United Bank Limited

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2010

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Note	2010	2009
		------ (Rupees in '000) ------	
ASSETS			
Cash and balances with treasury banks	6	67,667,226	61,562,141
Balances with other banks	7	25,980,928	14,049,990
Lendings to financial institutions	8	12,384,778	23,162,130
Investments	9	231,717,214	137,734,578
Advances			
Performing	10	326,441,450	349,715,209
Non-performing - net of provision	10	15,068,962	12,364,387
		341,510,412	362,079,596
Operating fixed assets	11	24,684,566	23,734,082
Deferred tax asset - net	12	1,298,247	649,814
Other assets	13	20,146,272	17,449,580
		725,389,643	640,421,911
LIABILITIES			
Bills payable	15	5,074,700	5,166,361
Borrowings	16	47,631,814	37,168,277
Deposits and other accounts	17	567,611,258	503,831,672
Sub-ordinated loans	18	11,985,748	11,989,800
Liabilities against assets subject to finance lease		-	611
Other liabilities	19	17,951,943	14,946,827
		650,255,463	573,103,548
NET ASSETS		75,134,180	67,318,363
REPRESENTED BY:			
Share capital	20	12,241,798	11,128,907
Reserves		24,101,838	21,167,954
Unappropriated profit		27,576,333	23,617,875
Total equity attributable to the equity holders of the Bank		63,919,969	55,914,736
Non-controlling interest		2,207,241	2,279,691
		66,127,210	58,194,427
Surplus on revaluation of assets - net of deferred tax	21	9,006,970	9,123,936
		75,134,180	67,318,363
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.

Atif R. Bokhari	**Muhammad Sami Saeed**	**Sir Mohammed Anwar Pervez, OBE, HPk**	**Nahayan Mabarak Al Nahayan**
President & Chief Executive Officer	Director	Deputy Chairman	Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		------ (Rupees in '000) ------	
Mark-up / return / interest earned	24	60,100,410	61,745,462
Mark-up / return / interest expensed	25	25,433,850	28,323,272
Net mark-up / interest income		34,666,560	33,422,190
Provision against loans and advances - net	10.5	6,838,336	9,644,927
Provision against lending to financial institutions	8.5	-	560,852
Provision for diminution in value of investments - net	9.3	304,026	1,187,460
Bad debts written off directly	10.6	1,007,896	1,485,976
		8,150,258	12,879,215
Net mark-up / return / interest income after provisions		26,516,302	20,542,975
Non Mark-up / Interest Income			
Fee, commission and brokerage income		7,021,661	6,736,356
Dividend income		133,962	214,727
Income from dealing in foreign currencies		1,734,651	1,275,914
Gain on sale of securities - net	26	188,164	699,275
Unrealized loss on revaluation of investments classified as held for trading	9.4	(33,214)	(2,582)
Other income	27	1,569,731	3,146,810
Total non mark-up / return / interest income		10,614,955	12,070,500
		37,131,257	32,613,475
Non Mark-up / Interest Expenses			
Administrative expenses	28	18,996,661	17,803,338
Other provisions / write offs - net	29	68,113	642,274
Workers' Welfare Fund	30	414,833	401,073
Other charges	31	240,391	64,552
Total non mark-up / interest expenses		19,719,998	18,911,237
Share of income / (loss) of associates		277,364	689,943
Profit before taxation		17,688,623	14,392,181
Taxation - Current	32	6,850,854	6,996,257
- Prior years	32	415,329	78,710
- Deferred	32	(598,485)	(2,170,738)
		6,667,698	4,904,229
Profit after taxation		11,020,925	9,487,952
Attributable to:			
Equity shareholders of the Bank		11,031,630	9,521,546
Non-controlling interest		(10,705)	(33,594)
		11,020,925	9,487,952
		------------ (Rupees) ------------	
Earnings per share - basic and diluted	33	9.01	7.78

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.

Atif R. Bokhari	**Muhammad Sami Saeed**	**Sir Mohammed Anwar Pervez, OBE, HPk**	**Nahayan Mabarak Al Nahayan**
President & Chief Executive Officer	Director	Deputy Chairman	Chairman

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	------- (Rupees in '000) -------	
Profit after tax for the year attributable to:		
Equity shareholders of the Bank	11,031,630	9,521,546
Non-controlling interest	(10,705)	(33,594)
	11,020,925	9,487,952
Other comprehensive income / (loss):		
Exchange differences on translation of net investment in foreign branches and subsidiaries		
- Equity shareholders of the Bank	615,495	2,003,138
- Non-controlling interest	(30,568)	351,725
Net gain on cash flow hedges	118,866	108,028
Related deferred tax liability on cash flow hedges	(41,603)	(37,810)
	662,190	2,425,081
Comprehensive income transferred to equity - net of tax	11,683,115	11,913,033

Surplus / (deficit) arising on revaluation of assets has been reported in accordance with the requirements of the Companies Ordinance, 1984 and the directives of the State Bank of Pakistan in a separate account below equity.

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.

Atif R. Bokhari	**Muhammad Sami Saeed**	**Sir Mohammed Anwar Pervez, OBE, HPk**	**Nahayan Mabarak Al Nahayan**
President and Chief Executive Officer	Director	Deputy Chairman	Chairman

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		------- (Rupees in '000) -------	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		17,688,623	14,392,181
Less: Dividend income		(133,962)	(214,727)
Add / (Less): Share of (profit) / loss of associates		(277,364)	(689,943)
		17,277,297	13,487,511
Adjustments:			
Depreciation		1,576,984	1,539,028
Amortization		224,017	185,985
Workers' welfare fund		414,833	401,073
Provision for retirement benefits		7,927	605,672
Provision against loans and advances		6,838,336	9,644,927
Provision against lending to financial institutions		-	560,852
Provision for diminution in value of investments		304,026	1,187,460
Reversal of provision in respect of investments disposed off during the year		(340,488)	(1,208,711)
Provision against off balance sheet items		-	20,250
Gain on sale of fixed assets		(16,248)	(31,829)
Bad debts written-off directly		1,007,896	1,485,976
Amortization of cash flow hedge reserve		118,866	108,028
Unrealized loss on revaluation of investments classified as held for trading		33,214	2,582
Finance charges on leased assets		147	110
Provision / (reversal of provision) against other assets		68,113	622,024
		10,237,623	15,123,427
		27,514,920	28,610,938
Decrease / (Increase) in operating assets			
Lendings to financial institutions		10,777,352	(917,641)
Held for trading securities		(12,521,604)	526,935
Advances		12,722,952	4,734,867
Other assets (excluding advance taxation)		(2,085,878)	1,950,068
		8,892,822	6,294,229
(Decrease) / Increase in operating liabilities			
Bills payable		(91,661)	(44,509)
Borrowings		10,463,537	(7,581,413)
Deposits and other accounts		63,779,586	11,563,774
Other liabilities (excluding current taxation)		2,575,258	(1,255,808)
		76,726,720	2,682,044
		113,134,462	37,587,211
Staff retirement benefits received / (paid)		986,402	(783,198)
Income taxes paid		(8,963,257)	(9,719,771)
Net cash flow from operating activities		105,157,607	27,084,242
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in securities		(81,899,081)	(16,446,722)
Dividend income received		490,012	457,237
Investments in operating fixed assets		(2,393,600)	(1,595,660)
Sale proceeds from disposal of property and equipment		107,228	174,458
Net cash flow on investing activities		(83,695,441)	(17,410,687)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of principal of sub-ordinated loans		(4,052)	(4,048)
Payments in respect of lease obligations		(611)	(1,367)
Dividends paid		(4,006,407)	(1,094,748)
Net cash (used in) / flow from financing activities		(4,011,070)	(1,100,163)
Exchange adjustment on translation of net assets attributable to non-controlling interest		(30,568)	351,725
Exchange differences on translation of net investment in foreign branches and subsidiaries		615,495	2,003,138
Increase in cash and cash equivalents		18,036,023	10,928,255
Cash and cash equivalents at beginning of the year		75,612,131	64,683,876
Cash and cash equivalents at end of the year	34	93,648,154	75,612,131

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.

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President & Chief Executive Officer	Director	Deputy Chairman	Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

	Attributable to ordinary shareholders of the Bank									
			----------Capital reserves----------							
	Share Capital	General reserve	Statutory reserve	Exchange translation reserve	Reserve for issue of bonus shares	Cash flow hedge reserve	Unappro-priated profit	Sub total	Non-controlling Interest	Total
	---- (Rupees in '000) ----									
Balance as at January 01, 2009	10,117,188	3,000	10,383,033	7,146,661	-	(276,633)	17,703,327	45,076,576	2,044,589	47,121,165
Final cash dividend for the year ended December 31, 2008 declared subsequent to year end at Re.1.00 per share	-	-	-	-	-	-	(1,011,719)	(1,011,719)	-	(1,011,719)
Transfer to reserve for issue of bonus shares	-	-	-	-	1,011,719	-	(1,011,719)	-	-	-
Issue of bonus shares at 10%	1,011,719	-	-	-	(1,011,719)	-	-	-	-	-
Changes in equity for 2009										
Profit after taxation for the year ended December 31, 2009	-	-	-	-	-	-	9,521,546	9,521,546	(33,594)	9,487,952
Other comprehensive income - net of tax	-	-	-	2,003,138	-	70,218	-	2,073,356	351,725	2,425,081
Total comprehensive income	-	-	-	2,003,138	-	70,218	9,521,546	11,594,902	318,131	11,913,033
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	254,977	254,977	-	254,977
Ordinary dividend relating to non-controlling shareholders	-	-	-	-	-	-	-	-	(27,510)	(27,510)
Preferred dividend relating to non-controlling shareholders	-	-	-	-	-	-	-	-	(55,519)	(55,519)
Transfer to statutory reserve	-	-	1,838,537	-	-	-	(1,838,537)	-	-	-
Balance as at December 31, 2009	**11,128,907**	**3,000**	**12,221,570**	**9,149,799**	**-**	**(206,415)**	**23,617,875**	**55,914,736**	**2,279,691**	**58,194,427**
Final cash dividend for the year ended December 31, 2009 declared subsequent to year end at Rs.2.50 per share	-	-	-	-	-	-	(2,782,227)	(2,782,227)	-	(2,782,227)
Interim cash dividend for the half year ended June 30, 2010 declared at Re.1.00 per share	-	-	-	-	-	-	(1,224,180)	(1,224,180)	-	(1,224,180)
Transfer to reserve for issue of bonus shares	-	-	-	-	1,112,891	-	(1,112,891)	-	-	-
Issue of bonus shares at 10%	1,112,891	-	-	-	(1,112,891)	-	-	-	-	-
Changes in equity for 2010										
Profit after taxation for the year ended December 31, 2010	-	-	-	-	-	-	11,031,630	11,031,630	(10,705)	11,020,925
Other comprehensive income - net of tax	-	-	-	615,495	-	77,263	-	692,758	(30,568)	662,190
Total comprehensive income	-	-	-	615,495	-	77,263	11,031,630	11,724,388	(41,273)	11,683,115
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	256,075	256,075	-	256,075
Preferred dividend relating to non-controlling shareholders	-	-	-	-	-	-	31,177	31,177	(31,177)	-
Transfer to statutory reserve	-	-	2,241,126	-	-	-	(2,241,126)	-	-	-
Balance as at December 31, 2010	**12,241,798**	**3,000**	**14,462,696**	**9,765,294**	**-**	**(129,152)**	**27,576,333**	**63,919,969**	**2,207,241**	**66,127,210**

Appropriations made by the Directors subsequent to the year ended December 31, 2010 are disclosed in note 46 to these consolidated financial statements.

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.

Atif R. Bokhari	**Muhammad Sami Saeed**	**Sir Mohammed Anwar Pervez, OBE, HPk**	**Nahayan Mabarak Al Nahayan**
President & Chief Executive Officer	Director	Deputy Chairman	Chairman

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. STATUS AND NATURE OF BUSINESS

The "Group" consists of:

- Holding Company

United Bank Limited (the Bank) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's registered office and principal office are situated at UBL building, Jinnah Avenue, Blue Area, Islamabad and at State Life Building No. 1, I. I. Chundrigar Road, Karachi respectively. The Bank operates 1,123 (2009: 1,120) branches including 6 (2009: 5) Islamic banking branches, 1 (2009: 1) branch in Karachi Export Processing Zone (KEPZ) and 17 (2009: 17) branches outside Pakistan.

The Bank's Ordinary shares are listed on all three stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) are on the list of the UK Listing Authority and the London Stock Exchange Professional Securities Market. These GDRs are also eligible for trading on the International Order Book System of the London Stock Exchange. Further, the GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the US Securities Act of 1933 and an offering outside the United States in reliance on Regulation S.

Subsidiary Companies

The Group is engaged in carrying out the following business activities:

- United National Bank Limited (UNBL), United Kingdom - 55 percent holding

UNBL is an authorised banking institution incorporated in the United Kingdom (UK) and regulated by the Financial Services Authority (FSA). The Bank was formed in 2001 from the merger of the UK branches of United Bank Limited and National Bank Limited. The principal activities of UNBL are to provide retail banking products through its branch network in major cities of the UK, wholesale banking and treasury services to financial institutions and trade finance facilities to businesses of all sizes.

- United Bank AG (Zurich), Switzerland - 100 percent holding

United Bank AG (Zurich) is a commercial bank owned by United Bank Limited, Karachi. Founded in 1967, its main activities are in credit operations and related trade financing. In doing so, it supports its international clientele in their import and export business with Pakistan, the rest of the sub-continent and the Gulf States.

- United Executors and Trustees Company Limited, Pakistan - 100 percent holding

United Executors and Trustees Company Limited ("the Company") was incorporated in Pakistan in 1965 as an unlisted public limited company. The registered office of the Company is situated at State Life Insurance Building No. 1, I.I. Chundrigar Road, Karachi. Currently, the Company is engaged in the business of investments.

