



faysalbank

بصیرت

بصیرت

2014

FIRST QUARTER

ENDED MARCH 31, 2014

UNAUDITED FINANCIAL STATEMENTS



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## Reality

Life becomes evident when one realises that it is an endless struggle. Life may seem cruel, hard and merciless, but in the journey there is always something new to discover and accomplish. One who learns to explore the treasures of life without being distracted by fears is the real victor, truly enlightened.

زندگانی کی حقیقت کو بکن کے دل سے پوچھ  
جوئے شروتیشہ و سنگِ گراں ہے زندگی  
اقبال

حکومت



## CORPORATE INFORMATION

### Board of Directors

Syed Naseem Ahmad	Chairman
Naved A. Khan	President & CEO
Farooq Rahmatullah	Director
Imtiaz Ahmad Pervez	Director
Ahmed Abdulrahim Mohamed Abdulla Bucheery	Director
Juma Hasan Ali Abul	Director
Shahid Ahmad	Director
Lt.Gen. Muhammad Maqbool (Retd)	Director

### Audit Committee (AC)

Lt.Gen. Muhammad Maqbool (Retd)	Chairman
Imtiaz Ahmad Pervez	Member
Ahmed Abdulrahim Mohamed Abdulla Bucheery	Member

### Board Risk Management Committee (BRMC)

Syed Naseem Ahmad	Member
Naved A. Khan	Member
Shahid Ahmad	Member
Farooq Rahmatullah	Member
Juma Hasan Ali Abul	Member
Imtiaz Ahmad Pervez	Member

### Recruitment Nomination and Remuneration Committee (RNRC)

Syed Naseem Ahmad	Chairman
Naved A. Khan	Member
Shahid Ahmad	Member
Farooq Rahmatullah	Member
Ahmed Abdulrahim Mohamed Abdulla Bucheery	Member
Juma Hasan Ali Abul	Member

## DIRECTORS' REVIEW

On behalf of the Board of Directors, I am pleased to present Financial Statements of Faysal Bank Limited for the three months ended March 31, 2014.

### ECONOMIC UPDATE

The performance of the economy during the 1st quarter of CY'14 has been quite impressive and a welcome deviation. All in all this has led to a general confidence that the economy is on track for a rebound which is evident in the "feel good" sentiments of the markets where the appetite for GOP sovereign fixed rate debt has been rising, the equity markets have soared and the PKR has significantly strengthened vs. the green back.

The headline economic development during the first quarter CY'14 was the stellar performance of the PKR vs. the USD - a welcome relief from the pounding the resident currency took, after joining the IMF program. The biggest catalyst for this U-turn in fortune was the USD 1.5 Bio grant that Pakistan received from a friendly country. This provided much needed balance of payments support and paved the way for Pakistan to re-enter the international bond markets. The PKR strengthened by approx 6.5% during January to March '14 to around 98.50 thereby not only recovering the losses of the previous two quarters but actually recording a marginal appreciation since beginning FY'14 where in it was recorded at 99.63 (as on 2nd July '13). The SBP reserves, a key source of concern for some time, were recorded at USD 10.07 Bio as on 31st March '14 back in double digits after having lowest level of USD 7.58 Bio on 7th Feb '14, further improving sentiment and dispiriting speculators.

CPI inflation which was anticipated by the SBP to remain at elevated levels of 12-13% from the very onset of FY'14 remained subdued during the first quarter of CY'14 to approximately 8.1% compelling the SBP to further revise its CPI forecast for FY'14 to single digit. Hence there was a dichotomy between the central bank estimates and actual data wherein the average CPI for the first 9 months of FY'14 was recorded at 8.6%. Exchange rate appreciation and subdued food prices playing a major part in this improved outlook.

The declining inflationary outlook coupled with a strengthening resident currency encouraged commercial banks to aggressively participate in the bond auctions during January-March '14 to counter shrinking net interest margins and possible decline in the policy rate going forward. The total amount picked up was approx PKR 960 Bio against a target amount of PKR 225 Bio which enabled the fiscal authorities to significantly shift away from short term debt and enhance the maturity profile of PKR debt – a feat that remained elusive in the past.

Despite positive developments in head line variables, the economy still faces many challenges and proactive policy effort is required to maintain this momentum and address structural weaknesses in the balance of payments position. Reliance on one off inflows and foreign loans may provide short term stability but the share of private financial flows needs to increase consistently in order to achieve long term stability. Hence it is imperative that the anticipated inflows for the upcoming quarter materialize which include; Coalition support fund claims, disbursements by the WB and ADB, Etisalat dues and the receipts from the 3 & 4 G auction.

### PERFORMANCE UPDATE FOR THE FIRST QUARTER 2014

In the first quarter of 2014 the bank continued with its strategy to improve and enhance its sustainable core banking income and rationalizing costs. Performance of various business segments is given below:-

## DIRECTORS' REVIEW

### Corporate and Investment Banking

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

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

### Project Finance & Syndications

FBL has been jointly mandated as Lead Advisor and Arranger to arrange PKR 7 bn for setting up of 62.4 MW bagasse based cogeneration power plant in Punjab to be set up by a reputable Business Group. FBL has been jointly mandated to arrange financing for setting up diesel hydro-desulphurization, isomerization and auxiliary units for one of largest refineries in the country.

FBL as a sole Advisor and Arranger is working to close a mandate for a large textile Group, based in Faisalabad, to finance purchase of Air Jet Looms and associated machinery for setting up a weaving unit.

FBL has been jointly mandated as Financial Advisor for setting up of an IPP which shall undertake coal conversion of two RFO based electricity generating units comprising of 420 MW belonging to the largest Utility company of Karachi .

### Equity

FBL has been mandated for the role of manager to the offer of the acquisition of a bank.

### Restructuring

FBL has been assigned and mandated the role of Financial Advisor to re-profile and restructure the outstanding debt of a reputed manufacturer of Appliances and Power Company. The quantum of debt to be re-profiled amounts to PKR 4.55 billion.

FBL, acting as restructuring agent, performed the second restructuring of one of the largest Denim manufacturer.

FBL undertook restructuring of Overdue Markup / Profit of the Denim manufacturer under the Debt to Asset Swap Transaction. The transaction involved settlement of overdue mark-up through issuance of 5 years Privately Placed, Callable, Secured, Zero Coupon Term Finance Certificates. The transaction is expected to be closed during second half of 2014.

