</u>
15.3 Trade-related contingent liabilities		
Letters of credit		
- Government	<u>5,162,847</u>	<u>4,841,029</u>
- Others	<u>10,194,872</u>	<u>15,760,764</u>
	<u>15,357,719</u>	<u>20,601,793</u>
15.4 Other Contingencies		
i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh. The Bank's legal advisors are confident that the Bank has a strong case	<u>2,500,000</u>	<u>2,500,000</u>
ii) Indemnity issued favouring the High Court in the above case	<u>457,543</u>	<u>457,543</u>
iii) Claims against the Bank not acknowledged as debt	<u>33,287,447</u>	<u>33,362,656</u>
<p>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.</p> <p>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.</p>		
(iv) Income tax assessments of the Bank have been finalised upto the tax year 2011 (Accounting year 2010). The return of income for tax year 2012 has been e-filed within due date.		
<p>The department and the Bank have disagreements on various matters for tax years from 1994 to 2011. 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. The additional tax liability on these matters is Rs. 1,343.382 million.</p>		

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

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 Bank's favour and accordingly no provision has been made in these financial statements 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 March 31, 2013	Audited December 31, 2012
	Rupees '000	
15.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	1,106,565	1,215,250
- Banks	19,884,633	20,816,450
	<u>20,991,198</u>	<u>22,031,700</u>
Sale		
- Customers	997,434	686,361
- Banks	6,786,415	7,310,088
	<u>7,783,849</u>	<u>7,996,449</u>
15.7 Commitments for the acquisition of operating fixed assets	<u>162,034</u>	<u>234,680</u>
15.8 Commitments in respect of repo transactions		
Repurchase	<u>27,259,872</u>	<u>16,646,373</u>
Resale	<u>14,328,819</u>	<u>289,265</u>
15.9 Other Commitments		
Interest rate swaps and cross currency swaps (notional principal)	<u>23,378,266</u>	<u>26,013,457</u>

16 EARNINGS PER SHARE

	Un-audited For the quarter ended March 31, 2013	March 31, 2012
	Rupees '000	
Profit after tax for the period	<u>262,585</u>	<u>266,766</u>
	In thousands	
Weighted average number of ordinary shares	<u>927,351</u>	<u>927,351</u>
	Rupees	
Earnings per share - basic	<u>0.28</u>	<u>0.29</u>

17 NON-DISTRIBUTABLE CAPITAL RESERVE - GAIN ON BARGAIN PURCHASE

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

During current period, amortisation (net of tax) of intangible asset amounting to Rs 31.217 million (Year ended December 31, 2012: Rs 124.867 million) has been adjusted against this reserve.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

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.

	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
Rupees '000					
March 31, 2013					
Total income - net	10,365	588,014	1,978,715	759,081	3,336,176
Total expenses	(9,072)	(74,205)	(2,087,629)	(846,577)	(3,017,483)
Net income / (loss)	1,293	513,809	(108,914)	(87,496)	318,692
Segment assets (Gross)	-	93,171,518	71,560,734	160,122,035	324,854,286
Segment non performing loans	-	-	4,170,286	23,322,374	27,492,660
Segment provision required against loans **	-	-	(2,344,879)	(16,396,950)	(18,741,829)
Segment liabilities	-	(18,172,568)	(240,399,767)	(45,333,510)	(303,905,845)
Segment return on assets (ROA) (%) *	-	3.16%	-0.18%	0.00%	
Segment cost of funds (%) *	-	9.61%	5.57%	8.65%	
March 31, 2012					
Total income - net	36,370	504,635	1,890,607	665,144	3,096,756
Total expenses	(8,503)	(36,988)	(1,580,272)	(1,132,656)	(2,758,419)
Net income / (loss)	27,867	467,647	310,335	(467,512)	338,337
December 31, 2012					
Total income - net	108,563	2,556,457	8,177,684	3,402,420	14,245,124
Total expenses	(59,478)	(788,440)	(8,634,230)	(2,922,875)	(12,405,023)
Net income / (loss)	49,085	1,768,017	(456,546)	479,545	1,840,101
Segment assets (Gross)	-	82,193,118	76,932,125	175,348,988	334,474,231
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%	

* These percentages have been computed based on average balances

** Includes general provision

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

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 10.7 to this condensed interim financial information.