- UBL Fund Managers Limited, Pakistan - 100 percent holding

UBL Fund Managers Limited was incorporated as a public limited company in Pakistan under the Companies Ordinance, 1984 on April 03, 2001. The Company is licensed to carry out Asset Management and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). The principal activities of the Company are floating and managing mutual funds and providing investment advisory services. The registered office of the Company is situated at 8th Floor, State Life Building No. 1, I. I. Chundrigar Road, Karachi.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2. BASIS OF PRESENTATION

2.1 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon. However, the Islamic Banking branches of the Group have complied with the requirements set out under the Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan and notified under the provisions of the Companies Ordinance, 1984.

2.2 The financial results of the Islamic banking branches of the Group have been included in these consolidated financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic banking branches are disclosed in note 45 to these consolidated financial statements.

2.3 With effect from the current year, 'Balance Sheet' has been renamed as 'Statement of Financial Position' keeping in view the requirement of BSD Circular letter No.7 of 2010 dated April 20, 2010 issued by the SBP.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or said directives prevail.

3.2 The SBP vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP issued vide SRO 411(I)/2008 dated April 28, 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

3.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)	February 01, 2010
IAS 24 - Related Party Disclosures (Revised)	January 01, 2011
IAS 12 - Income Taxes: Deferred Tax Amendment – Recognition of Underlying Assets	January 01, 2012

IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	January 01, 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

The Group expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Group's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention except that certain operating fixed assets have been stated at revalued amounts and certain investments and derivative financial instruments have been stated at fair value.

4.2 Critical accounting estimates and judgements

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

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

i) classification of investments (notes 5.5 and 9)
ii) provision against investments (notes 5.5 and 9.3) and advances (notes 5.6, 10.5)
iii) income taxes (notes 5.9 and 32)
iv) staff retirement benefits (note 5.11 and 36)
v) fair value of derivatives (note 5.16 and 19.4)
vi) operating fixed assets, depreciation and amortization (note 5.7 and 11)
vii) impairment (note 5.8)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- The consolidated financial statements include the financial statements of UBL - Holding Company and its subsidiary companies - "the Group".

- Subsidiary companies are fully consolidated from the date on which more than 50% of voting rights are transferred to the Group or the power to control the company is established and are excluded from consolidation from the date of disposal or when the control is lost.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

- The financial statements of subsidiaries are prepared for same reporting period as the holding company using consistent accounting policies except for the non-banking subsidiaries in Pakistan which follow the requirements of IAS 39 and overseas subsidiaries which are required to comply with local regulations enforced within the respective jurisdiction.

- The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investments in the subsidiary companies held by the Bank is eliminated against the subsidiaries' share capital and pre acquisition reserves in the consolidated financial statements.

- Non-controlling interest represents that part of the net results of operations and of net assets of the subsidiary companies that is not owned by the Group.

- All material intra-group balances and transactions have been eliminated in full.

5.2 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and related interpretations which became effective during the year:

IFRS 2 – Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions

IFRS 3 – Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

In May 2008 and April 2009, International Accounting Standards Board issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in May 2008
IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009
IFRS 2 – Share-based Payments (note 37.3)
IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations
IFRS 8 – Operating Segments
IAS 1 – Presentation of Financial Statements
IAS 7 – Statement of Cash Flows
IAS 17 – Leases
IAS 36 – Impairment of Assets
IAS 38 – Intangible Assets
IAS 39 – Financial Instruments: Recognition and measurement
IFRIC 9 – Reassessment of Embedded Derivatives
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The adoption of the above standards, amendments / improvements and interpretations did not have a material effect on the financial statements.

5.3 Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement represent cash and balances with treasury banks and balances with other banks in current and deposit accounts.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

5.4 Lendings to / borrowings from financial institutions

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

5.4.1 Sale under repurchase agreements

Securities sold subject to a re-purchase agreement (repo) are retained in the consolidated financial statements as investments and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as an expense.

5.4.2 Purchase under resale agreements

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The differential between the purchase price and resale price is amortized over the period of the agreement and recorded as income.

Securities held as collateral are not recognized in the consolidated financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

5.5 Investments

Investments of the Group, other than investments in associates are classified as held for trading, held-to-maturity and available for sale.

Held for trading

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

Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Group has the positive intent and ability to hold to maturity.

Available for sale

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

Initial measurement

All “regular way” purchases and sales of investments are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Investments are initially recognized at fair value which, in the case of investments other than held-for-trading, includes transaction costs associated with the investments.

Subsequent measurement

Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the profit and loss account.

Held-to-maturity

These are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

Available for sale

Quoted-securities classified as available-for-sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is kept in a separate account shown in the balance sheet below equity and taken to the profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. A decline in the carrying value is charged to the profit and loss account. The break-up value of these equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses.

Provision for diminution in the value of securities (except term finance certificates) is made for impairment, if any. Provision for diminution in the value of term finance certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the SBP.

Associates

Associates are all entities over which the Group has a significant influence, but control does not exist.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee subsequent to the date of acquisition. Increase / decrease in share of profit or loss of associates is accounted for in the consolidated profit and loss account. The Group applies equity accounting for UBL Insurers Limited, Oman United Exchange Company Limited and its own investment in mutual funds managed by UBL Fund Managers Limited that are categorized as associates.

5.6 Advances

Advances are stated net of specific and general provisions. Specific provision against domestic advances is determined on the basis of the Prudential Regulations and other directives issued by the SBP and is charged to the profit and loss account. General provision against consumer loans is made in accordance with the requirements of the Prudential Regulations issued by the SBP. General and specific provisions pertaining to overseas advances are made in accordance with the requirements of the monetary agencies and the regulatory authorities of the respective countries. The Group, from time to time, makes general provision against weaknesses in its portfolio if circumstances warrant on the basis of management's estimation. Advances are written off when there is no realistic prospect of recovery. The amount so written off is a book entry without prejudice to the Group's right of recovery against the customer.

The Bank determines write-offs in accordance with the criteria prescribed by the SBP vide BPRD Circular No. 06 dated June 05, 2007.

5.7 Operating fixed assets and depreciation

5.7.1 Owned

Property and equipment, other than freehold land (which is not depreciated) and capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Freehold land is carried at revalued amount less impairment losses while capital work-in-progress is stated at cost less impairment losses. The cost of property and equipment of foreign branches and subsidiaries includes exchange difference arising on currency translation at the year-end rates of exchange.

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Depreciation is calculated so as to write off the depreciable amount of the assets over their expected economic lives at the rates specified in note 11.2 to these consolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any, and using methods depending on the nature of the asset and the country of its location. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

Depreciation on additions is charged from the month the asset is available for use. No depreciation is charged in the month of disposal.

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

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

Gains and losses on sale of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

5.7.2 Leased (Ijarah)

Assets leased out under Ijarah are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of the lease term.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

5.7.3 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using the straight line method, from the month when these assets are available for use, whereby the cost of the intangible asset is amortized on the basis of the estimated useful life over which economic benefits are expected to flow to the Group. The residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

5.8 Impairment

Impairment in available for sale equity investments

Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

Impairment in investments in associates

The Group considers that a decline in the recoverable value of investment in associates below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable value falls below the carrying value and is charged to the profit and loss. Subsequent reversal of impairment loss, upto the cost of investment in associates is credited to the profit and loss account.

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Impairment in non-financial assets (excluding deferred tax)

The carrying amounts of non-financial assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of the revalued assets.

5.9 Taxation

5.9.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned from local as well as foreign operations, as applicable to the respective jurisdictions. The charge for current tax is calculated using prevailing tax rates. The charge for current tax also includes, where considered necessary, adjustments relating to prior years, arising from assessments made during the year.

5.9.2 Deferred

Deferred tax is recognized using the liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Group also records a deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

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

The Bank also recognizes a deferred tax asset / liability on deficit / surplus on revaluation of fixed assets, cash flow hedge reserve and securities which is adjusted against the related deficit / surplus in accordance with the requirements of the revised International Accounting Standard (IAS) 12, Income Taxes.

5.10 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events which makes it probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Provision against identified non-funded losses is recognized when intimated and reasonable certainty exists for the Group to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and the provision is classified under other liabilities.

Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

5.11 Staff retirement and other benefits

5.11.1 United Bank Limited (UBL)

The Bank operates the following staff retirement schemes for its employees:

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a) For new employees and for those who opted for the new scheme introduced in 1991, the Bank operates an

- approved contributory provident fund (defined contribution scheme); and
- approved gratuity scheme (defined benefit scheme).

b) For employees who have not opted for the new scheme introduced in 1991, the Bank operates an

- approved funded pension scheme, introduced in 1986 (defined benefit scheme); and
- approved non-contributory provident fund in lieu of the contributory provident fund.

In the year 2001, the Bank modified the pension scheme and introduced a conversion option for employees covered under option (b) above to move to option (a). This conversion option ceased on December 31, 2003.

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme).

Annual contributions towards the defined benefit schemes are made on the basis of actuarial advice using the Projected Unit Credit Method.

For defined contribution plans, the Bank pays contributions to the Fund on a periodic basis. The Bank has no further payment obligation once the contributions have been paid. The contributions are recognized as an expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction of the future payments is available.

Other benefits

a) Employees' compensated absences

The Bank makes provisions for compensated vested and non-vested absences accumulated by its eligible employees on the basis of actuarial advice under the Projected Unit Credit Method.

b) Post retirement medical benefits (defined benefit scheme)

The Bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefits on the basis of actuarial advice under the Projected Unit Credit Method.

c) Employee motivation and retention scheme

The Bank operates a long term motivation and retention scheme for its employees with the objective of rewarding, motivating and retaining its high performing executives and officers. The liability of the Bank is fixed and is determined each year based on the performance of the Bank.

Actuarial gains and losses

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation at the end of the last reporting year are charged or credited to income over the employees' expected average remaining working lives. These limits are calculated and applied separately for each defined benefit plan.

Actuarial gains and losses pertaining to long term compensated absences are recognized immediately.

5.11.2 United National Bank Limited (UNBL)

Defined benefit scheme

UNBL operates a pension scheme (defined benefit scheme) for certain staff. This scheme is closed for new members and the accrual of benefits has ceased from January 01, 2010. The amount charged to the profit and loss account are the gains and losses on settlements and curtailments. The interest cost and the expected return on assets are included in interest payable and interest receivable. Acturial gains and losses are recognised immediately in the profit and loss account.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of UNBL, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilites are measured on an actuarial basis using the Projected Unit Credit Method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately on the face of the statement of financial position.

Defined contribution scheme

UNBL operates a defined contributory pension scheme, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between the contribution payable in the year and contribution actually paid are shown as either accruals or prepayments in the statement of financial position.

5.11.3 UBL Fund Managers Limited (UFML)

Defined benefit plan

UFML operates an approved gratuity fund for all employees. Annual contributions to the Fund are made on the basis of actuarial advice using the Projected Unit Credit Method. The net cumulative actuarial gains / losses, in excess of the higher of the following corridor limits are recognised over the expected remaining average working lives of employees on a straight line basis:

- 10% of the present value of the defined benefit obligation (before deducting plan assets); or
- 10 percent of the fair value of plan assets.

Defined contribution plan

UFML operates an approved contributory provident fund (Defined Contribution Scheme) for all eligible employees.

5.11.4 United Bank AG (Zurich) (UBAG)

UBAG maintains a contribution-oriented pension scheme for employees who have reached the age of 25. It bears a large share of the costs of the occupational pension plan for all employees as well as their surviving dependants pursuant to legal requirements. The employee benefit obligations and the assets serving as coverage are outsourced to a collective insurance firm. Organisation, management and financing of the pension plan comply with the legal regulations, the deed of foundation and the applicable regulations of the benefit plan.

5.12 Sub-ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on subordinated debt is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

5.13 Borrowings / deposits and their cost

a) Borrowings / deposits are recorded at the proceeds received.
b) Borrowings / deposits costs are recognized as an expense in the period in which these are incurred.

5.14 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the Group and the revenue can be reliably measured. The following recognition criteria must be met before revenue is recognized.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

5.14.1 Advances and investments

Mark-up / return on performing advances and investments is recognized on a time proportionate basis over the term of the advances and investments. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.

Interest or mark-up recoverable on non-performing advances and classified investments is recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of the SBP or overseas regulatory authorities of the countries where the branches and subsidiaries operate, except where, in the opinion of the management, it would not be prudent to do so.

5.14.2 Dividend income

Dividend income is recognised when the right to receive the dividend is established.

5.14.3 Fee, brokerage and commission

Fee, brokerage, commission and other income is recognized on an accrual basis.

5.15 Foreign currencies

5.15.1 Functional and presentation currency

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

5.15.2 Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the statement of financial position date. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

5.15.3 Foreign operations and subsidiaries

The assets and liabilities of foreign operations and subsidiaries are translated to rupees at exchange rates prevailing at the statement of financial position date. The results of foreign operations and subsidiaries are translated at the average rate of exchange for the year.

5.15.4 Translation gains and losses

Translation gains and losses are taken to the profit and loss account, except those arising on the translation of net investment in foreign branches and subsidiaries which are taken to capital reserve (Exchange Translation Reserve) until the disposal of the net investment at which time these are recognised in the profit and loss account.

5.15.5 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the consolidated financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the date of the statement of financial position. All other commitments are disclosed in the consolidated financial statements at the committed amount.

5.16 Financial instruments

5.16.1 Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, bills payable, borrowings from financial institutions, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy notes associated with them.

5.16.2 Derivative financial instruments

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

5.16.3 Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit and loss account.

(a) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the profit and loss account within other income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the profit and loss account within other income.

(b) Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in the statement of changes in equity, and recycled to the profit and loss account in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the profit and loss account . When a forecast transaction occurs or is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the profit and loss account.

5.16.4 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated financial statements when there is a legally enforceable right to set off and the Group intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

5.17 Assets acquired in satisfaction of claims

The Group occasionally acquires assets in settlement of certain advances. There are stated at the lower of the carrying value of the related advances and the current fair value of such assets.

5.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

5.18.1 Business segments

(a) Corporate finance

Corporate banking includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts instruments, equity, syndication, IPO and secondary private placements.

(b) Trading and sales

Trading and sales includes fixed income, equity, foreign exchange, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

(c) Retail banking

Retail banking includes retail lending and deposits, banking services, trusts and estates, private lending and deposits, investment advice, merchant / commercial / corporate cards.