FBL has closed the transaction for which it was mandated as an advisor for re-profiling of terms of syndicated permanent working capital facility extended to the first agriculture corporate farming entity owned by one of the largest sugar and allied groups of the country.

FBL has been mandated the role of Financial Advisor to re-profile and restructure the outstanding debt of one of the largest spinning and weaving Group.

### Expansion of Agency Function

FBL became the first financial institution to register under the newly introduced Debt Securities Trustee Regulations 2012. By adapting under the regulations FBL will further equip itself of handling the fiduciary role in an efficient and watchful manner, safeguarding the interest of the Bank in particular and investors in debt instruments in general.



### Retail Banking

Branch Banking continued to pursue low cost deposits strategy by focusing mainly on core deposits like current and saving accounts (CASA). In the process, focus was on improving CASA mix by reducing expensive term deposits and acquiring current & saving low cost core deposit. Bank was successful in improving CASA deposit mix from 62.4% in March 2013 to 66.2% in March 2014. This strategy of low cost deposits mobilization and attrition of high cost funds resulted in reduction in cost of deposits which positively contributed to the net margins of the bank. Alongside this cost reduction strategy, during the last one year the Bank managed to increase deposit level from PKR 238.9 billion to PKR 266.1 billion thereby creating more low cost of funds for investment in selected assets to generate higher spreads.

### Wealth Management

The Wealth Management platform saw an evolution in the product menu, with the launch of Investment Solutions in conjunction with Faysal Asset Management Ltd and the sales of Treasury products through our branch distribution to enhance investment options for our clients. The Bancassurance business further augmented a revenue growth through steady increase in sales volumes and high sales persistency levels.

### Consumer Finance

Consumer Finance overall strategy continues to look at growing the franchise aggressively in selected profitable segments while prudently managing NPLs through effective risk management techniques. Operational cost was kept under strict monitoring so as to manage the profitability while ensuring customer satisfaction. Consumer lending kept its lending pace and increased its portfolio by 23% over corresponding period.

### E-Banking

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

Our efforts have been dedicated to providing superior customer experience across all eBanking channels with a strong focus on channel usage and penetration. As a result, our debit card portfolio has exceeded 75% penetration of CASA accounts and has also successfully achieved a 22% growth in the overall transaction volume through Mobit in a short span of time. We are constantly investing in systems and technology and as a result have significantly improved our ATM uptime and service availability for our customers. Moreover, we have recently invested in ATMs and Contact Center infrastructure to further improve our operational efficiency and customer experience.

### Islamic Banking

Barkat Islamic Banking continued its growth strategy and has also received SBP approval for opening of further Islamic branches during 2014. To address customers demand Islamic Banking liquidity management product menu has been expanded by adding Waad (promise) transaction in March 2014. Also "Institutional Barkat Investment Certificate" was introduced to tap an additional market segment, looking for a Shariah compliant investment with better competitive profit rates.

## DIRECTORS' REVIEW

Alongside, system control environment is also strengthened so as to provide structured and efficient services to customers. Automated pool management system project continued in 1st Quarter 2014 as per State Bank of Pakistan profit distribution guidelines.

Islamic Banking 1st quarter 2014 profit has grown by 115% as compared to Jan-March 2013 profit.

### Information Technology

IT department continued its zeal to provide instant and uninterrupted services to all internal and external customers. In this regard, TCSS hardware platform migrated from Solaris to AIX at OS level and Oracle suite was upgraded from 10G to 11G at database level. Also HRMS was upgraded to latest R12 version of eBusiness suite and CashLink II was upgraded enabling bank to use enhanced functionalities of latest version. As a result of Windows XP end-of-life, IT migrated FBL desktop infrastructure to Windows 7. Up till now, 1,000+ desktops have been migrated to Windows 7. These measures shall result in significant financial as well as operational efficiency and savings for the bank.

As a part of continuous operational improvement and cost optimization, networks team migrated several branches connections from old copper technology to fiber optic solution. Fiber optic connectivity was deployed in 33 branches replacing PTCL and VSAT circuits.

### Operations

The Bank is continuously analyzing and designing business processes in order to deliver quality services to its internal and external stakeholders. Alignment of Policies, product suites and merger of two core banking systems are few examples in this regard. The Bank has made significant progress on the aforementioned areas and is confident that the results in the future will reflect the efforts and successful execution of the Bank's strategy.

Keeping in view the Bank's future Strategy, the FBL's Board Members had approved a Business Process Reengineering (BPR) Project for the Bank. As envisaged, the BPR Project is expected to improve customer experience, reduce operating cost and enhance profitability performance. In this regard, the bank had engaged a consultant/advisor (LoBue Associates, Inc) for the purpose of bringing a new customer experience, transformation of an integrated set of business processes, optimization and efficiency at bank level. The BPR project named Project Excellence has made significant progress towards developing a concept design in re-aligning the Retail bank model for achieving the above mentioned objectives. This concept design is presently in the implementation phase.

### Risk Management

Retail Risk Management continued to steer the Consumer Finance business to grow aggressively in more profitable segments, while prudently managing NPLs and operational cost. 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. In-line with the Bank's 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.

The Enterprise Risk Management function continues to play a pivotal role in strengthening the overall risk management function. The Capital Management unit ensured that adequate capital was maintained in line with the revised regulatory guidelines. Further, analysis for withdrawal &

## DIRECTORS' REVIEW

repayment pattern was updated to provide more objective information in terms of the behavior of assets and liabilities having non-contractual maturities. The scope of Market Risk Management Framework has been enhanced by implementing the "Live Limit Monitoring" that would help the Bank to manage key market risk limits on a real time basis.

### People

During Q1 2014 HR culminated Performance Management Cycle 2013 for the permanent population in line with the HR Policy.

HR introduced Executive Balanced Scorecard in 2013 and performance was measured against the established Key Performance Indicators under the Balanced Scorecard in the Performance Management Cycle 2013.

HR continued its contribution to rationalize and reduce cost through business engagement, restructuring, redeployment and some other initiatives. These are ongoing elements that will be practiced and focused during subsequent years.

### Learning & Development

In the first quarter January – March 2014, L&D continued with its aim of developing staff on professional and personal fronts by training 7024 participants.

On the professional side, a three-day SME certification program was conducted in Lahore in February and was attended by the branch managers. Teller Development Program, Branch Banking Certification program, Islamic Banking Certification program were also held in the first quarter other than the regular business specific trainings. Various BPR trainings were conducted in Karachi in March for awareness and familiarization of new structure and processes in the pilot branches in Karachi. Similarly, Siebel New Account Opening process - BPR trainings were launched in Lahore and Karachi as well as Locker Issuance & Operation process - BPR.