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

	March 31, 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	684,695	89,129	-	497,067	88,693
Withdrawals during the period	(714,602)	(40,200)	-	(496,805)	(79,391)
Balance at end of the period	96,773	104,729	-	2,315	95,536
Advances					
Balance at the beginning of the period	39,434	-	-	-	4,440,121
Disbursements during the period	-	-	-	-	1,717,394
Repayments during the period	(1,696)	-	-	-	-
Balance at end of the period	37,738	-	-	-	6,157,515

* Refer note 10.7

	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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED MARCH 31, 2013

Particulars	March 31, 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	-	-	-	-	17,625
Shares / units sold during the period	-	-	108,000	-	15,991
Government securities purchased during the period	588,090	-	-	-	-
Government securities sold during the period	615,520	38,488	-	-	-
Profit paid / accrued	1,318	1,370	-	57	135
Profit return / earned	650	-	-	-	52,385
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	69,958	-	-	-	-
- Post-employment benefits	4,254	-	-	-	-
Contribution to staff retirement benefits	-	56,004	-	-	-
Guarantees issued favouring related parties or on their behalf	-	-	-	-	29,397 *

* represents outstanding guarantee

Particulars	March 31, 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	-	-	-	-	549,894
Shares / units sold during the period	-	-	-	-	393,235
Government securities purchased during the period	82,945	-	-	-	-
Government securities sold during the period	136,388	-	-	-	-
Profit paid / accrued	1,498	640	-	75	1,276
Profit return / earned	1,637	-	-	-	107,826
Remuneration of key management personnel					
- Salaries and other short-term employee benefits	40,241	-	-	-	-
- Post-employment benefits	4,042	-	-	-	-
Contribution to staff retirement benefits	-	60,935	-	-	-
Guarantees issued favouring related parties or on their behalf	-	-	-	-	25,000

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2013

20 ISLAMIC BANKING BUSINESS

The Bank is operating 52 Islamic banking branches (2012: 52). The statement of financial position as at March 31, 2013 is as follows:

	Un-audited March 31, 2013	Audited December 31, 2012
Note	Rupees '000	
ASSETS		
Cash and balances with treasury banks	1,582,672	1,604,543
Balances with other banks	111,936	83,450
Due from financial institutions	-	-
Investments	15,685,044	14,579,922
Islamic financing and related assets	(a) 5,320,667	5,467,073
Operating fixed assets	102,292	99,242
Deferred tax assets	-	-
Other assets	735,126	312,856
	<u>23,537,737</u>	<u>22,147,086</u>
LIABILITIES		
Bills payable	256,941	203,224
Due to financial institutions	365,000	165,000
Deposits and other accounts		
- Current accounts	6,396,930	7,489,799
- Saving accounts	5,473,385	5,397,752
- Term deposits	5,089,236	5,240,046
- Others	24,175	171,769
- Deposits from financial institutions - remunerative	1,730,047	1,240,767
- Deposits from financial institutions - non-remunerative	-	3,505
Due to head office	2,882,831	884,901
Other liabilities	181,117	246,715
	<u>22,399,662</u>	<u>21,043,478</u>
NET ASSETS	<u>1,138,075</u>	<u>1,103,608</u>
REPRESENTED BY		
Islamic banking fund	880,000	880,000
Reserves	-	-
Unappropriated profit / (loss)	<u>226,052</u>	<u>157,153</u>
	1,106,052	1,037,153
Surplus on revaluation of assets- net of tax	<u>32,023</u>	<u>66,455</u>
	<u>1,138,075</u>	<u>1,103,608</u>
Remuneration to shariah advisor	<u>570</u>	<u>2,455</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED MARCH 31, 2013

	Un-audited March 31, 2013	Audited December 31, 2012
Note	Rupees '000	
CHARITY FUND		
Opening balance	1,031	1,778
Additions during the period / year	2,896	1,583
Payments / utilization during the period / year	<u>(3,200)</u>	<u>(2,330)</u>
Closing balance	<u>727</u>	<u>1,031</u>
(a) Islamic Financing and Related Assets	<u>5,320,667</u>	<u>5,467,073</u>
(b) Islamic Mode of Financing		
Murabaha	903,777	1,451,159
Musharika cum Ijara	7,571	7,715
Diminishing Musharika	3,617,667	3,511,999
Advance against Murabaha Financing	326,064	265,765
Advance against Murabaha ERF	365,000	165,000
Advanced against Diminishing Musharika	82,768	62,607
Others	<u>17,820</u>	<u>2,828</u>
	<u>5,320,667</u>	<u>5,467,073</u>

- (c) As more fully disclosed in note 3.5 to this condensed interim financial information, the effect of the change in disclosure relating to Islamic banking branches is summarised below:

	Un-audited March 31, 2013	Audited December 31, 2012
	Rupees '000	
Impact on statement of financial position		
Decrease in other assets - net	789,338	493,371
Increase in Islamic financing and related assets - net	<u>(789,338)</u>	<u>(493,371)</u>
Impact on Profit and Loss Account		
Decrease in other provisions	(19,828)	(14,410)
Increase in provisioning against non-performing loans and advances	19,828	14,410

21 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on April 19, 2013 by the Board of Directors of the Bank.

22 GENERAL

22.1 Comparative information has been re-classified and re-arranged in this condensed interim financial information, wherever necessary, to facilitate comparison and to conform with changes in presentation in the current period.

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

PRESIDENT & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

Bank on Ambition



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