(d) Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

(e) Asset management

It includes discretionary and non discretionary fund management activities in the form of pooled, segregated, retail, institutional, private equity, open, close ended funds etc

(f) Others

It includes results of support functions of the Group and subsidiary which cannot be classified in any of the above segments.

5.18.2 Geographical segments

The Group operates in five geographical regions being:

- Pakistan
- Karachi Export Processing Zone
- United States of America
- Middle East
- Europe

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
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5.19 Dividend and appropriation to reserves

Dividends and appropriations to reserves are recorded in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

5.20 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

	Note	2010	2009
		------- (Rupees in '000) -------	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		11,680,346	10,911,350
Foreign currency		2,594,433	3,153,898
		14,274,779	14,065,248
With State Bank of Pakistan in			
Local currency current account	6.1	22,362,478	18,937,149
Local currency deposit account		3,864	3,864
Foreign currency current account	6.2	1,287,860	1,125,581
Foreign currency deposit account	6.3	3,781,588	3,365,199
		27,435,790	23,431,793
With other central banks in foreign currency current account	6.4	12,111,644	15,398,540
With National Bank of Pakistan in local currency current account		13,798,332	8,609,162
National Prize Bonds		46,681	57,398
		67,667,226	61,562,141

6.1 This represents current accounts maintained with the SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.

6.2 This represents US Dollar Settlement Account maintained with SBP and includes current accounts maintained with SBP to meet cash reserve requirement of 5% on FE 25 deposits, under the requirements of BSD Circular No. 18 dated March 31, 2001 and OSED Circular No. 1 dated November 13, 2006.

6.3 This represents special cash reserve requirement maintained with SBP under the requirements of BSD Circular No. 14 of 2008 dated June 21, 2008. The return on this account is declared by SBP on a monthly basis and, as at December 31, 2010 carries, mark-up at the rate of 0% (2009: 0%) per annum.

6.4 Deposits with other central banks are maintained to meet the minimum cash reserves and capital requirements pertaining to the foreign branches and subsidiaries of the Group.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		------- (Rupees in '000) -------	
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		-	26,715
In deposit accounts	7.1	1,609	124,151
		1,609	150,866
Outside Pakistan			
In current accounts		5,277,503	5,200,157
In deposit accounts	7.1	20,701,816	8,698,967
		25,979,319	13,899,124
		25,980,928	14,049,990

7.1. These carry mark-up at rates ranging from 0.10% to 12.50% (2009: 0.12% to 11.50%) per annum.

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2010	2009
Call money lendings	8.2	450,000	1,110,610
Repurchase agreement lendings	8.3	4,431,877	17,941,216
Other lendings to financial institutions	8.4	7,502,901	4,671,156
		12,384,778	23,722,982
Provision against lendings to financial institutions	8.5	-	(560,852)
		12,384,778	23,162,130

8.1 Particulars of lendings to financial institutions

	2010	2009
In local currency	6,466,878	21,140,954
In foreign currencies	5,917,900	2,021,176
	12,384,778	23,162,130

8.2 These are unsecured lendings carrying mark-up at rates ranging from 10.25% to 11.75% per annum (2009: 11.95% to 12.65% per annum) and are due to mature latest by March 2011.

8.3 Securities held as collateral against repurchase agreement lendings

	2010			2009		
	Held by Group	Further given as collateral / sold	Total	Held by Group	Further given as collateral / sold	Total
	---------- (Rupees in '000) ----------					
Market Treasury Bills	2,881,877	-	2,881,877	16,691,063	990,566	17,681,629
Pakistan Investment Bonds	650,000	900,000	1,550,000	159,587	100,000	259,587
	3,531,877	900,000	4,431,877	16,850,650	1,090,566	17,941,216

These carry mark-up at rates ranging from 11.75% to 13.50% per annum (2009: 10.75% to 12.35% per annum) and are due to mature latest by February 2011.

8.4 Lendings pertaining to domestic operations carry mark-up at rates ranging from 3.00% to 15.34% per annum (2009: 3.00% to 15.87% per annum) and are due to mature latest by April 2014, whereas lendings pertaining to overseas operations carry mark-up at rates ranging from 0.75% to 3.8% per annum (2009: 1.03% to 3.46% per annum) and are due to mature latest by December 2012.

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8.5 This represents provision made against lendings to overseas financial institutions with movement as follows:

	Note	2010	2009
		------- (Rupees in '000) -------	
Opening balance		560,852	-
Charged during the year		-	560,852
Transferred during the year	8.5.1	(560,852)	-
Closing balance		-	560,852

8.5.1 The balance has been transferred to 'Investments' on issuance of recovery notes and preference shares by the financial institution.

9. INVESTMENTS

9.1 Investments by types

	Note	2010			2009		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
		------------ (Rupees in '000) ------------					
Held for trading securities							
Market Treasury Bills		12,984,400	1,189,144	14,173,544	3,268,035	-	3,268,035
Pakistan Investment Bonds		805,257	-	805,257	438,505	97,306	535,811
Ordinary shares of listed companies		8,928	-	8,928	-	-	-
Foreign securities		1,392,186	-	1,392,186	-	-	-
Term Finance Certificate		106,431	-	106,431	-	-	-
Government of Pakistan - Eurobonds		73,494	-	73,494	76,206	-	76,206
Units of Mutual Funds		46,966	-	46,966	214,865	-	214,865
Sukuk Bonds		22,852	-	22,852	15,719	-	15,719
		15,440,514	1,189,144	16,629,658	4,013,330	97,306	4,110,636
Available for sale securities							
Market Treasury Bills		39,519,598	20,695,498	60,215,096	35,572,747	3,978,323	39,551,070
Pakistan Investment Bonds		18,988,194	536,428	19,524,622	16,728,759	-	16,728,759
Government of Pakistan - Sukuk		4,122,000	-	4,122,000	3,470,000	-	3,470,000
Government of Pakistan - Eurobonds		3,938,516	-	3,938,516	3,870,557	-	3,870,557
Ordinary shares of listed companies		3,629,335	-	3,629,335	3,644,398	-	3,644,398
Preference shares		472,097	-	472,097	197,015	-	197,015
Ordinary shares of unlisted companies	9.7	445,632	-	445,632	441,824	-	441,824
Term Finance Certificates		2,163,818	-	2,163,818	1,948,702	-	1,948,702
Units of mutual funds		164,662	-	164,662	191,299	-	191,299
Foreign securities		15,285,049	-	15,285,049	12,740,879	-	12,740,879
		88,728,901	21,231,926	109,960,827	78,806,180	3,978,323	82,784,503
Held to maturity securities							
Market Treasury Bills		58,843,648	-	58,843,648	11,611,110	-	11,611,110
Pakistan Investment Bonds		4,392,225	-	4,392,225	2,497,301	-	2,497,301
Government of Pakistan - Sukuk		30,000	-	30,000	30,000	-	30,000
Government of Pakistan - Eurobonds		696,506	-	696,506	922,505	-	922,505
Government of Pakistan - Guaranteed Bonds		51,399	-	51,399	1,485,057	-	1,485,057
Term Finance Certificates		27,106,749	-	27,106,749	25,289,199	-	25,289,199
Sukuk Bonds		2,548,739	-	2,548,739	2,640,040	-	2,640,040
Participation Term Certificates		19,202	-	19,202	26,838	-	26,838
Debentures		4,392	-	4,392	4,592	-	4,592
Foreign securities		9,772,562	-	9,772,562	4,001,718	-	4,001,718
CDC SAARC Fund		428	-	428	421	-	421
		103,465,850	-	103,465,850	48,508,781	-	48,508,781
Associates							
United Growth and Income Fund	9.9.1	3,023,430	-	3,023,430	5,279,234	-	5,279,234
UBL Liquidity Plus Fund	9.9.2	2,613,475	-	2,613,475	749,831	-	749,831
United Composite Islamic Fund	9.9.3	338,110	-	338,110	539,012	-	539,012
United Islamic Income Fund	9.9.4	196,425	-	196,425	249,850	-	249,850
United Stock Advantage Fund	9.9.5	354,897	-	354,897	305,297	-	305,297
UBL Participation Protected Plan	9.9.6	184,639	-	184,639	170,136	-	170,136
UBL Capital Protected Fund - II	9.9.7	108,757	-	108,757	-	-	-
UBL Savings Income Fund	9.9.8	174,469	-	174,469	-	-	-
UBL Islamic Savings Fund	9.9.9	197,224	-	197,224	-	-	-
UBL Islamic Retirement Savings Fund	9.9.10	98,310	-	98,310	-	-	-
UBL Retirement Savings Fund	9.9.11	99,681	-	99,681	-	-	-
UBL Capital Protected Fund - I	9.9.12	61,652	-	61,652	90,299	-	90,299
UBL Insurers Limited	9.9.13	150,038	-	150,038	67,583	-	67,583
Oman United Exchange Company, Muscat	9.9.14	65,108	-	65,108	71,399	-	71,399
	9.9	7,666,215	-	7,666,215	7,522,641	-	7,522,641
		215,301,480	22,421,070	237,722,550	138,850,932	4,075,629	142,926,561
Provision for diminution in value of investments	9.3	(2,649,005)	-	(2,649,005)	(2,146,794)		(2,146,794)
Investments (net of provisions)		212,652,475	22,421,070	235,073,545	136,704,138	4,075,629	140,779,767
Deficit on revaluation of available for sale securities	21.2	(3,311,399)	(11,718)	(3,323,117)	(3,045,011)	2,404	(3,042,607)
Deficit on revaluation of held for trading securities	9.4	(33,050)	(164)	(33,214)	(1,862)	(720)	(2,582)
Total investments		209,308,026	22,409,188	231,717,214	133,657,265	4,077,313	137,734,578

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		Note	2010	2009
			-------- (Rupees in '000) -------	
9.2	**Investments by segments**			
	Federal Government Securities			
	Market Treasury Bills		127,315,215	48,577,758
	Pakistan Investment Bonds		24,722,104	19,761,871
	Government of Pakistan - Sukuks		4,152,000	3,500,000
	Government of Pakistan - Euro Bonds		4,708,516	4,869,268
	Government of Pakistan - Guaranteed Bonds		51,399	1,485,057
			160,949,234	78,193,954
	Foreign Securities			
	Market Treasury Bills		5,917,073	5,852,457
	Government securities		5,043,926	3,214,893
	CDC SAARC Fund		428	421
	Other securities		21,405,871	13,527,704
			32,367,298	22,595,475
	Ordinary Shares			
	Listed companies		3,638,263	3,644,398
	Unlisted companies	9.7	445,632	441,824
			4,083,895	4,086,222
	Preference Shares		472,097	197,015
	Units of Mutual Funds		211,628	406,164
	Term Finance Certificates			
	Listed		2,437,296	2,667,787
	Unlisted		26,939,702	24,570,114
			29,376,998	27,237,901
	Sukuk Bonds		2,571,591	2,655,759
	Debentures		4,392	4,592
	Participation Term Certificates		19,202	26,838
			31,972,183	29,925,090
	Investment in associates	9.9	7,666,215	7,522,641
	Total investments at cost		237,722,550	142,926,561
	Provision for diminution in value of investments	9.3	(2,649,005)	(2,146,794)
	Investments (net of provisions)		235,073,545	140,779,767
	Deficit on revaluation of available for sale securities	21.2	(3,323,117)	(3,042,607)
	Deficit on revaluation of held for trading securities	9.4	(33,214)	(2,582)
	Total investments		231,717,214	137,734,578

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
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		2010	2009
		------- (Rupees in '000) -------	
9.3	**Particulars of provision for diminution in value of investments:**		
9.3.1	Opening balance	2,146,794	2,188,793
	Charged during the year	346,263	1,162,066
	(Reversal) / impairment loss on associate	(25,394)	25,394
	Reversed during the year	(16,843)	-
		304,026	1,187,460
	Reversed on disposal	(340,488)	(1,208,712)
	Transfers	548,318	-
		207,830	(1,208,712)
	Written off during the year	(9,645)	(20,747)
	Closing balance	2,649,005	2,146,794
9.3.2	**Particulars of provision for diminution in value of investments by type**		
	Available for sale securities		
	Ordinary shares of listed companies	2,017,861	1,832,026
	Ordinary shares of unlisted companies	141,761	150,524
	Preference shares	6,090	2,436
	Foreign securities	281,585	-
		2,447,297	1,984,986
	Held to maturity securities		
	Term Finance Certificates	100,448	104,985
	Sukuk	77,667	
	Debentures	4,391	4,591
	Participation Term Certificates	19,202	26,838
		201,708	136,414
	Associates	-	25,394
		2,649,005	2,146,794
9.3.3	**Particulars of provision for diminution in value of investments by segment**		
	Ordinary Shares		
	Listed companies	2,017,861	1,832,026
	Unlisted companies	141,761	150,524
	Foreign securities	281,585	-
		2,441,207	1,982,550
	Preference shares	6,090	2,436
	Term Finance Certificates, Debentures and Participation Term Certificates		
	Term Finance Certificates	100,448	104,985
	Sukuk	77,667	-
	Debentures	4,391	4,591
	Participation Term Certificates	19,202	26,838
		201,708	136,414
	Associates	-	25,394
		2,649,005	2,146,794
9.4	**Unrealized loss on revaluation of investments classified as held for trading**		
	Market Treasury Bills	(353)	1,416
	Pakistan Investment Bonds	2,440	(4,422)
	Ordinary shares of listed companies	91	-
	Foreign Securities	(40,543)	-
	Term Finance Certificates	7,834	-
	Mutual Funds	(2,683)	424
		(33,214)	(2,582)

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9.5 Investments include certain approved / government securities which are held by the Group to comply with the Statutory Liquidity Requirement as set out under Section 29 of the Banking Companies Ordinance, 1962.

9.6 Investments include Rs.282 million (2009: Rs.282 million) held by the State Bank of Pakistan and National Bank of Pakistan as pledge against demand loan, TT / DD discounting facilities and foreign exchange exposure limit sanctioned to the Group and Rs.5 million (2009: Rs.5 million) held by the Controller of Military Accounts (CMA) under Regimental Fund Arrangements.