On the personal development front, Managerial Development Boot Camp developed in house by L&D faculty was launched in March in Islamabad as a pilot workshop for branch managers and was a huge success. Additionally, our regular programs comprising Power of Positive Attitude, Demonstrating ownership & Initiative, and Stress Management were conducted in the first quarter. The learning outcomes of these programs were rated above 90% in post training evaluations.

Online Training for Consumer Finance - Auto Loans was launched in the first quarter for Branch Distribution and Consumer Finance teams. Similarly, Islamic Banking Principles & Products training was re-launched for Branch Distribution in January to increase cross-functional product knowledge in branches.

In the first Quarter 2014, Faysal Bank launched its first ever Online Orientation video to provide our employees a seamless on-boarding experience. The online orientation program was highly appreciated by staff and saved FBL significant cost and time spent on arranging orientation programs.

### Internal Communications

To strengthen relationships across the teams and reinforce team-building, HR in collaboration with GSD arranged fun-filled family carnivals Karachi, Lahore, Multan, Faisalabad and Islamabad/Rawalpindi in March 2014. These activities add a pleasant social dimension to work and is extremely value adding from synergy and productivity perspective. The lively events in all

## DIRECTORS' REVIEW

the five destinations were a huge success with the staff and their families. It gave them a chance to interact not only with one another, but also with the senior management in an informal manner.

### Corporate Social Responsibility

The first quarter 2014, CSR spend was focused on Poverty Alleviation area, which ties with Bank's overall UN Millennium Development Goals (MDG) plan. The amounts were disbursed to The Hunar Foundation and Karigar Training Institute; both institutions are landmark in imparting vocational training to the youth of Pakistan.

Another CSR project close to the heart at Faysal Bank Limited, is generous contributions and working closely with children with special needs. LABARD provides completely free rehabilitative services to the disabled. Faysal Bank Limited donated a van for PKR 1.8 M for their transportation needs.

In line with our theme, to be able to respond to emergency situations, Faysal Bank provided support and relief to the families affected during the recent drought in District Tharparkar. Relief efforts were successfully routed to the affected households with ration packs, clean water and medicines with support from Pakistan Navy.

CSR activities at Faysal Bank always strive to bring about positive social impact through its community-based programs and are built around giving back and adding value to the society at large.

### FINANCIAL HIGHLIGHTS

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

	Mar 31, 2014	Mar 31, 2013
	Rs in Million	
Operating profit	1,266	776
Provision against non-performing advances	(487)	(487)
Reversal / (Provision) for diminution in value of investments	(152)	30
	(639)	(457)
Profit before tax	627	319
Provision for taxation	(195)	(56)
Profit after tax	432	263
Earnings per share – Rupees	0.41	0.25

Bank's strategy of increasing profitability through selective assets growth and mobilization of core deposit continued to show results in the form of growth in profitability. Profit after tax for the period ended March 31, 2014 at PKR 431.9 million is 64.2% higher than corresponding period last year figure of PKR 262.6. Deposit cost of the Bank has reduced substantially over the period which has contributed significantly in increasing margins during the current quarter. CASA deposits now represent 66.2% of total deposits as against to 62.4% in March' 2013.

## DIRECTORS' REVIEW

Non funded revenue streams of the Bank remained diversified across the branch banking, consumer asset and corporate portfolios. The fee based revenue levels are also showing a sustainable growth.

Administrative costs remained an area of focus and measures were taken to bring it down without affecting operations. The optimization of technology infrastructure and network has resulted in major cost savings for the Bank. The overall administrative costs were PKR 3.12 billion for three months of 2014 as compared to Rs. 2.56 billion in the same period of last year. It would be pertinent to mention here that administrative cost of this quarter included one off payment of ex-gratia to outgoing President & CEO and GST impact on various services which was imposed last year through federal budget.

The Bank through better risk management and effective remedial measures has been able to manage non-performing loans. NPL numbers now stands at PKR 27.6 billion as compared to PKR 27.4 billion as at March 31, 2013. During the quarter the bank, as per the instructions of the State Bank of Pakistan, utilized Non-distributable Capital Reserve created on acquisition of RBS Pakistan Operations in 2010, to book provisions to the tune of PKR 1.2 bln against RBS infected portfolio. These provisions were booked by withdrawing Forced Sale Value (FSV) benefit taken against these non-performing loans. Consequent to this, provision coverage against non-performing loans increased from 68.2% to 77.7%.

As a result of all the above factors Earning Per Share for the quarter increased by impressive 64% i.e. from PKR 0.25 last year to PKR 0.41.

### 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 along with BOD members and staff acknowledge Mr. Naveed A. Khan's efforts and contributions in bringing Bank to current position.

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

On behalf of the Board of Directors

Acting Chief Executive Officer

Karachi  
Dated: April 30, 2014

# CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

## AS AT MARCH 31, 2014

	Note	Un-audited March 31, 2014	Audited December 31, 2013
Rupees '000			
<b>ASSETS</b>			
Cash and balances with treasury banks		22,028,745	28,422,497
Balances with other banks	9	1,307,763	1,011,980
Lendings to financial institutions		9,960,456	300,000
Investments	10	93,801,638	113,319,478
Advances	11	178,747,414	184,190,304
Operating fixed assets	12	10,094,432	10,250,910
Deferred tax assets - net		3,865,588	3,980,541
Other assets	13	13,978,171	13,803,997
		<u>333,784,207</u>	<u>355,279,707</u>
<b>LIABILITIES</b>			
Bills payable		4,871,461	4,968,610
Borrowings		28,169,416	45,446,528
Deposits and other accounts	14	266,053,928	271,134,303
Sub-ordinated loans		3,495,400	3,495,400
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		9,667,760	8,068,673
		<u>312,257,965</u>	<u>333,113,514</u>
<b>NET ASSETS</b>		<u><u>21,526,242</u></u>	<u><u>22,166,193</u></u>
<b>REPRESENTED BY</b>			
Share capital		10,432,697	10,432,697
Reserves		5,301,413	6,554,197
Unappropriated profit		<u>4,052,535</u>	<u>3,600,828</u>
		19,786,645	20,587,722
Surplus on revaluation of assets - net of tax		<u>1,739,597</u>	<u>1,578,471</u>
		<u><u>21,526,242</u></u>	<u><u>22,166,193</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	15		