9.7 This includes the Group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs.200 million (2009: Rs.200 million). Pursuant to Section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the Group could not sell or transfer their investment before a period of five years that has expired on October 10, 2005. Thereafter, such sale/ transfer would be subject to the prior approval of the SBP. In addition, the profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the Khushhali Bank Ordinance, 2000.

The SBP prepared a conversion structure for Khushhali Bank Limited to operate as a Microfinance Bank under the Microfinance Institutions Ordinance, 2001 which was approved by the Ministry of Finance. The scheme of conversion was also approved by the shareholders of Khushhali Bank Limited in an Extra-Ordinary General Meeting held on December 17, 2007. Accordingly, an application for incorporation was submitted to the SECP on February 15, 2008. The SECP has incorporated Khushhali Bank Limited under the Microfinance Institutions Ordinance, 2001 and issued a Certificate of Incorporation on February 28, 2008 under section 32 of the Companies Ordinance, 1984.

In a meeting between SBP and the Board of Directors of Khushhali Bank Limited held on June 12, 2008, it was agreed that since Khushhali Bank Limited has a majority of private sector commercial banks as its shareholders and is legally a private sector bank, it is required to be managed as a private sector institution.

In order to achieve the strategic restructuring of Khushhali Bank Limited, a consortium of commercial banks including the Group decided to completely divest their shareholding in Khushhali Bank Limited. Thereafter, the Consortium appointed Advisors (financial, legal and accounting) for conducting preliminary due diligence for valuation and preparing a data room for the prospective purchasers. Khushhali Bank Limited, on behalf of the Consortium of the Commercial Banks has sought prior clearance/approval of the SBP for appointment of Advisors to conduct due diligence of Khushhali Bank Limited.

SBP has conveyed its, in principle, no objection to the consortium of selling shareholders of Khushhali Bank Limited for conducting due diligence/valuation of Khushhali Bank Limited subject to compliance with all the applicable laws/rules/regulations etc. The due diligence / valuation is in the process of being carried out. The establishment of a data room and due diligence report/ valuation from Accounting and Financial Advisor is in process.

9.8 Information relating to investments in Ordinary and Preference shares / certificates of listed and unlisted companies / modarabas / mutual funds, term finance certificates, debentures and bonds, required to be disclosed as part of the financial statements under State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006, is given in Annexure 'A' to these consolidated financial statements. Details in respect of quality of available for sale securities are also disclosed in Annexure 'A'.

9.9 Investment in associates

This includes investment in the seed capital aggregating to Rs.630 million (2009: Rs.1,100 million) which is required to be kept for a period of two years.

	2010	2009
	------- (Rupees in '000) -------	
9.9.1 United Growth and Income Fund		
Investment as at January 01	5,279,234	327,193
(Redemption) / investment during the year	(1,993,891)	2,984,094
Transfer	-	1,836,533
Share of profit	42,202	239,488
Dividend distribution	(250,385)	(118,083)
Share of unrealised (deficit) / surplus on assets	(53,730)	10,009
Balance as at December 31	3,023,430	5,279,234
Percentage holding as at December 31	70.85%	35.68%

9.9.1.1 United Growth and Income Fund is an open ended mutual fund, listed on the Karachi Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.1.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		(Rupees in '000)			
United Growth and Income Fund	**2010**	4,275,118	7,717	871,447	324,134
	2009	14,844,857	48,940	1,568,234	1,137,702

9.9.2 United Liquidity Plus Fund

	2010	2009
	(Rupees in '000)	
Investment as at January 01	749,831	-
Investment during the year	1,874,833	745,469
Share of profit	64,591	7,016
Dividend distribution	(75,421)	(2,661)
Share of unrealised (deficit) / surplus on assets	(359)	7
Balance as at December 31	2,613,475	749,831
Percentage holding as at December 31	21.39%	17.59%

9.9.2.1 United Liquidity Plus Fund is an open ended mutual fund, listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.2.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		(Rupees in '000)			
United Liquidity Plus Fund	**2010**	12,295,334	75,871	1,126,713	933,133
	2009	4,267,245	3,571	218,554	187,547

9.9.3 United Composite Islamic Fund

	2010	2009
	(Rupees in '000)	
Investment as at January 01	539,012	338,024
(Redemption) / investment during the year	(262,811)	6,547
Share of profit	70,735	189,412
Share of unrealised (deficit) / surplus on assets	(8,826)	5,029
Balance as at December 31	338,110	539,012
Percentage holding as at December 31	69.94%	66.83%

9.9.3.1 United Composite Islamic Fund is an open ended mutual fund, listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.3.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		(Rupees in '000)			
United Composite Islamic Fund	**2010**	489,848	6,369	134,181	78,441
	2009	808,306	1,704	394,105	360,516

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		2010	2009
9.9.4	**United Islamic Income Fund**	------- (Rupees in '000) -------	
	Investment as at January 01	249,850	308,700
	Redemption during the year	(50,000)	(83,852)
	Share of profit	33,783	12,338
	Dividend distribution	(8,075)	(9,575)
	Share of unrealised (deficit) / surplus on assets	(29,133)	22,239
	Balance as at December 31	196,425	249,850
	Percentage holding as at December 31	48.08%	19.80%

9.9.4.1 United Islamic Income Fund is an open ended mutual fund, listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.4.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----- (Rupees in '000) -----			
United Islamic Income Fund	**2010**	411,540	2,974	141,110	84,842
	2009	1,265,397	3,652	172,447	71,325

		2010	2009
9.9.5	**United Stock Advantage Fund**	------- (Rupees in '000) -------	
	Investment as at January 01	305,297	142,766
	(Redemption) / investment during the year	(1,075)	35,200
	Share of profit	40,421	121,231
	Share of unrealised surplus on assets	10,254	6,100
	Balance as at December 31	354,897	305,297
	Percentage holding as at December 31	31.70%	16.04%

9.9.5.1 United Stock Advantage Fund is an open ended mutual fund, listed on the Karachi Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.5.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

9.9.5.3 The share of profit includes gain on account of redemption made in the Fund during the year.

		Assets	Liabilities	Revenue	(Loss) / profit
		----- (Rupees in '000) -----			
United Stock Advantage Fund	**2010**	1,124,139	4,808	427,056	(629,162)
	2009	1,951,232	47,966	904,450	835,578

		2010	2009
9.9.6	**UBL Participation Protected Plan**	------- (Rupees in '000) -------	
	Investment as at January 01	170,136	138,887
	Share of profit	14,503	31,249
	Balance as at December 31	184,639	170,136

9.9.6.1 UBL Participation Protected Plan is an open ended administrative plan with the objective of earning potentially high returns through dynamic asset allocation between equity and fixed income investments. The life of the plan is 3 years.

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9.9.7 UBL Capital Protected Fund - II

	2010	2009
	------- (Rupees in '000) -------	
Investment as at January 01	-	-
Investment during the year	103,459	-
Share of profit	5,298	-
Balance as at December 31	108,757	-
Percentage holding as at December 31	53.04%	-

9.9.7.1 UBL Capital Protected Fund II is an open ended capital protected fund, listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.7.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----- (Rupees in '000) -----			
UBL Capital Protected Fund - II	**2010**	206,169	1,133	14,305	10,594

9.9.8 UBL Savings Income Fund

	2010	2009
	------- (Rupees in '000) -------	
Investment as at January 01	-	-
Investment during the year	169,577	-
Share of profit	4,898	-
Share of unrealised deficit on assets	(6)	-
Balance as at December 31	174,469	-
Percentage holding as at December 31	19.22%	-

9.9.8.1 UBL Savings Income Fund is an open ended mutual fund, listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.8.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----- (Rupees in '000) -----			
UBL Savings Income Fund	**2010**	923,788	16,222	28,611	21,305

9.9.9 UBL Islamic Savings Fund

	2010	2009
	------- (Rupees in '000) -------	
Investment as at January 01	-	-
Investment during the year	195,376	-
Share of profit	1,775	-
Share of unrealised surplus on assets	73	-
Balance as at December 31	197,224	-
Percentage holding as at December 31	15.93%	-

9.9.9.1 UBL Islamic Savings Fund is an open ended Shariah Compliant (Islamic) Income fund listed on the Islamabad Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

9.9.9.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----- (Rupees in '000) -----			
UBL Islamic Savings Fund	**2010**	1,241,983	3,624	14,192	20,244

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	2010	2009
9.9.10 UBL Islamic Retirement Savings Fund	------- (Rupees in '000) -------	
Investment as at January 01	-	-
Investment during the year	90,000	-
Share of profit	8,720	-
Share of unrealised deficit on assets	(410)	-
Balance as at December 31	98,310	-
Percentage holding as at December 31	96.09%	-

9.9.10.1 UBL Islamic Retirement Savings Fund is an open ended pension fund and offers units for public subscription on a continuous basis.

9.9.10.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----------------------------- (Rupees in '000) -----------------------------			
UBL Islamic Retirement Savings Fund	**2010**	103,218	852	10,796	9,130

	2010	2009
9.9.11 UBL Retirement Savings Fund	------- (Rupees in '000) -------	
Investment as at January 01	-	-
Investment / (redemption) during the year	90,000	-
Share of profit	9,665	-
Share of unrealised surplus on assets	16	-
Balance as at December 31	99,681	-
Percentage holding as at December 31	89.84%	-

9.9.11.1 UBL Retirement Savings Fund is an open ended pension fund and offers units for public subscription on a continuous basis.

9.9.11.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		----------------------------- (Rupees in '000) -----------------------------			
UBL Retirement Savings Fund	**2010**	111,488	813	12,303	10,476

	2010	2009
9.9.12 UBL Capital Protected Fund - I	------- (Rupees in '000) -------	
Investment as at January 01	64,905	75,500
(Redemption) / Investment during the year	(1,105)	1,122
Share of (loss) / profit	(27,523)	13,677
Share of unrealised deficit on assets	(19)	-
	36,258	90,299
Reversal / (impairment) loss	25,394	(25,394)
Balance as at December 31	61,652	64,905
Percentage holding as at December 31	11.61%	11.61%

9.9.12.1 UBL Capital Protected Fund (UCPF-1) is a closed ended mutual fund, listed on the Islamabad Stock Exchange.

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9.9.12.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		(Rupees in '000)			
UBL Capital Protected Fund - I	**2010**	856,256	10,283	85,644	68,440
	2009	782,298	4,605	134,019	121,250

9.9.13 UBL Insurers Limited

	2010	2009
	(Rupees in '000)	
Investment as at January 1	67,583	52,154
Investment during the year	90,000	60,000
Share of loss	(7,545)	(44,571)
Balance as at December 31	150,038	67,583
Percentage holding as at December 31	30.00%	30.00%

9.9.13.1 UBL Insurers Limited is an unquoted public company . The principal objective of the Company is to conduct general insurance business

9.9.13.2 The details of assets, liabilities, revenues and profits of the insurance company as at December 31, based on unaudited financial statements are as follows:

		Assets	Liabilities	Revenue	Loss
		(Rupees in '000)			
UBL Insurers Limited	**2010**	1,075,333	575,205	270,760	(26,717)
	2009	824,430	599,154	264,095	(129,148)

9.9.14 Oman United Exchange Company

	2010	2009
	(Rupees in '000)	
Investment as at January 01	71,399	72,307
Share of profit	15,838	22,586
Dividend distribution	(22,129)	(23,494)
Balance as at December 31	65,108	71,399
Percentage holding as at December 31	25.00%	25.00%

9.9.14.1 Oman United Exchange Company LLC is incorporated in the Sultanate of Oman as a limited liability company and is primarily engaged in money changing, issuing of drafts and the purchase and sale of travellers cheques.

9.9.14.2 The details of assets, liabilities, revenues and profits of the company as of December 31, based on reviewed financial statements are as follows:

		Assets	Liabilities	Revenue	Profit
		(Rupees in '000)			
Oman United Exchange Company	**2010**	307,397	46,965	159,390	58,775
	2009	340,644	55,048	173,265	87,134

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		Note	Performing		Non-performing		Total	
10.	**ADVANCES**		**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
			---- (Rupees in '000) ----					
	Loans, cash credits, running finances, etc.							
	In Pakistan	10.2	228,034,418	244,389,450	40,726,130	32,220,534	268,760,548	276,609,984
	Outside Pakistan		82,913,093	89,370,415	5,219,441	5,028,007	88,132,534	94,398,422
			310,947,511	333,759,865	45,945,571	37,248,541	356,893,082	371,008,406
	Bills discounted and purchased (excluding government treasury bills)							
	Payable in Pakistan		12,429,950	11,607,055	2,235,582	2,400,013	14,665,532	14,007,068
	Payable outside Pakistan		4,489,485	5,061,796	431,925	416,683	4,921,410	5,478,479
			16,919,435	16,668,851	2,667,507	2,816,696	19,586,942	19,485,547
	Advances - gross		327,866,946	350,428,716	48,613,078	40,065,237	376,480,024	390,493,953
	Provision against advances	10.5						
	- Specific		-	-	(33,544,116)	(27,700,850)	(33,544,116)	(27,700,850)
	- General		(1,425,496)	(713,507)	-	-	(1,425,496)	(713,507)
			(1,425,496)	(713,507)	(33,544,116)	(27,700,850)	(34,969,612)	(28,414,357)
	Advances - net of provision		326,441,450	349,715,209	15,068,962	12,364,387	341,510,412	362,079,596

		Performing		Non-performing		Total	
10.1	**Particulars of advances - gross**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
		---- (Rupees in '000) ----					
10.1.1	In local currency	235,079,268	253,182,865	42,816,359	33,781,868	277,895,627	286,964,733
	In foreign currencies	92,787,678	97,245,851	5,796,719	6,283,369	98,584,397	103,529,220
		327,866,946	350,428,716	48,613,078	40,065,237	376,480,024	390,493,953
10.1.2	Short term	247,828,594	232,398,519	-	-	247,828,594	232,398,519
	Long term	80,038,352	118,030,197	48,613,078	40,065,237	128,651,430	158,095,434
		327,866,946	350,428,716	48,613,078	40,065,237	376,480,024	390,493,953

10.2 This includes performing advances given under various Islamic financing modes amounting to Rs.461.342 million (2009: Rs.638.131 million).

10.3 Non-performing advances include advances having gross book value of Rs.5,774.675 million (2009: Rs.1,596.136 million) and net book value of Rs.2,110.614 million (2009: Rs.919.006 million) which, though restructured and performing have been placed under non-performing status as required by the revised Prudential Regulations issued by the SBP, which requires monitoring for at least one year before any upgradation is considered.

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10.4 Advances include Rs.48,613 million (2009: Rs.40,065 million) which have been placed under non-performing status as detailed below:

2010

Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other Assets Especially Mentioned *	336,651	-	336,651	-	-	-	-	-	-
Substandard	6,320,318	1,037,361	7,357,679	1,414,035	259,344	1,673,379	1,414,035	259,344	1,673,379
Doubtful	5,716,839	3,005,088	8,721,927	1,530,397	1,502,546	3,032,943	1,530,397	1,502,546	3,032,943
Loss	30,587,904	1,608,917	32,196,821	27,239,551	1,598,243	28,837,794	27,239,551	1,598,243	28,837,794
	42,961,712	5,651,366	48,613,078	30,183,983	3,360,133	33,544,116	30,183,983	3,360,133	33,544,116

2009

Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other Assets Especially Mentioned *	386,517	923,161	1,309,678	-	-	-	-	-	-
Substandard	3,802,275	1,474,283	5,276,558	891,498	368,571	1,260,069	891,498	368,571	1,260,069
Doubtful	6,007,332	1,696,401	7,703,733	2,651,589	848,206	3,499,795	2,651,589	848,206	3,499,795
Loss	24,424,423	1,350,845	25,775,268	21,602,032	1,338,954	22,940,986	21,602,032	1,338,954	22,940,986
	34,620,547	5,444,690	40,065,237	25,145,119	2,555,731	27,700,850	25,145,119	2,555,731	27,700,850

* The Other Assets Especially Mentioned category includes agricultural finance inside Pakistan and finances relating to overseas subsidiaries.

10.5 Particulars of provision against advances

	Note	2010 Specific	2010 General	2010 Total	2009 Specific	2009 General	2009 Total
		(Rupees in '000)					
Opening balance		27,700,850	713,507	28,414,357	18,567,383	1,223,697	19,791,080
Exchange adjustments		196,861	-	196,861	274,342	(10,910)	263,432
Charge / (Reversals)							
Charge for the year		8,078,140	910,973	8,989,113	11,552,516	-	11,552,516
Reversals		(1,956,300)	(194,477)	(2,150,777)	(944,245)	(963,344)	(1,907,589)
		6,121,840	716,496	6,838,336	10,608,271	(963,344)	9,644,927
Transfers		86,812	(4,507)	82,305	(464,064)	464,064	-
Amounts written off	10.6	(562,247)	-	(562,247)	(1,285,082)	-	(1,285,082)
Closing balance		33,544,116	1,425,496	34,969,612	27,700,850	713,507	28,414,357

10.5.1 General provision represents provision amounting to Rs.375.327 million (2009: Rs.569.195 million) against consumer finance portfolio as required by the Prudential Regulations issued by the SBP, Rs.415.169 million (2009: Rs.144.311 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries in which the overseas branches operate. General provisions also include an amount of Rs.635 million (2009: Rs.Nil) which the Group carries as matter of prudence given the current economic environment prevailing in Pakistan and is based on management estimates.

10.5.2 Particulars of provision against advances

	2010 Specific	2010 General	2010 Total	2009 Specific	2009 General	2009 Total
	(Rupees in '000)					
In local currency	30,183,984	1,010,327	31,194,311	24,327,702	569,195	24,896,897
In foreign currencies	3,360,132	415,169	3,775,301	3,373,148	144,312	3,517,460
	33,544,116	1,425,496	34,969,612	27,700,850	713,507	28,414,357

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		Note	2010	2009
			------- (Rupees in '000) -------	
10.6	**Particulars of write-offs**			
10.6.1	Against provisions	10.5	562,247	1,285,082
	Directly charged to profit and loss account		1,007,896	1,485,976
			1,570,143	2,771,058
10.6.2	Write-offs of Rs.500,000 and above	10.7	764,563	1,588,946
	Write-offs of Rs.500,000 and above - subsidiaries	10.6.3	17,221	-
	Write-offs of below Rs.500,000		788,359	1,182,112
			1,570,143	2,771,058

10.6.3 Due to restriction in local regulations of foreign subsidiaries on disclosure the name of parties written off cannot be disclosed.

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended December 31, 2010 is given in Annexure 'B' to these consolidated financial statements. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

		Note	2010	2009
			------- (Rupees in '000) -------	
10.8	**Particulars of loans and advances to executives, directors, associated companies etc.**			
	Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons			
	Balance at the beginning of the year		1,536,523	1,057,982
	Loans granted during the year		717,242	1,020,264
	Repayments made during the year		(633,956)	(555,826)
	Exchange adjustment		1,228	14,103
	Balance at end of the year		1,621,037	1,536,523
11.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	11.1	1,337,697	1,006,331
	Property and equipment	11.2	22,405,859	22,236,240
	Intangible assets	11.3	941,010	491,511
			24,684,566	23,734,082
11.1	**Capital work-in-progress**			
	Civil works	11.1.1	537,257	484,612
	Equipment		268,949	202,119
	Software	11.1.2	519,651	306,590
	Advances to suppliers and contractors		11,840	13,010
			1,337,697	1,006,331

11.1.1 This includes Rs.437.916 million (2009: Rs.297.430 million) paid in respect of construction of the Head Office building of the bank.

11.1.2 This includes Rs.516.081 million (2009: Rs.221.56 million) paid in respect of the Core Banking Software of the Bank.

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11.2 Property and equipment

	2010												
	COST/ REVALUATION						ACCUMULATED DEPRECIATION					Net book value at December 31, 2010	Annual rate of deprec-iation %
	At January 01, 2010	Additions / (deletions)	Surplus on revaluation / (Reversal of accumulated depreciation)	Reclassification	Exchange Adjustment / Other adjustments	At December 31, 2010	At January 01, 2010	Charge for the year / (Reversal on deletions)	Reversal due to revaluation	Exchange Adjustment / Other adjustments	At December 31, 2010		
	(Rupees in '000)												
Owned													
Freehold land	1,825,754	125,305 -	- -	1,090,717 -	- -	3,041,776	-	-	-	- -	-	3,041,776	-
Leasehold land	12,802,015	9,865 -	- -	- (1,090,717)	22	11,721,185	1,052	291,697 -	- -	18 -	292,767	11,428,418	1 - 3.33
Buildings on freehold land	1,908,294	59,015 -	458,837 -	173,900 -	- (39,706)	2,560,340	145,647	38,217 -	- -	- (2,074)	181,790	2,378,551	5
Buildings on leasehold land	2,182,998	90,124 (5,431)	8,788 (8,707)	- (173,900)	- (600)	2,093,272	39,675	106,090 (5,431)	- (8,707)	317 -	131,944	1,961,328	5
Leasehold improvements	1,495,013	169,079 (7,818)	- -	- -	4,911 -	1,661,185	415,414	153,380 (5,436)	- -	- (502)	562,856	1,098,329	10
Furniture and fixtures	978,099	92,933 (24,555)	- -	- -	1,601 -	1,048,078	530,004	97,562 (16,639)	- -	2,730 (820)	612,837	435,242	10
Electrical, office and computer equipment	4,155,052	729,829 (33,732)	- -	- -	- (9,699)	4,841,450	2,604,119	717,413 (31,234)	- -	2,767 (27,726)	3,265,339	1,576,111	20-25
Vehicles	268,342	48,937 (34,854)	- -	3,772 -	174 -	286,371	159,287	35,162 (22,631)	- -	2,501 (2,549)	171,770	114,601	20
Assets held under operating lease													
Ijarah assets - note 11.8	810,456	59,658 (133,066)	- -	- -	2,931 -	739,979	296,066	137,463 (65,055)	- -	- -	368,474	371,505	20 - 33.33
Finance lease Vehicles	4,332	- (560)	- -	- (3,772)	- -	-	2,852	- (26)	- -	- (2,826)	-	-	20
2010	26,430,355	1,384,745 (240,016)	467,625 (8,707)	1,268,389 (1,268,389)	9,639 (50,005)	27,993,636	4,194,115	1,576,984 (146,452)	- (8,707)	8,333 (36,497)	5,587,777	22,405,859	

	2009												
	COST/ REVALUATION						ACCUMULATED DEPRECIATION					Net book value at December 31, 2009	Annual rate of deprec-iation %
	At January 01, 2009	Additions / (deletions)	Surplus on revaluation / (Reversal of accumulated depreciation)	Reclassification	Exchange Adjustment / Other adjustments	At December 31, 2009	At January 01, 2009	Charge for the year / (Reversal on deletions)	Other adjustments	Exchange adjustment	At December 31, 2009		
	(Rupees in '000)												
Owned													
Freehold land	1,502,746	1,724 (11,142)	332,426	- -	-	1,825,754	-	-	-	-	-	1,825,754	-
Leasehold land	10,092,131	9,470 (106,551)	3,328,235 (523,063)	- -	1,793	12,802,015	307,447	305,640 (87,760)	- (523,063)	63 (1,275)	1,052	12,800,963	1 - 3.33
Buildings on freehold land	1,856,780	3,823 (112)	(363,272) (7,840)	- -	418,915	1,908,294	68,027	29,341 (112)	- (7,840)	56,232	145,647	1,762,647	5
Buildings on leasehold land	1,931,510	1,661 (5,240)	434,008 (184,470)	- -	5,529	2,182,998	128,822	97,074 (1,965)	- (184,470)	697 (483)	39,675	2,143,323	5
Lease hold improvement	1,169,850	305,714	-	-	19,449	1,495,013	255,760	149,724	-	9,929	415,414	1,079,600	10
Furniture and fixtures	917,948	107,900 (28,986)	- (27,508)	- -	8,745	978,099	464,913	83,230 (22,734)	-	4,595	530,004	448,095	10
Electrical, office and computer equipment	3,377,168	808,870 (52,476)	- (12,476)	- -	33,966	4,155,052	1,987,369	643,969 (42,430)	-	15,211	2,604,119	1,550,933	20-25
Vehicles	273,266	51,958 (59,579)	-	-	2,697	268,342	142,353	58,744 (43,971)	-	2,161	159,287	109,055	20
Assets held under: operating lease													
Ijarah assets - note 11.8	895,217	39,648 (104,750)	- (19,659)	- -	-	810,456	153,297	170,285 (27,516)	-	-	296,066	514,390	20 - 33.33
Finance lease Vehicles	5,280	70 (1,018)	-	-	-	4,332	2,644	1,022 (814)	-	-	2,852	1,480	20
2009	22,021,896	1,330,838 (369,854)	4,094,669 (1,138,288)	- -	491,094 -	26,430,355	3,510,632	1,539,029 (227,302)	- (715,373)	88,888 (1,758)	4,194,115	22,236,240	

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11.3 Intangible assets

2010

	Cost				Accumulated Amortization				Net book value at December 31, 2010	Annual rate of amorti-sation %
	At January 01, 2010	Additions/ (deletions)	Exchange Adjustment/ Other adjustments	At December 31, 2010	At January 01, 2010	Charge for the year / (reversal on deletion)	Exchange Adjustment/ Other adjustments	At December 31, 2010		
	(Rupees in '000)									
Software	1,052,072	672,056 (4,140)	19,899 -	1,739,887	560,561	224,017 (2,691)	16,990	798,877	941,010	10-25

2009

	Cost				Accumulated Amortization				Net book value at December 31, 2009	Annual rate of amorti-sation %
	At January 01, 2009	Additions/ (deletions)	Exchange Adjustment/ Other adjustments	At December 31, 2009	At January 01, 2009	Charge for the year / (reversal on deletion)	Exchange Adjustment/ Other adjustments	At December 31, 2009		
	(Rupees in '000)									
Software	783,858	268,895 (8,825)	8,144 -	1,052,072	378,611	185,985 (8,825)	4,790	560,561	491,511	10-25

11.4 Revaluation of properties

The properties of the Bank were last revalued by independent professional valuers as at December 31, 2009. The revaluation was carried out by M/s. Pirsons Chemicals Engineering (Private) Limited, M/s. Sadruddin Associates, M/s. Maricon Consultants (Private) Limited and M/s. Engineering Pakistan International (Private) Limited. These revaluations were based on professional assessment of present market values and resulted in a surplus of Rs.4,139.592 million.

The properties of UNBL were last revalued by an independent professional valuer as at December 31, 2010 by King Sturge. These revaluations were based on present market values and resulted in a surplus of Rs.414.843 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2010 would have been as follows:

		2010	2009
		(Rupees in '000)	
	Freehold land	1,484,906	1,484,906
	Leasehold land	9,168,903	9,472,729
	Buildings on freehold land	1,134,537	1,179,068
	Buildings on leasehold land	1,584,701	1,679,280
11.5	Carrying amount of temporarily idle properties of the Group	126,717	158,927
11.6	The cost of fully depreciated assets still in use		
	Furniture and fixtures	267,283	251,347
	Electrical, office and computer equipment	1,772,687	1,329,088
	Vehicles	69,474	33,601
		2,109,444	1,614,036

11.7 Details of disposals of operating fixed assets

The information relating to operating fixed assets disposed off during the year is given in Annexure 'C' and is an integral part of these consolidated financial statements.

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11.8 The Islamic Banking Branches of the Group have entered into Ijarah transactions with customers during the year. The majority of Ijarah transactions entered into are in respect of vehicles.