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

ACTING CEO

DIRECTOR

DIRECTOR

DIRECTOR

# CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

## FOR THE QUARTER ENDED MARCH 31, 2014

	Note	March 31, 2014	March 31, 2013 Restated
		Rupees '000	
Mark-up / return / interest earned		7,775,923	6,582,637
Mark-up / return / interest expensed		4,455,713	4,292,445
Net mark-up / interest income		3,320,210	2,290,192
Provision against non-performing loans and advances - net	11.2	503,557	501,926
Provision for consumer loans - general	11.3	22,438	11,488
Provision against off balance sheet obligations		-	6,981
Provision / (reversal of provision) for diminution in the value of investments - net	10.6	151,806	(30,313)
Recoveries against written-off debts - net		(38,680)	(32,815)
		639,121	457,267
Net mark-up / interest income after provisions		2,681,089	1,832,925
<b>Non mark-up / interest income</b>			
Fee, commission and brokerage income		557,959	397,876
Dividend income		67,729	146,400
Income from dealing in foreign currencies		240,833	196,536
Gain on sale of securities - net		94,773	233,386
Unrealised loss on revaluation of investments classified as held for trading		(11,399)	(4,362)
Other income		121,822	76,148
Total non mark-up / interest income		1,071,717	1,045,984
		3,752,806	2,878,909
<b>Non mark-up / interest expenses</b>			
Administrative expenses		3,137,946	2,532,967
(Reversal of other provisions) / Other provisions - net		(17,543)	18,946
Other charges		4,565	8,303
Total non mark-up / interest expenses		3,124,968	2,560,216
		627,838	318,693
Share of (loss) / profit of associate		(469)	278
Extraordinary / unusual items		-	-
<b>Profit before taxation</b>		627,369	318,971
Taxation - Current		267,220	108,409
Taxation - Prior years		-	(50,309)
Taxation - Deferred		(71,756)	(1,895)
		195,464	56,205
<b>Profit after taxation</b>		431,905	262,766
<b>Rupees</b>			
<b>Basic earnings per share</b>	16	0.41	0.25

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

ACTING CEO

DIRECTOR

DIRECTOR

DIRECTOR

## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

### FOR THE QUARTER ENDED MARCH 31, 2014

	March 31, 2014	March 31, 2013 Restated Rupees '000
Profit after tax for the period	431,905	262,766
Other comprehensive income:		
Items that may be reclassified to profit and loss account		
Components of comprehensive income not reflected in equity		
- Net change in value of available for sale securities	384,445	(532,664)
- Deferred tax (liability) / asset on revaluation of available for sale securities	(103,933)	204,304
	280,512	(328,360)
Total comprehensive income / (loss) for the period	712,417	(65,594)

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

ACTING CEO

DIRECTOR

DIRECTOR

DIRECTOR



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

## FOR THE QUARTER ENDED MARCH 31, 2014

	Share capital	Reserves					Unappropriated 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)					
Rupees '000									
Balance as at January 1, 2013	9,273,508	-	10,131	2,602,775	23,952	3,672,225	6,309,083	3,205,439	18,788,030
Profit after tax for the period ended March 31, 2013 - restated	-	-	-	-	-	-	-	262,766	262,766
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Transfer from surplus on revaluation of fixed assets	-	-	-	-	-	-	-	19,802	19,802
Balance as at March 31, 2013 - restated	9,273,508	-	10,131	2,571,558	23,952	3,672,225	6,277,866	3,488,007	19,039,381
Profit after tax for the period from April to December 31, 2013 - restated	-	-	-	-	-	-	-	1,587,140	1,587,140
Other comprehensive income for the year									
- Remeasurements of defined benefit plan	-	-	-	-	-	-	-	(7,005)	(7,005)
- Tax on remeasurements of defined benefit plan	-	-	-	-	-	-	-	2,452	2,452
	-	-	-	-	-	-	-	(4,553)	(4,553)
Transactions with owners recognised directly in equity									
- Transfer to reserve for issue of bonus shares	-	1,159,189	-	-	-	-	1,159,189	(1,159,189)	-
- Bonus shares issued	1,159,189	(1,159,189)	-	-	-	-	(1,159,189)	-	-
	1,159,189	-	-	-	-	-	-	(1,159,189)	-
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(93,650)	-	-	(93,650)	-	(93,650)
Transfer to statutory reserve	-	-	-	-	-	369,981	369,981	(369,981)	-
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	59,404	59,404
Balance as at December 31, 2013	10,432,697	-	10,131	2,477,908	23,952	4,042,206	6,554,197	3,600,828	20,587,722
Amortisation of intangible assets - customer relationship - net of deferred tax	-	-	-	(31,217)	-	-	(31,217)	-	(31,217)
Profit after tax for the period ended March 31, 2014	-	-	-	-	-	-	-	431,905	431,905
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	-	19,802	19,802
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve (note 17)	-	-	-	(1,221,567)	-	-	(1,221,567)	-	(1,221,567)
Balance as at March 31, 2014	10,432,697	-	10,131	1,225,124	23,952	4,042,206	5,301,413	4,052,535	19,786,645