The ijarah payments receivable from customers for each of the following periods under the terms of the respective arrangements are given below:

	Note	2010	2009
		------- (Rupees in '000) -------	
Not later than one year		103,811	270,864
Later than one year but not later than five years		242,387	436,129
Later than five years		94	3,020
		346,292	710,013

12. DEFERRED TAX ASSET - NET

	Note	2010	2009
Deferred tax asset - net	12.1	1,298,247	649,814

12.1 Movement in temporary differences during the year

	Note	2010 At January 01, 2010	Recognised in profit and loss	Others	At December 31, 2010
		----------------------------- (Rupees in '000)			-----------------------------
Deductible temporary differences on					
- Recognized tax losses on subsidiary		41,473	(39,519)	(1,225)	729
- Deficit on revaluation of investments	21.2	1,066,434	-	95,868	1,162,302
- Ijarah financing		52,314	(66,685)	-	(14,371)
- Workers' Welfare Fund		139,142	5,598	-	144,740
- Cash flow hedge reserve		111,148	-	(41,603)	69,545
- Provision against off balance sheet items,					-
post retirement medical benefits and advances		4,665,734	542,187	-	5,207,921
		6,076,245	441,581	53,040	6,570,866
Taxable temporary differences on					
- Surplus on revaluation of fixed assets	21.1	(5,275,900)	136,794	(3,092)	(5,142,198)
- Accelerated tax depreciation		(150,531)	20,110	-	(130,421)
		(5,426,431)	156,904	(3,092)	(5,272,619)
		649,814	598,485	49,948	1,298,247

	Note	2009 At January 01, 2009	Recognised in profit and loss	Others	At December 31, 2009
		----------------------------- (Rupees in '000)			-----------------------------
Deductible temporary differences on					
- Recognized tax losses on subsidiary		114,713	-	(73,240)	41,473
- Deficit on revaluation of investments	21.2	3,201,075		(2,134,641)	1,066,434
- Ijarah financing		118,653	(66,339)	-	52,314
- Workers' Welfare Fund		117,950	21,192	-	139,142
- Cash flow hedge reserve		148,956	-	(37,808)	111,148
- Provision against off balance sheet items,					-
post retirement medical benefits and advances		2,659,482	2,006,252	-	4,665,734
		6,360,829	1,961,105	(2,245,689)	6,076,245
Taxable temporary differences on					
- Surplus on revaluation of fixed assets	21.1	(3,972,755)	136,238	(1,439,383)	(5,275,900)
- Accelerated tax depreciation		(223,926)	73,395	-	(150,531)
		(4,196,681)	209,633	(1,439,383)	(5,426,431)
		2,164,148	2,170,738	(3,685,072)	649,814

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13. OTHER ASSETS

	Note	2010	2009
		------- (Rupees in '000) -------	
Income / mark-up accrued in local currency		11,753,658	11,036,265
Income / mark-up accrued in foreign currency		1,227,402	361,643
		12,981,060	11,397,908
Advance taxation - net of provision for taxation	13.1	3,693,123	1,996,049
Receivable from staff retirement funds		66,595	1,045,899
Receivable on account of encashment of savings certificates		43,086	74,406
Receivable in respect of derivative transactions		31,121	124,977
Receivable against sale of securities		-	897,457
Receivable from other banks against telegraphic transfers and demand drafts		1,219,425	836,556
Unrealized gain on forward foreign exchange contracts		145,346	141,324
Unrealized gain on derivative financial instruments	19.4.1 & 23.2	693,675	499,671
Advance against Murabaha		-	383,929
Suspense accounts		237,439	187,143
Stationery and stamps on hand		151,528	143,825
Advances, deposits, advance rent and other prepayments		768,894	805,474
Non-banking assets acquired in satisfaction of claim	13.2	1,192,095	330,029
Receivable from non-controlling interest		-	10,312
Others		1,275,329	1,208,513
		22,498,716	20,083,472
Provision held against other assets	13.3	(2,352,444)	(2,633,892)
Other assets (net of provisions)		20,146,272	17,449,580

13.1 The Income Tax returns of the Bank have been filed up to the tax year 2010 (accounting year ended December 31, 2009) and were deemed to be assessed under section 120 of the Income Tax Ordinance, 2001 (Ordinance) unless amended by the Commissioner of Inland Revenue.

The tax authorities have issued the amended assessment orders for the tax years 2003 to 2010 (accounting year ended December 31, 2002 to 2009) determining additional tax liability of Rs.7,308 million. The amount has been fully paid as required under the law. For the tax years 2004 to 2009, appeals have been decided by the Commissioner of Inland Revenue [CIR(A)] by allowing relief on certain issues. For the remaining issues, the Bank has filed an appeal before the Appellate Tribunal Inland Revenue (ATIR). For the tax years 2003 and 2010, the hearing is still pending with CIR (A). The management is confident that the appeals will be decided in favor of the Bank.

During the year, the tax authorities have further amended the assessment order for the tax year 2009 adding back unrealized losses on derivative transactions resulting in a demand of Rs.146 million, which has been paid. CIR(A) has upheld the order of the taxation officer, however, the Bank is in the process of filing an appeal before ATIR. The Management is confident that this matter will be decided in favor of the Bank.

The tax returns for Azad Kashmir (AK) Branches have been filed for tax years 2005 to 2010 (financial years ended December 31, 2004 to 2009) under the provisions of section 120(1) read with section 114 of the Ordinance and in compliance with the terms of agreement between banks and the Azad Kashmir Council in May 2005. The returns filed are considered as deemed assessment orders under the law.

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The Seventh Schedule to the Ordinance has been amended through the Finance Act, 2010. Through this amendment, provision for advances and off balance sheet exposures would be allowed @ 5% of advances to consumer and small and medium enterprises (SMEs), and 1% for other advances. The said change will be applicable from current year. A deferred tax asset of Rs.2,574 million has been recognized relating to amounts in excess of the allowable limits which is carried forward to future years.

The Bank also carries a tax asset amounting to Rs.5,454 million (2009: Rs.5,454 million), representing disallowance of provisions against advances and off balance sheet obligations, for the periods prior to the applicability of the Seventh schedule. The Management, in consultation with its tax advisors, is confident that these would be allowed to the Bank at appellate levels.

		Note	2010	2009
			------- (Rupees in '000) -------	
13.2	Market value of non-banking assets acquired in satisfaction of claims		1,221,295	359,908
13.3	**Provision against other assets**			
	Opening balance		2,633,892	2,473,775
	Exchange adjustments		8,638	32,381
			2,642,530	2,506,156
	Charge for the year		40,598	361,391
	Reversals		(162,859)	(22,260)
		29	(122,261)	339,131
	Transfers		221,772	117,690
	Amounts written off		(389,597)	(329,085)
	Closing balance		2,352,444	2,633,892

14. CONTINGENT ASSETS

There were no contingent assets as at the balance sheet date.

15. BILLS PAYABLE

	2010	2009
In Pakistan	4,136,487	4,944,903
Outside Pakistan	938,213	221,458
	5,074,700	5,166,361

16. BORROWINGS

	2010	2009
In Pakistan	43,401,942	30,953,356
Outside Pakistan	4,229,872	6,214,921
	47,631,814	37,168,277

16.1 Particulars of borrowings with respect to currencies

	2010	2009
In local currency	43,401,942	30,953,356
In foreign currencies	4,229,872	6,214,921
	47,631,814	37,168,277

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		Note	2010	2009
			------- (Rupees in '000) -------	
16.2	**Details of borrowings from financial institutions**			
	Secured			
	Borrowings from the State Bank of Pakistan under			
	- Export refinance scheme	16.3	14,840,163	14,666,570
	- Refinance facility for modernization of SME	16.4	27,500	-
	- Long-term fixed finance	16.5	2,444,872	1,018,535
	- Long-term financing under export oriented projects	16.6	2,770,789	3,705,568
			20,083,324	19,390,673
	Repurchase agreement borrowings	16.7	22,412,235	5,066,098
			42,495,559	24,456,771
	Unsecured			
	Call borrowings	16.8	428,195	8,679,283
	Overdrawn nostro accounts		452,682	688,082
	Trading liabilities		806,942	96,586
	Other borrowings	16.9	3,448,436	3,247,555
			5,136,255	12,711,506
			47,631,814	37,168,277

16.3 The Bank has entered into agreements with the SBP for extending export finance to customers. As per the terms of the agreement, the Bank has granted the SBP the right to recover the outstanding amounts from the Bank at the date of maturity of the finances by directly debiting the current account maintained by the Bank with the SBP. These borrowings are repayable within six months, latest by June 2011. These carry markup rates at 9% per annum (2009: 7.5% per annum).

16.4 These borrowings have been obtained from the SBP for modernization of Small and Medium Enterprises (SMEs) by providing financing facilities for purchase of new plant and machinery for BMR of existing units and setting up of new units. In addition, financing for import /local purchase of new generators upto a maximum capacity of 500 KVA shall also be eligible under this Scheme. These borrowings are repayable within a period ranging from 3 years to 10 years and the Scheme will remain effective up to December 31, 2012. These carry markup rates ranging from 5.5% to 7.0% per annum.

16.5 These borrowings have been obtained from the SBP for providing financing facilities to exporters for adoption of new technologies and modernizing their plant and machinery. These borrowings are repayable within a period ranging from 3 years to 10 years. These carry markup rates ranging from 8.2% to 9.5% per annum (2009: 7.2% to 7.7% per annum).

16.6 These borrowings have been obtained from the SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof by export oriented units. These carry markup rates ranging from 4% to 5% per annum (2009: 4% to 5% per annum).

16.7 These repurchase agreement borrowings are secured against Market Treasury Bills and Pakistan Investment Bonds and carry mark-up at rates ranging from 12.50% to 13.25% per annum (2009: 11.50% to 12.40% per annum). These borrowings are repayable latest by January 2011. The carrying value of securities given as collateral is given in note 9.1.

16.8 These are borrowings pertaining to overseas operations which carry mark-up at rates ranging from 0.35% to 1.58% per annum (2009: 0.5% to 0.6% per annum) and are due to mature latest by June 2011.

16.9 This includes borrowing from an overseas bank for the development of Small and Medium Sized Enterprises (SMEs) in Pakistan, carries mark-up at the rate of six months LIBOR + 1.2% (2009: six months LIBOR + 1.2%) and is repayable by June 2013.

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17. DEPOSITS AND OTHER ACCOUNTS

	2010	2009
	------- (Rupees in '000) -------	
Customers		
Fixed deposits	169,880,101	155,634,121
Savings deposits	195,535,049	179,752,604
Sundry deposits	4,767,873	4,643,923
Margin deposits	3,696,330	4,319,476
Current accounts - remunerative	4,235,253	2,820,934
Current accounts - non-remunerative	184,647,813	154,283,090
	562,762,419	501,454,148
Financial Institutions		
Remunerative deposits	2,359,999	1,529,551
Non-remunerative deposits	2,488,840	847,973
	4,848,839	2,377,524
	567,611,258	503,831,672

17.1 Particulars of deposits and other accounts

	2010	2009
In local currency	415,661,258	368,267,813
In foreign currencies	151,950,000	135,563,859
	567,611,258	503,831,672

18. SUB-ORDINATED LOANS - UNSECURED

	Note	Issue Date	Tenor	Rate % per annum	Maturity	Frequency of principal redemption	2010	2009
							------- (Rupees in '000) -----	
Term Finance Certificates - I	18.1	August 2004	8 years	8.45%	August 2012	Semi Annual	1,995,388	1,996,160
Term Finance Certificates - II	18.1	March 2005	8 years	9.49%	March 2013	Semi Annual	1,999,560	1,999,640
Term Finance Certificates - III	18.1	September 2006	8 years	6 months KIBOR+1.70%	September 2014	Semi Annual	1,996,800	1,997,600
Term Finance Certificates - IV	18.2	February 2008	10 Years	For the first five years 6 months KIBOR+0.85% and for the remaining term, 6 months	February 2018	Semi Annual	5,994,000	5,996,400
							11,985,748	11,989,800

18.1 These represent listed Term Finance Certificates (TFCs) issued by the Group. The liability of the Group is subordinated as to the payment of principal and profit to all other indebtedness of the Group (including deposits) and is not redeemable before maturity without approval of the State Bank of Pakistan.

18.2 This represents listed Term Finance Certificates (TFCs) issued by the Group. The liability of the Group is subordinated as to the payment of principal and profit to all other indebtedness of the Group (including deposits). The Group has the right to exercise a call option after a period of 5 years from the issue date.

19. OTHER LIABILITIES

	Note	2010	2009
		------- (Rupees in '000) -------	
Mark-up / return / interest payable in local currency		8,427,554	7,015,580
Mark-up / return / interest payable in foreign currency		334,899	349,630
Accrued expenses	19.1	2,283,207	1,686,129
Branch adjustment account		1,399,052	839,346
Payable against purchase of securities		236,683	197,722
Payable under severance scheme		32,563	33,452
Unearned commission		151,611	221,434
Provision against off - balance sheet obligations	19.2	669,891	682,141
Unrealized loss on forward foreign exchange contracts		664,027	207,567
Deferred liabilities	19.3	2,113,439	2,098,414
Unrealised loss on derivative financial instruments	19.4.1 & 23.2	753,854	557,414
Workers' Welfare Fund payable		418,384	404,622
Insurance payable against consumer assets		183,095	393,288
Others		283,684	260,088
		17,951,943	14,946,827

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19.1 This includes an accrual of Rs.255 million (2009: Rs.216 million) for the year ended December 31, 2010 in respect of employee benefit scheme. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of the Bank. The liability of the Group in respect of this scheme is fixed and is approved each year by the Board of Directors of the Bank. The scheme for each year is managed by a separate Trust formed for this purpose.