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

ACTING CEO

DIRECTOR

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DIRECTOR

# CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

## FOR THE QUARTER ENDED MARCH 31, 2014

Note	March 31, 2014	March 31, 2013 Restated
	Rupees '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	627,369	318,971
Less: dividend income	(67,729)	(146,400)
	<u>559,640</u>	<u>172,571</u>
<b>Adjustments for non-cash and other items:</b>		
Depreciation	173,801	195,258
Amortisation	45,284	20,924
Workers' Welfare Fund	15,003	8,296
Provision against non-performing loans and advances - net	503,557	501,926
Provision for consumer loans - general	22,438	11,488
Provision for diminution in value of investments - net	151,806	(30,313)
(Reversal against provision) / provision for other assets	(17,543)	18,946
Provision against off balance sheet obligations	-	6,981
Unrealised loss on revaluation of investments classified as held for trading	11,399	4,362
Net profit on disposal of property and equipment	(2,559)	(273)
Net profit on disposal of non-banking assets	(30,566)	-
Charge for defined benefit plan	26,120	23,535
Recoveries against written-off debts - net	(38,680)	(32,815)
Share of loss / (profit) of associate	469	(278)
	<u>860,529</u>	<u>728,037</u>
	1,420,169	900,608
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(9,660,456)	(15,291,134)
Held for trading securities	1,329,839	5,219,830
Advances	3,734,008	(674,743)
Other assets	138,476	364,120
	<u>(4,458,133)</u>	<u>(10,381,927)</u>
<b>(Decrease) / increase in operating liabilities</b>		
Bills payable	(97,149)	(574,872)
Borrowings	(20,256,338)	13,180,505
Deposits and other accounts	(5,080,375)	(1,779,365)
Other liabilities	1,599,102	1,041,287
	<u>(23,834,760)</u>	<u>11,867,555</u>
	(26,872,724)	2,386,236
Income tax paid	(589,162)	(314,288)
Contribution to gratuity fund	-	(23,535)
<b>Net cash (used in) / generated from operating activities</b>	<u>(27,461,886)</u>	<u>2,048,413</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment in available for sale securities	18,303,622	(4,050,692)
Net investment in held to maturity securities	105,150	221,778
Dividend income received	28,478	65,706
Investment in operating fixed assets	(113,789)	(112,895)
Proceeds realised on disposal of operating fixed assets	5,717	1,097
Proceeds realised on non-banking assets	55,528	-
<b>Net cash generated from / (used in) investing activities</b>	<u>18,384,706</u>	<u>(3,875,006)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of sub-ordinated loan	-	(199,520)
Dividends paid	(15)	(2,317)
<b>Net cash used in financing activities</b>	<u>(15)</u>	<u>(201,837)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(9,077,195)</u>	<u>(2,028,430)</u>
Cash and cash equivalents at beginning of the period	28,617,034	25,693,981
<b>Cash and cash equivalents at end of the period</b>	<u>19,539,839</u>	<u>23,665,551</u>

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

ACTING CEO

DIRECTOR

DIRECTOR

DIRECTOR

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

## 1 STATUS AND NATURE OF BUSINESS

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

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

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

- 1.2 Based on the financial statements of the Bank for the year ended December 31, 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 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.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

**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, 2013.

## **4 BASIS OF MEASUREMENT**

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

## **5 FUNCTIONAL AND PRESENTATION CURRENCY**

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

## **6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## **7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

## **8 FINANCIAL RISK MANAGEMENT**

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended December 31, 2013.

## **9 BALANCES WITH OTHER BANKS**

	<b>Un-audited March 31, 2014</b>	<b>Audited December 31, 2013</b>
	<b>Rupees '000</b>	
In Pakistan		
- Current accounts	589,245	544,138
Outside Pakistan		
- Current accounts	679,106	415,180
- Deposit account	39,412	52,662
	<u>1,307,763</u>	<u>1,011,980</u>

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

## 10 INVESTMENTS

### 10.1 Investments by type

Note	Un-audited March 31, 2014			Audited December 31, 2013		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees '000 -----						
<b>Held for trading securities</b>						
Market Treasury Bills	6,680,516	-	6,680,516	7,195,165	1,031,758	8,226,923
Pakistan Investment Bonds	38,841	-	38,841	-	-	-
Fully paid up ordinary shares / certificates of closed end mutual funds	639,503	-	639,503	461,776	-	461,776
Ijara Sukuk Bonds	-	-	-	-	-	-
	7,358,860	-	7,358,860	7,656,941	1,031,758	8,688,699
<b>Available for sale securities</b>						
Market Treasury Bills	30,262,321	-	30,262,321	39,771,651	22,593,710	62,365,361
Pakistan Investment Bonds	33,265,279	-	33,265,279	19,280,139	-	19,280,139
Ijara Sukuk Bonds	14,207,020	-	14,207,020	15,038,802	-	15,038,802
Units of open end mutual funds						
- Faysal Balanced Growth Fund	12,480	-	12,480	12,480	-	12,480
- Faysal Income Growth Fund	62,919	-	62,919	62,919	-	62,919
- Faysal Savings Growth Fund	100,411	-	100,411	100,411	-	100,411
- Faysal Islamic Savings Growth Fund	85,000	-	85,000	88,000	-	88,000
- Faysal Money Market Fund	685,000	-	685,000	745,000	-	745,000
- Faysal Asset Allocation Fund	15,491	-	15,491	15,491	-	15,491
- Faysal Financial Sector Opportunity Fund	54,000	-	54,000	54,000	-	54,000
Fully paid up ordinary shares / modaraba certificates / certificates of closed end mutual funds	10.4 & 10.5 2,747,277	-	2,747,277	2,025,629	-	2,025,629
Fully paid up preference shares	197,652	-	197,652	197,652	-	197,652
Term finance certificates	10.2 947,685	-	947,685	960,273	-	960,273
	82,642,535	-	82,642,535	78,352,447	22,593,710	100,946,157
<b>Held to maturity securities</b>						
Term finance certificates	10.3 2,994,569	-	2,994,569	3,033,053	-	3,033,053
Sukuk Bonds	10.3 3,289,768	-	3,289,768	3,356,434	-	3,356,434
	6,284,337	-	6,284,337	6,389,487	-	6,389,487
<b>Associate</b>						
Fully paid up ordinary shares of Faysal Asset Management Limited	75,360	-	75,360	75,829	-	75,829
<b>Investments at cost</b>	96,361,092	-	96,361,092	92,474,704	23,625,468	116,100,172
Less: Provision for diminution in the value of investments	10.6 (2,582,635)	-	(2,582,635)	(2,430,829)	-	(2,430,829)
<b>Investments (net of provisions)</b>	93,778,457	-	93,778,457	90,043,875	23,625,468	113,669,343
<b>Deficit on revaluation of held for trading securities - net</b>	(26,290)	-	(26,290)	(14,417)	(474)	(14,891)
<b>Surplus / (deficit) on revaluation of available for sale securities - net</b>	49,471	-	49,471	(325,107)	(9,867)	(334,974)
<b>Total investments at market value</b>	93,801,638	-	93,801,638	89,704,351	23,615,127	113,319,478

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

- 10.2** These include Pre IPO investment of Rs 500 million made in the unlisted term finance certificates (TFCs) of Dewan Cement Limited. The State Bank of Pakistan through its letter BPRD/BLRD-3/DMG/2011-1035 had advised the Banks to maintain provision at least at the level of 90% in five quarters (commencing from December 31, 2010) by December 31, 2011. The Bank as per the above directive had availed the relaxation and maintained a provision of Rs 450 million against this investment. Had the provision been made as per the time based criteria specified in the Prudential Regulations issued by the SBP, the provision for diminution in the value of investments for the period ended March 31, 2014 would have been higher by Rs 50 million (December 31, 2013: Rs 50 million) and the profit before taxation for the period ended March 31, 2014 would have been lower by Rs 50 million (December 31, 2013: Rs 50 million).
- 10.3** This includes the term finance certificates and Sukuk Bonds of Rs 999.172 million (2013: Rs 999.172 million) and Rs 500 million (2013: Rs 500 million) respectively issued by Agritech Limited. The impact of relaxation availed by the Bank for maintaining the provision against these investments is disclosed in note 11.2.1 to this condensed interim financial information.
- 10.4** This includes 8,868,843 equity shares (2013: 8,868,843) 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.
- 10.5** These include an investment of the Bank in unlisted shares of DHA Cogen Limited (DHA) (a related party of the bank) representing 19.1% equity holding of DHA. During 2013, the Bank has acquired additional equity shares of 9.35% by exercising its right over pledged shares after eventual non-compliance by DHA in respect of 'Rehabilitation and Standstill Agreement' made between the consortium banks (including FBL) and DHA for repayment of liabilities.

	Note	Un-audited March 31, 2014	Audited December 31, 2013
<b>10.6 Particulars of provision for diminution in the value of investments</b>		<b>Rupees '000</b>	
Opening balance		2,430,829	2,319,786
Charge for the period / year		165,297	663,826
Reversals during the period / year		(13,491)	(552,783)
		151,806	111,043
Closing balance		2,582,635	2,430,829
<b>11 ADVANCES</b>			
Loans, cash credits, running finances, etc. – in Pakistan	11.2.1	185,208,303	188,593,008
Net investment in finance lease – in Pakistan		10,549,865	10,085,694
		195,758,168	198,678,702
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		3,629,062	4,319,771
Payable outside Pakistan		1,153,027	1,234,513
		4,782,089	5,554,284
Margin financing / reverse repo transactions		107,200	110,200
Gross advances		200,647,457	204,343,186
Provision against non-performing advances	11.1 & 11.2	(21,471,240)	(19,746,517)
Provision against consumer loans - general	11.3 & 11.3.1	(428,803)	(406,365)
		(21,900,043)	(20,152,882)
Advances - net of provision		178,747,414	184,190,304

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

**11.1** Advances includes Rs. 27,646 million (December 31, 2013: Rs. 27,619 million) which have been placed under non-performing status as detailed below:

Note		March 31, 2014 (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 (OAEM)	11.1.1	366,114	-	366,114	877	-	877	877	-	877
Substandard		2,116,161	-	2,116,161	372,103	-	372,103	372,103	-	372,103
Doubtful		1,904,321	-	1,904,321	679,106	-	679,106	679,106	-	679,106
Loss		23,259,903	-	23,259,903	20,419,154	-	20,419,154	20,419,154	-	20,419,154
		27,646,499	-	27,646,499	21,471,240	-	21,471,240	21,471,240	-	21,471,240
December 31, 2013 (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 (OAEM)	11.1.1	408,606	-	408,606	2,465	-	2,465	2,465	-	2,465
Substandard		1,826,072	-	1,826,072	364,859	-	364,859	364,859	-	364,859
Doubtful		2,871,259	-	2,871,259	996,059	-	996,059	996,059	-	996,059
Loss		22,512,682	-	22,512,682	18,383,134	-	18,383,134	18,383,134	-	18,383,134
		27,618,619	-	27,618,619	19,746,517	-	19,746,517	19,746,517	-	19,746,517

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

### 11.2 Particulars of provision against non-performing advances

	Un-audited March 31, 2014	Audited December 31, 2013
	Rupees '000	
Opening balance	19,746,517	18,268,251
Charge for the period / year	798,340	3,825,655
Reversals during the period / year	(294,783)	(1,920,114)
Net charge	503,557	1,905,541
Provision against non-performing loans and advances directly charged to equity and adjusted against Non-distributable Capital Reserve - note 17	1,221,567	-
	1,725,124	1,905,541
Amounts written off	(401)	(427,275)
Closing balance	21,471,240	19,746,517

**11.2.1** This includes classified advances of Rs 350 million disbursed to Agritech Limited (AGL). In addition, as disclosed in notes 10.3 and 10.4, the Bank had also made investments in term finance certificates, sukuk bonds and equity shares of Rs 999.172 million, Rs 500 million and Rs 310.410 million respectively of AGL. In accordance with the requirements of the approved accounting standards as applicable in Pakistan the Bank

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

was required to maintain a provision of Rs 1,977.351 (net of FSV benefit) million as at March 31, 2014 against the above exposure of AGL. The required provision as per the approved accounting standards as applicable in Pakistan has not been fully made by the Bank as the SBP has given relaxation to the Bank in maintaining provision against the outstanding exposure of AGL. The Bank is required to make the provisions against the outstanding exposure (including investment in equity shares) of at least 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. The Bank has availed the relaxation provided by the SBP and has recorded total provision of Rs 1,186.411 million - net of FSV benefit (including impairment loss of Rs 125.370 million) (2013: Rs 986.408 million - net of FSV benefit including impairment loss of Rs 103.855 million).

Had the SBP not provided this exemption, the profit before taxation for the current period would have been lower by Rs 790.940 million and the provision against advances and investments would have been higher by Rs 137.363 million and Rs 653.577 million respectively.

- 11.2.2** As allowed by the SBP the Bank has availed benefit of Forced Sale Value (FSV) of collaterals held as security of Rs. 2,283.696 million [Rs 2,200.653 million (2013: Rs 3,601.242 million) relating to advances and Rs. 83.043 million (2013: Rs 76.914 million) relating to investments] while determining the provisioning requirement against non-performing financing (including investments) as at March 31, 2014. The additional profit arising from availing the FSV benefit - net of tax as at March 31, 2014 which is not available for distribution as either cash or stock dividend to shareholders amounted to approximately Rs 1,484.402 million (2013: Rs 2,390.801 million).