19.2 Provision against off - balance sheet obligations

	Note	2010	2009
		------- (Rupees in '000) -------	
Opening balance		682,141	651,697
Charge during the year	29	-	20,250
Transfers during the year		-	10,194
		-	30,444
Payments during the year		(12,250)	-
		669,891	682,141

19.3 Deferred liabilities

	Note	2010	2009
Provision for post retirement medical benefits	36.1.5	1,139,616	1,147,095
Provision for gratuity		296,671	219,411
Provision for compensated absences	36.1.5	677,152	731,908
		2,113,439	2,098,414

19.4 Unrealized gain / (loss) on derivative financial instruments

	Contract/ Notional amount 2010	Contract/ Notional amount 2009	Unrealised gain / (loss) 2010	Unrealised gain / (loss) 2009
	---------------------- (Rupees in '000) ----------------------			
Derivatives held for trading				
- Interest rate swaps	6,985,703	11,014,381	(111,793)	(187,593)
- Cross currency swaps	35,570,843	36,372,837	51,100	143,894
- Swaptions	-	2,527,248	-	(14,044)
- Fx options	4,110,884	821,070	-	-
- Forward sale contracts of government securities	441,981	-	514	-
19.4.1	47,109,411	50,735,536	(60,179)	(57,743)

19.4.1 Unrealized loss on derivative financial instruments - net

	Note	2010	2009
		------- (Rupees in '000) -------	
Unrealized gain on derivative financial instruments	13	693,675	499,671
Unrealized loss on derivative financial instruments	19	(753,854)	(557,414)
	23.2	(60,179)	(57,743)

20. SHARE CAPITAL

20.1 Authorized Capital

2010	2009		2010	2009
----- Number of shares -----			------- (Rupees in '000) -------	
2,000,000,000	2,000,000,000	Ordinary shares of Rs.10 each	20,000,000	20,000,000

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20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs. 10 each

2010	2009		2010	2009
----- Number of shares -----			------- (Rupees in '000) -------	
		Fully paid-up ordinary shares of Rs.10 each		
518,000,000	518,000,000	Issued for cash	5,180,000	5,180,000
706,179,687	594,890,625	Issued as bonus shares	7,061,798	5,948,907
1,224,179,687	1,112,890,625		12,241,798	11,128,907

20.3 During the year 2007, the Bank was admitted to the official list of the UK Listing Authority and to the London Stock Exchange Professional Securities Market for trading of Global Depository Receipts (GDRs), each representing four ordinary equity shares issued by the Bank. The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S Securities Act of 1933 and an offering outside the United States in reliance on Regulation S.

Holders of GDRs are entitled, subject to the provision of the depository agreement, to receive dividends, if any, and rank pari passu with other equity shareholders in respect of such entitlement to receive dividends. However, the holders of GDRs have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Subject to the terms and restrictions set out in the offering circular dated June 25, 2007, the deposited equity shares in respect of which the GDRs were issued may be withdrawn from the depository facility. Upon withdrawal, the holders will rank pari passu with other equity shareholders in respect of voting powers. As at December 31, 2010: 78,503,082 (2009: 92,519,435) GDR shares were in issue.

20.4 Major shareholders (holding more than 5% of total paid-up capital)

	2010		2009	
Name of shareholders	**Number of shares held**	**Percentage of shareholding**	**Number of shares held**	**Percentage of shareholding**
Government of Pakistan	238,567,381	19.49%	216,879,438	19.49%
Bestway (Holdings) Limited	222,775,183	18.20%	202,522,894	18.20%
Bestway Cement Limited	93,649,744	7.65%	85,136,131	7.65%
His Highness Shaikh Nahayan Mabarak Al Nahayan	78,942,102	6.45%	71,765,548	6.45%
H.E. Dr. Mana'a Saeed Al Otaiba	67,492,392	5.51%	61,356,720	5.51%
Sir Mohammed Anwar Pervez, OBE, HPk	62,433,163	5.10%	56,757,421	5.10%

As at December 31, 2010 the Abu Dhabi Group (ADG) held 30.30% (2009: 30.30%) shareholding (including GDRs) and the Bestway Group (Bestway) held 31.07% (2009: 31.07%) shareholding of the Bank.

ADG and Bestway (Holdings) Limited had entered into a Share Purchase Agreement dated December 28, 2010 for the sale of 20% of the issued and outstanding ordinary shares of the Bank held by ADG to Bestway (Holdings) Limited.

Subsequent to the statement of financial position date, Bestway held 51.07% of the issued and outstanding ordinary shares of the Bank whereas control shall continue to rest with the consortium of ADG and Bestway for which all regulatory approvals have been obtained.

21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF DEFERRED TAX

	Note	2010	2009
		------- (Rupees in '000) -------	
Surplus arising on revaluation of assets - net of tax :			
Fixed assets			
- Group's share		10,865,342	10,870,484
- Non-controlling interest		386,706	185,357
	21.1	11,252,048	11,055,841
Securities			
- Group's share		(2,159,801)	(1,976,173)
- Non-controlling interest		(1,014)	-
	21.2	(2,160,815)	(1,976,173)
(Deficit) / Surplus arising on revaluation of assets of associates		(84,263)	44,268
		9,006,970	9,123,936

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		Note	2010	2009
			------- (Rupees in '000) -------	
21.1	**Surplus on revaluation of fixed assets**			
	Surplus on revaluation of fixed assets at January 01		16,331,741	12,957,920
	Revaluation of fixed assets during the year / adjustments		467,625	3,646,052
	Exchange adjustments		(12,251)	146,055
	Written off during the year		-	(27,071)
	Transferred to unappropriated profit in respect of incremental depreciation charged during the year		(256,075)	(254,977)
	Related deferred tax liability of incremental depreciation charged during the year	12.1	(136,794)	(136,238)
			62,505	3,373,821
			16,394,246	16,331,741
	Less: Related deferred tax liability on:			
	Revaluation as on January 01		5,275,900	3,972,755
	Revaluation of fixed assets during the year		3,092	1,448,858
	Written off during the year		-	(9,475)
	Incremental depreciation charged on related assets		(136,794)	(136,238)
		12.1	5,142,198	5,275,900
			11,252,048	11,055,841
21.2	**Surplus / (Deficit) on revaluation of available-for-sale securities**			
	Market Treasury Bills		(55,830)	20,995
	Pakistan Investment Bonds		(1,937,605)	(1,129,224)
	Listed shares		(34,452)	95,326
	Mutual fund units		(709)	(2,302)
	Term Finance Certificates, Sukuk, other Bonds etc		(27,242)	(41,213)
	Overseas securities		(1,267,279)	(1,986,189)
			(3,323,117)	(3,042,607)
	Related deferred tax asset	12.1	1,162,302	1,066,434
			(2,160,815)	(1,976,173)

22. CONTINGENCIES AND COMMITMENTS

		2010	2009
22.1	**Direct credit substitutes**		
	Contingent liabilities in respect of guarantees given favouring		
	Government	8,742,208	10,831,974
	Banking companies and other financial institutions	5,766,641	2,910,518
	Others	6,124,874	7,396,201
		20,633,723	21,138,693
22.2	**Transaction-related contingent liabilities**		
	Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
	Government	82,423,478	77,448,985
	Banking companies and other financial institutions	2,470,740	3,311,075
	Others	14,018,380	18,521,775
		98,912,598	99,281,835
22.3	**Trade-related contingent liabilities**		
	Contingent liabilities in respect of letters of credit opened favouring		
	Government	58,188,686	56,186,541
	Banking companies and other financial institutions	760,593	-
	Others	69,387,773	62,787,741
		128,337,052	118,974,282

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		2010	2009
		------- (Rupees in '000) -------	
22.4	**Other contingencies**		
	Claims against the Group not acknowledged as debts	29,938,014	20,670,923

22.5 Commitments in respect of forward lending

The Group makes commitments to extend credit 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.

		2010	2009
22.6	**Commitments in respect of forward foreign exchange contracts**		
	Sale	85,906,329	47,499,455
	Purchase	131,134,706	92,086,590
22.7	**Commitments in respect of derivatives**		
	Interest rate swaps	6,985,703	11,014,381
	Cross currency swaps	35,570,843	36,372,837
	Swaptions	-	2,527,248
	FX Options - purchased	2,055,442	410,535
	FX Options - sold	2,055,442	410,535
	Forward sale contracts of government securities	441,981	-
22.8	**Commitments in respect of capital expenditure**	576,398	575,176

22.9 For contingencies relating to taxation refer note 13.1

23. DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the Pakistan derivatives market. Although the ADD license covers the below mentioned transactions only (permitted under Financial Derivatives Business Regulations issued by the SBP), the Group offers a wide variety of derivative products to satisfy customers’ needs, specific approval for which is sought from the SBP on a transaction by transaction basis:

(a) Foreign Currency Options
(b) Forward Rate Agreements
(c) Interest Rate Swaps
(d) Cross Currency Swaps
(e) Equity indices
(f) Commodity options

These transactions cover both the aspects of market making and hedging.

The authority for approving policies lies with the Board of Directors (BoD) and Board Risk Management Committee (BRMC), who has delegated its powers to the Market Risk Committee (MRC).

With regard to derivatives, the MRC is authorized to:

- Review the derivatives business with reference to market risk exposure and assign various limits in accordance with the risk appetite of the Bank.
- Review and approve the Derivatives Business Policy
- Review and sign off derivatives product programs
- Authorize changes in procedures and processes regarding derivatives and structured products

Overall responsibility for derivatives trading activity lies with the Treasury and Capital Markets Group (TCM). Identifying and quantifying market risk on derivatives, coordinating approvals on temporary or permanent market risk limits, formulation of policies and procedures with respect to market risk arising from derivatives, formal monitoring of market and credit risk exposure and limits and its reporting to the senior management and BoD is done by the Treasury and Market Risk (TMR) Department. Treasury Operations records derivative activity in the Group's books, and handles its reporting to the SBP.

Derivative Risk Management

There are a number of risks undertaken by the Group, which need to be monitored and assessed, which include:

Credit Risk

Credit risk refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in an adverse impact on the Group’s profitability. Credit risk associated with derivative transactions is categorized into settlement risk and pre-settlement risk. Credit limit proposals for derivative transactions are reviewed by Head Market and Treasury Risk who recomends the appropriate limits to the Credit Committee for approval. Credit exposure of each counterparty is estimated and monitored by Treasury Middle Office on daily basis. Settlement risk is also mitigated by netting off the amounts receivable and payable i.e., the net amount is either received or paid.

Market Risk

The Group, as a policy, hedges back-to-back all Options transactions. The Group also does not carry any exchange risk on its Cross Currency Swaps portfolio as it hedges the exposure in the interbank market. To manage interest rate risk of Interest Rate Derivatives the Group has implemented various limits which are monitored and reported by Treasury Middle Office on daily basis.

Liquidity Risk

Derivative transactions, usually being non-funded in nature, do not involve funds therefore there is no specific risk of liquidity.

However, there is another aspect of liquidity which is the availability of certain instruments or hedges in the market. This is relevant to the Pakistan market, as interest rate derivatives have a uni-directional demand, and no perfect hedge is available. The Group mitigates its risk, on one side, by limiting the portfolio in terms of tenor, notional and sensitivity limits, and on the other side by taking on and off balance sheet positions in the interbank market, where available.

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. A state-of-the-art system has been put in place which handles derivative transactions. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from the policies and procedures. The Group’s Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices, end-user roles and responsibilities.

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The Bank has installed a state of the art derivatives system called 'Super Derivatives' which provides an end-to-end solution. Other than supporting the routine transactional process it also provides analytical tools to measure various risk exposures, stress tests and sensitivity analysis.

Treasury Middle Office produces various reports for higher management (BoD, BRMC, MRC, etc) on a periodic basis. These reports provide details of the derivatives business profile and various risk exposures.

23.1 Product Analysis

2010

	Interest rate swaps		Cross currency swaps		Swaptions		FX options		Forward sale contracts of government securities		
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Total Notional (Rupees in '000)
With Banks for											
Hedging	4	3,475,777	4	14,996,850	-	-	82	2,055,442	-	-	20,528,069
Market making	3	1,871,064	2	2,201,000	-	-	-	-	-	-	4,072,064
	7	5,346,841	6	17,197,850	-	-	82	2,055,442	-	-	24,600,133
With other entities											
Market Making	4	1,638,862	9	18,372,993	-	-	82	2,055,442	2	441,981	22,509,278
Total											
Hedging	4	3,475,777	4	14,996,850	-	-	82	2,055,442	-	-	20,528,069
Market making	7	3,509,926	11	20,573,993	-	-	82	2,055,442	2	441,981	26,581,342
	11	6,985,703	15	35,570,843	-	-	164	4,110,884	2	441,981	47,109,411

2009

	Interest rate swaps		Cross currency swaps		Swaption		FX options		Forward sale contracts of government securities		
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contract	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Total Notional (Rupees in '000)
With Banks for											
Hedging	8	7,740,900	4	14,571,600	-	-	4	410,535	-	-	22,723,035
Market making	4	2,206,208	5	2,335,884	1	2,527,248					7,069,340
	12	9,947,108	9	16,907,484	1	2,527,248	4	410,535	-	-	29,792,375
With other entities											
Market Making	8	1,067,273	8	19,465,353	-	-	4	410,535	-	-	20,943,161
Total											
Hedging	8	7,740,900	4	14,571,600	-	-	4	410,535	-	-	22,723,035
Market making	12	3,273,481	13	21,801,237	1	2,527,248	4	410,535	-	-	28,012,501
	20	11,014,381	17	36,372,837	1	2,527,248	8	821,070	-	-	50,735,536

23.2 Maturity analysis of derivatives

Remaining Maturity	2010				
	No. of contracts	Notional principal	Mark to market		
			(Loss)	Gain	Net
	(Rupees in '000)				
Upto 1 Month	66	1,152,095	-	514	514
1 to 3 Month	101	3,425,771	(360)	-	(360)
3 to 6 Month	1	9,091	(264)	-	(264)
6 Month to 1 Year	2	1,050,000	(27,191)	117	(27,074)
1 to 2 Year	2	6,921,500	(19,363)	220,133	200,770
2 to 3 Year	8	6,039,258	(60,313)	195,625	135,312
3 to 5 Year	4	8,883,870	(816)	254,858	254,042
5 to 10 Year	8	19,627,826	(645,547)	22,428	(623,119)
Above 10 Year	-	-	-	-	-
	192	47,109,411	(753,854)	693,675	(60,179)

Remaining Maturity	2009				
	No. of contracts	Notional principal	Mark to market		
			(Loss)	Gain	Net
	(Rupees in '000)				
Upto 1 Month	2	40,000	(918)	-	(918)
1 to 3 Month	11	979,704	-	2,150	2,150
3 to 6 Month	-	-	-	-	-
6 Month to 1 Year	7	1,225,196	(8,367)	21,138	12,771
1 to 2 Year	4	1,202,273	(61,448)	57	(61,391)
2 to 3 Year	2	6,975,000	(32,171)	119,516	87,345
3 to 5 Year	14	17,317,094	(145,045)	215,404	70,359
5 to 10 Year	6	22,996,269	(309,465)	141,406	(168,059)
Above 10 Year	-	-	-	-	-
	46	50,735,536	(557,414)	499,671	(57,743)