<b>11.3 Particulars of provision against consumer loans - general</b>	<b>Un-audited March 31, 2014</b>	<b>Audited December 31, 2013</b>
	<b>Rupees '000</b>	
Opening balance	406,365	283,819
Charge during the period / year	22,438	122,546
Closing balance	<u>428,803</u>	<u>406,365</u>

- 11.3.1** The Bank maintains general provision in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing and Prudential Regulations for Small and Medium Enterprise Financing issued by the SBP. Accordingly, the Bank maintains general provision as follows:

	<b>Secured</b>	<b>Unsecured</b>
Consumer portfolio	1.5%	5.0%
Small enterprise portfolio	1.0%	2.0%

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

<b>12 FIXED ASSETS</b>	<b>Un-audited For the quarter ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>Rupees '000</b>	
<b>12.1 Additions to operating fixed assets - cost</b>		
Leasehold property and improvements	27,266	36,603
Office furniture, fixtures, equipment and computers	16,289	48,429
Vehicles	23,134	22,564
Capital work-in-progress	47,100	5,300
<b>12.2 Disposals of operating fixed assets - cost</b>		
Office furniture, fixtures, equipment and computers	2,966	99
Vehicles	2,500	2,748



# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

## 13 OTHER ASSETS

This includes non-banking assets acquired in satisfaction of claims amounting to Rs 2,281.839 million (December 31, 2013: 2,305.011 million) classified as held for sale.

## 14 DEPOSITS AND OTHER ACCOUNTS

	Un-audited March 31, 2014	Audited December 31, 2013
	Rupees '000	
<b>Customers</b>		
Fixed deposits	88,616,403	92,803,300
Saving deposits	88,122,378	86,464,689
Current accounts – Remunerative	1,869,120	2,306,983
Current accounts – Non-remunerative	74,501,238	78,787,509
Margin accounts	2,230,064	2,032,215
	<u>255,339,203</u>	<u>262,394,696</u>
<b>Financial institutions</b>		
Remunerative deposits	10,564,652	8,467,508
Non-remunerative deposits	150,073	272,099
	<u>10,714,725</u>	<u>8,739,607</u>
	<u>266,053,928</u>	<u>271,134,303</u>

## 15 CONTINGENCIES AND COMMITMENTS

### 15.1 Direct credit substitutes

#### Contingent liability in respect of guarantees favouring:

- Banking companies and other financial institutions	<u>490,110</u>	<u>825,498</u>
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#### Acceptances

- Others	<u>10,717,978</u>	<u>13,139,248</u>
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### 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	8,179,010	7,382,176
- Banking companies and other financial institutions	11,669	18,777
- Others	1,979,963	2,830,604
	<u>10,170,642</u>	<u>10,231,557</u>

### 15.3 Trade-related contingent liabilities

#### Letters of credit

- Government	6,359,629	6,903,344
- Others	19,997,072	18,317,222
	<u>26,356,701</u>	<u>25,220,566</u>

### 15.4 Other Contingencies

i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh. The Bank's legal advisors are confident that the Bank has a strong case	<u>2,500,000</u>	<u>2,500,000</u>
ii) Indemnity issued favouring the High Court in the above case	<u>457,543</u>	<u>457,543</u>
iii) Claims against the Bank not acknowledged as debt	<u>27,990,331</u>	<u>33,373,712</u>

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

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

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

- (iv) Income tax assessments of the Bank have been finalised upto the tax year 2013 (Accounting year 2012). Return of income for tax year 2014 will be e-filed within due date.

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

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 and tax consultant are confident that the decision in respect of these matters will be in the Bank's favour and accordingly no provision has been made in these financial statements in this respect.

### 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, 2014	Audited December 31, 2013
	Rupees '000	
<b>15.6 Commitments in respect of forward exchange contracts</b>		
Purchase		
- Customers	1,448,985	1,629,491
- Banks	32,098,726	31,733,550
	<u>33,547,711</u>	<u>33,363,041</u>
Sale		
- Customers	369,119	2,337,278
- Banks	8,005,230	12,948,403
	<u>8,374,349</u>	<u>15,285,681</u>
<b>15.7 Commitments for the acquisition of operating fixed assets</b>	<u>250,509</u>	<u>286,323</u>
<b>15.8 Commitments in respect of donations</b>	<u>8,000</u>	<u>8,000</u>
<b>15.9 Commitments in respect of repo transactions</b>		
Repurchase	-	23,622,480
Resale	<u>10,264,496</u>	<u>299,186</u>
<b>15.10 Other Commitments</b>		
Interest rate swaps and cross currency swaps (notional principal)	<u>16,595,009</u>	<u>20,130,348</u>

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

### 16 EARNINGS PER SHARE

	Un-audited For the quarter ended	
	March 31, 2014	March 31, 2013
	Rupees '000	
Profit after tax for the period	431,905	262,766
	In thousands	
Weighted average number of ordinary shares	1,043,270	1,043,270
	Rupees	
Earnings per share - basic	0.41	0.25

### 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 (NCR). The SBP allowed the Bank to adjust the 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 the reserve. The balance amount of reserve after incorporation of the above adjustment as identified by BID and amortisation of intangible asset will be available for distribution only as stock dividend after the prior approval of the SBP.

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

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

As a result of above letter, the Bank incorporated a provision of PKR 1.2 billion in these condensed interim financial information by debiting the NCR with a corresponding adjustment to provision against loans and advances.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

## 18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES (To be updated)

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					
<b>March 31, 2014</b>					
Total income - net	22,682	878,883	2,737,743	752,150	4,391,458
Total expenses	(14,583)	(363,495)	(2,768,462)	(813,013)	(3,959,553)
Net income / (loss)	8,099	515,388	(30,719)	(60,863)	431,905
Segment assets (Gross)	-	104,096,011	71,054,054	183,542,342	358,692,407
Segment non performing loans	-	-	3,290,654	24,355,845	27,646,499
Segment provision required against loans **	-	-	(2,235,898)	(19,235,342)	(21,471,240)
Segment liabilities	-	(13,208,788)	(263,569,343)	(35,479,834)	(312,257,965)
Segment return on assets (ROA) (%) *	-	3.01%	-0.27%	-0.19%	
Segment cost of funds (%) *	-	5.95%	5.96%	9.18%	
<b>March 31, 2013</b>					
Total income - net	10,365	588,293	1,978,715	759,081	3,336,454
Total expenses	(9,300)	(164,792)	(2,068,437)	(831,159)	(3,073,688)
Net income / (loss)	1,065	423,501	(89,722)	(72,078)	262,766
	Corporate Finance	Trading & Sales	Retail Banking	Corporate & Commercial Banking	Total
<b>December 31, 2013</b>					
Total income - net	217,876	4,346,821	21,557,001	6,201,611	32,323,309
Total expenses	(105,445)	(2,807,601)	(21,569,936)	(5,990,421)	(30,473,403)
Net income / (loss)	112,431	1,539,220	(12,935)	211,190	1,849,906
Segment assets (Gross)	-	99,565,986	91,637,468	187,103,031	378,306,485
Segment non performing loans	-	-	4,395,393	23,223,226	27,618,619
Segment provision required against loans **	-	-	(2,170,676)	(17,982,206)	(20,152,882)
Segment liabilities	-	(30,059,699)	(255,218,107)	(47,835,708)	(333,113,514)
Segment return on assets (ROA) (%)	-	2.19%	-0.02%	0.12%	
Segment cost of funds (%)	-	8.57%	5.71%	8.78%	

\* These percentages have been computed based on average balances.

\*\* includes general provision

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

### 19 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its holding company, associated undertaking, 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 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, 2014 (Un-audited)				
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
<b>Deposits</b>				
Balance at the beginning of the year	190,399	116,373	2,544	1,140,702
Placements during the period	1,101,783	546,777	894,360	19,133,876
Withdrawals during the period	(1,099,298)	(630,204)	(894,797)	(19,414,905)
Balance at end of the period	192,884	32,946	2,107	859,673
<b>Advances</b>				
Balance at the beginning of the year	24,901	-	-	3,455,705
Disbursements during the period	30	-	-	3,526,978
Repayments during the period	(1,180)	-	-	(541,127)
Balance at end of the period	23,751	-	-	6,441,556
December 31, 2013 (Audited)				
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
<b>Deposits</b>				
Balance at the beginning of the year	126,680	55,800	2,053	86,234
Placements during the year	2,253,814	907,756	1,798,545	29,261,746
Withdrawals during the year	(2,190,095)	(847,183)	(1,798,054)	(28,207,278)
Balance at end of the year	190,399	116,373	2,544	1,140,702
<b>Advances</b>				
Balance at the beginning of the year	39,434	-	-	4,440,121
Disbursements during the year	5,546	-	-	11,579,524
Repayments during the year	(20,079)	-	-	(12,563,940)
Balance at end of the year	24,901	-	-	3,455,705

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

Particulars	March 31, 2014 (Un-audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Shares / units purchased during the period	-	-	-	549,331
Shares / units sold during the period	-	-	-	500,049
Government securities purchased during the period	679,592	398,077	-	-
Government securities sold during the period	909,443	576,651	-	-
Profit paid / accrued	1,636	2,167	104	22,990
Profit return / earned	451	-	-	35,509
Borrowings	-	-	-	4,926,485
Remuneration of key management personnel				
- Salaries and other short-term employee benefits *	380,065	-	-	-
- Post-employment benefits	4,758	-	-	-
Contribution to staff retirement benefits	-	61,486	-	-
Guarantees issued favouring related parties or on their behalf **	-	-	-	29,397

\* includes final settlement of Ex-President & CEO

\*\* represents outstanding guarantee

Particulars	March 31, 2013 (Un-audited)			
	Directors and key management personnel	Retirement Benefit Plans	Associate	Group Companies and associated undertakings
	Rupees '000			
Shares / units purchased during the period	-	-	-	17,625
Shares / units sold during the period	-	-	-	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

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

## 20 ISLAMIC BANKING BUSINESS

The Bank is operating 53 Islamic banking branches (2013: 53). The statement of financial position as at March 31, 2014 is as follows:

	Note	Un-audited March 31, 2014	Audited December 31, 2013
		Rupees '000	
<b>ASSETS</b>			
Cash and balances with treasury banks		2,191,098	2,267,282
Balances with other banks		341,678	73,246
Due from financial institutions		-	-
Investments		16,824,402	17,514,498
Islamic financing and related assets	(a)	7,939,670	9,257,260
Operating fixed assets		279,846	290,574
Deferred tax assets		-	-
Other assets		939,504	876,076
		<u>28,516,198</u>	<u>30,278,936</u>
<b>LIABILITIES</b>			
Bills payable		371,995	266,100
Due to financial institutions		300,000	1,550,000
Deposits and other accounts			
- Current accounts		9,931,064	10,650,189
- Saving accounts		6,903,365	6,936,737
- Term deposits		7,091,145	6,481,043
- Others		43,225	36,323
- Deposits from financial institutions - remunerative		1,787,251	2,488,263
- Deposits from financial institutions - non-remunerative		9,048	6,752
Due to head office		100,991	227,813
Other liabilities		326,394	240,266
		<u>26,864,478</u>	<u>28,883,486</u>
<b>NET ASSETS</b>		<u>1,651,720</u>	<u>1,395,450</u>
<b>REPRESENTED BY</b>			
Islamic banking fund		880,000	880,000
Reserves		-	-
Unappropriated profit / (loss)		<u>570,215</u>	<u>421,350</u>
		1,450,215	1,301,350
Surplus on revaluation of assets - net of tax		<u>201,505</u>	<u>94,100</u>
		<u>1,651,720</u>	<u>1,395,450</u>
<b>Remuneration to shariah advisor</b>		<u>620</u>	<u>2,630</u>
<b>CHARITY FUND</b>			
Opening balance		233	1,031
Additions during the period / year		98	4,026
Payments / utilization during the period / year		-	(4,824)
Closing balance		<u>331</u>	<u>233</u>
<b>Sector wise details of Charity Disbursement</b>			
Health		-	3,100
Education		-	724
Social Work		-	1,000
		<u>-</u>	<u>4,824</u>

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

	Un-audited March 31, 2014	Audited December 31, 2013
(a) <b>Islamic Financing and Related Assets</b>	(b) <u>7,939,670</u>	<u>9,257,260</u>
(b) <b>Islamic Mode of Financing</b>		
Murabaha	1,504,998	2,840,462
Musharika cum Ijara	11,876	12,071
Diminishing Musharika	5,651,646	5,551,138
Advance against Murabaha Financing	303,112	65,515
Advance against Murabaha ERF	-	300,000
Advanced against Diminishing Musharika	431,149	453,821
Fixed Assets Ijara Financing (net)	27,918	28,538
Advanced against Ijara	<u>8,970</u>	<u>5,715</u>
	<u>7,939,670</u>	<u>9,257,260</u>

## (c) Sectors and avenues of deposits and funds

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

	16,830,930	17,522,424
Government and other securities	1,941,801	3,313,121
Textiles, chemicals, pharmaceuticals, food and allied	4,352,391	4,484,158
Production and transmission of energy	1,158,231	988,264
Transportation	<u>687,403</u>	<u>636,728</u>
Construction / Housing	<u>24,970,756</u>	<u>26,944,695</u>

## 21 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on April 30, 2014 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 other wise stated.

ACTING CEO

DIRECTOR

DIRECTOR

DIRECTOR







## **Bank on Ambition**

Registered Office:  
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