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		2010	2009
		------- (Rupees in '000) -------	
24.	**MARK-UP / RETURN / INTEREST EARNED**		
	On loans and advances to customers	40,375,630	45,815,220
	On lending to financial institutions		
	- Call money lending	75,784	300,863
	- Securities purchased under resale agreements	930,386	1,115,663
	- Advances to financial institutions	243,905	348,117
		1,250,075	1,764,643
	On investments in		
	- Held for trading securities	798,013	942,613
	- Available for sale securities	8,118,652	9,419,796
	- Held to maturity securities	9,169,756	3,510,314
	- Associates	3,828	18,532
		18,090,249	13,891,255
	On deposits with financial institutions	351,454	250,014
	Discount income	33,002	24,330
		60,100,410	61,745,462
25.	**MARK-UP / RETURN / INTEREST EXPENSED**		
	On deposits	19,138,026	22,335,927
	On securities sold under repurchase agreements	1,686,337	1,622,552
	On other short - term borrowings	3,009,529	2,615,138
	On long - term borrowings	1,428,292	1,514,905
	Discount expense	171,666	234,750
		25,433,850	28,323,272
26.	**GAIN ON SALE OF SECURITIES - NET**		
	Federal Government Securities		
	Market Treasury Bills	(598)	108,683
	Pakistan Investment Bonds	(12,899)	46,290
		(13,497)	154,973
	Ordinary shares		
	Listed companies	118,090	331,362
	Other securities	83,571	212,940
		188,164	699,275
27.	**OTHER INCOME**		
	Charges recovered from customers	768,840	1,162,018
	Rent on properties	155,590	166,361
	Income from dealing in derivatives	501,118	1,721,740
	Others	144,183	96,691
		1,569,731	3,146,810

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28. ADMINISTRATIVE EXPENSES

	Note	2010	2009
		------- (Rupees in '000) -------	
Personnel cost			
Salaries, allowances etc.	28.1	7,799,700	7,586,763
Charge for compensated absences	36.1.8	152,261	418,143
Medical expenses		384,422	377,104
Contribution to defined contribution plan		132,641	517,083
Reversal in respect of defined benefit obligations		(276,975)	(329,554)
		8,192,049	8,569,539
Premises cost			
Rent, taxes, insurance, electricity etc.		2,336,782	2,090,735
Depreciation	11.2	589,384	581,780
Repairs and maintenance		95,852	98,038
		3,022,018	2,770,553
Other operating cost			
Outsourced service charges including sales commission		1,520,532	1,313,164
Advertisement and publicity		794,271	231,939
Communications		783,934	764,049
Depreciation	11.2	987,600	957,249
Legal and professional charges		300,169	233,312
Banking service charges		407,414	336,749
Stationery and printing		450,659	354,134
Travelling		192,471	178,392
Cash transportation charges		292,392	343,558
Repairs and maintenance		143,726	130,702
Maintenance contracts		509,225	362,105
Insurance expense		94,477	174,956
Vehicle expense		132,446	107,213
Amortization	11.3	224,017	185,985
Training and seminars		53,390	53,887
Office running expense		199,895	152,455
Entertainment		104,718	98,112
Cartage, freight and conveyance		68,378	68,553
Auditors' remuneration	28.3	61,257	62,662
Subscriptions		32,665	37,417
Brokerage expenses		17,153	19,772
Sub-ordinated debt related costs		7,086	7,990
Donations	28.2	82,696	58,020
Non-executive Directors' fee and allowances		42,993	54,090
Finance charges on leased assets		147	110
Miscellaneous expenses		278,883	176,672
		7,782,594	6,463,247
		18,996,661	17,803,338

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28.1 This includes employee benefits in the form of awards / bonus to all permanent staff including the Chief Executive Officer and is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate benefit determined in respect of all permanent staff amounted to Rs.571.276 million (2009: Rs.318.812 million).

28.2 Donations exceeding Rs.0.1 million

	Note	2010	2009
		------- (Rupees in '000) -------	
Karachi Education Initiative	28.2.1	40,000	40,000
UBL Flood Relief Campaign		28,142	-
Police Hospital Fund		5,000	-
The Citizens Foundation		2,200	-
Hisaar Foundation		1,086	550
Friends of Burns Centre		1,008	1,728
Family Education Services Foundation		900	900
Marie Adelaide Leprosy Centre		850	850
Lahore University of Management Sciences		815	315
Patient Welfare Association		800	-
SOS Childrens' Villages of Sindh		581	451
Edhi Foundation		550	-
Glückskette - Switzerland		410	-
Special Olympics Pakistan		200	-
Umeed-e-Noor		150	-
Karachi City Police		-	9,793
Shalamar Hospital		-	545
Sun Development Foundation		-	483
Institute of Business Administration		-	360
		82,692	55,975

28.2.1 The President is a Director on the Board of the Karachi Education Initiative, a sponsoring and fund raising entity of the Karachi School for Business and Leadership.

28.3 Auditors' remuneration

	2010			
	Ernst & Young Ford Rhodes Sidat Hyder	BDO Ebrahim & Co.	Overseas Auditors	Total
	------------ (Rupees in '000) ------------			
Audit fee	5,738	5,738	45,361	56,837
Fee for audit of EPZ branch	250	-	-	250
Fee for audit of domestic subsidiaries	-	502	-	502
Out of pocket expenses	1,725	1,709	234	3,668
	7,713	7,949	45,595	61,257

	2009			
	Ernst & Young Ford Rhodes Sidat Hyder	BDO Ebrahim & Co.	Overseas Auditors	Total
	------------ (Rupees in '000) ------------			
Audit fee	5,738	5,738	47,087	58,563
Fee for audit of EPZ branch	221	-	-	221
Fee for audit of domestic subsidiaries	-	328	-	328
Out of pocket expenses	1,868	1,682	-	3,550
	7,827	7,748	47,087	62,662

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	Note	2010	2009
		------- (Rupees in '000) -------	
29. OTHER PROVISIONS / WRITE OFFS - Net			
(Reversal) / provision against other assets - net	13.3	(122,261)	339,131
Provision against off - balance sheet obligations	19.2	-	20,250
Other provisions / write offs		193,304	276,716
(Reversal) / provision against Ijara assets - specific		(803)	9,191
Reversal against Ijara assets - general		(2,127)	(3,014)
		68,113	642,274

30. WORKERS WELFARE FUND

Certain members of the Group are liable to pay Workers' Welfare Fund @ 2% of profit before tax as per the accounts or declared income as per the income tax return, whichever is higher, under the Workers' Welfare Ordinance, 1971.

31. OTHER CHARGES

	2010	2009
Penalties imposed by the SBP		
Pertaining to current year	107,491	25,535
Pertaining to prior year	128,000	39,000
	235,491	64,535
Other penalties	4,900	17
	240,391	64,552

32. TAXATION

	2010			
	Overseas	Azad Kashmir	Domestic	Total
	---------- (Rupees in '000) ----------			
Current tax	1,034,572	22,653	5,793,629	6,850,854
Prior year tax	414,937	-	392	415,329
Deferred tax	37,176	(239)	(635,422)	(598,485)
	1,486,685	22,414	5,158,599	6,667,698

	2009			
	Overseas	Azad Kashmir	Domestic	Total
	---------- (Rupees in '000) ----------			
Current tax	906,230	113,181	5,976,846	6,996,257
Prior year tax	78,598	-	112	78,710
Deferred tax	(7,677)	(684)	(2,162,377)	(2,170,738)
	977,151	112,497	3,814,581	4,904,229

32.1 Relationship between tax expense and accounting profit

	2010	2009
	------- (Rupees in '000) -------	
Accounting profit for the year	17,688,623	14,392,181
Tax on income @ 35% (2009: 35%)	6,191,018	5,037,263
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates / permanent difference	(58,487)	(316,009)
Prior year tax charge	415,329	78,710
Other charges	119,838	104,265
Tax charge	6,667,698	4,904,229

33. EARNINGS PER SHARE

	2010	2009
Profit after tax attributable to equity shareholders of the Bank	11,031,630	9,521,546
	----- (Number of shares) -----	
Weighted average number of ordinary shares	1,224,179,687	1,224,179,687
	------------ (Rupees) ------------	
Earnings per share - basic and diluted	9.01	7.78

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33.1 Diluted earnings per share has not been presented as the Group does not have any convertible instruments in issue at December 31, 2010 and 2009 which would have any effect on the earnings per share if the option to convert is exercised.

33.2 Earnings per share for the year 2009 has been restated for the effect of bonus shares issued during the current year.

	Note	2010	2009
		------- (Rupees in '000) -------	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	67,667,226	61,562,141
Balances with other banks	7	25,980,928	14,049,990
		93,648,154	75,612,131

	2010	2009
35. STAFF STRENGTH	------------ (Number) ------------	
Permanent	8,669	8,648
Contractual basis	104	90
Group's own staff strength at the end of the year	8,773	8,738
Outsourced	3,074	2,905
Total number of employees at the end of the year	11,847	11,643

36. EMPLOYEE BENEFITS

36.1 United Bank Limited

36.1.1 Defined benefit plan

36.1.2 General description

The Bank operates a funded pension scheme established in 1986. The Bank also operates a funded gratuity scheme for new employees and those employees who have not opted for the pension scheme. The Bank also operates a contributory benevolent fund scheme and provides post retirement medical benefits to eligible retired employees. The benevolent fund plan and the post-retirement medical plan cover all regular employees of the Bank who joined the Bank pre-privatisation. The Bank also maintains an employee compensated absences scheme. The liability of the Bank in respect of long-term employee compensated absences is determined based on actuarial valuation carried out using the Projected Unit Credit Method. Actuarial valuation of the defined benefit plan scheme is carried out every year and the latest valuation was carried out as at December 31, 2010.

36.1.3 Number of Employees under the scheme

The number of employees covered under the following defined benefit scheme / plans are:

	2010	2009
	------------ (Number) ------------	
- Pension fund	7,723	7,845
- Gratuity fund	5,589	5,416
- Benevolent fund	7,490	7,888
- Employee' compensated absences	6,708	6,942
- Post retirement medical benefit scheme	4,480	4,790

The Pension fund, benevolent fund and post retirement medical benefit schemes include 5,384 (2009: 5,372), 3,010 (2009: 3,098) and 2,228 (2009: 2,152) members respectively who have retired or whose widows are receiving the benefits.

36.1.4 Principal actuarial assumptions

The actuarial valuations were carried out as at December 31, 2010 based on the Projected Unit Credit Actuarial Cost Method, using the following significant assumptions:

	2010	2009
	---------- Per annum ----------	
Discount rate	14.50%	12.75%
Expected rate of return on plan assets	14.50%	12.75%
Expected rate of salary increase	12.50%	10.50%
Expected rate of pension increase	6.75%	5.00%

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36.1.5 Reconciliation of (receivable from) / payable to defined benefit plans

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	(Rupees in '000)				
Present value of funded obligations	3,598,231	417,733	420,778	-	-
Fair value of plan assets	(5,527,239)	(325,781)	(799,917)	-	-
	(1,929,008)	91,952	(379,139)	-	-
Present value of unfunded obligation	-	-	-	826,088	677,152
Net actuarial gains or (losses) not recognized	1,925,416	(100,137)	198,356	313,528	-
(Receivable) / payable	(3,592)	(8,185)	(180,783)	1,139,616	677,152

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	(Rupees in '000)				
Present value of funded obligations	3,585,208	365,292	459,080	-	-
Fair value of plan assets	(6,107,212)	(301,174)	(796,302)	-	-
	(2,522,004)	64,118	(337,222)	-	-
Present value of unfunded obligation	-	-		852,603	731,908
Net actuarial gains or (losses) not recognized	2,119,273	(79,620)	205,656	294,492	-
(Receivable) / payable	(402,731)	(15,502)	(131,566)	1,147,095	731,908

36.1.6 Movement in defined benefit obligation

	Note	2010				
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
		(Rupees in '000)				
Obligation at the beginning of the year		3,585,208	365,292	459,080	852,603	731,908
Current service cost		10,788	48,711	6,694	6,430	41,106
Interest cost		118,861	48,331	48,347	112,903	104,760
Benefits paid by the Bank		(333,708)	(61,513)	(73,242)	(100,658)	(207,017)
Recognition of prior service cost		-	-	-	-	-
Return allocated to other funds	36.1.9	232,232	-	-	-	-
Early retirement liability		-	-	-	-	-
Actuarial (gain) / loss on obligation		(15,150)	16,912	(20,101)	(45,190)	6,395
Obligation at the end of the year		3,598,231	417,733	420,778	826,088	677,152

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	(Rupees in '000)				
Obligation at the beginning of the year	3,625,280	384,786	529,647	875,509	613,602
Current service cost	10,051	46,619	7,103	5,914	34,461
Interest cost	156,655	53,312	62,995	103,084	110,245
Benefits paid by the Bank	(653,986)	(86,446)	(127,518)	(125,019)	(299,837)
Recognition of prior service cost	-	-	-	-	62,201
Return allocated to other funds	322,253	-	-	-	-
Early retirement liability	-	-	-	(24,242)	-
Actuarial (gain) / loss on obligation	124,955	(32,979)	(13,147)	17,357	211,236
Obligation at the end of the year	3,585,208	365,292	459,080	852,603	731,908

36.1.7 Movement in fair value of plan assets

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	(Rupees in '000)				
Fair value at the beginning of the year	6,107,212	301,174	796,302	-	-
Expected return on plan assets	642,077	40,904	87,822	-	-
Contribution by the Bank	-	68,631	5,450	-	-
Contribution by the employees	-	-	5,450	-	-
Amount paid by the fund to the Bank	(1,214,658)	(77,251)	(85,232)	-	-
Payment received on behalf of the fund	-	-	-	-	-
Actuarial gain / (loss) on plan assets	(7,392)	(7,677)	(9,875)	-	-
Fair value at the end of the year	5,527,239	325,781	799,917	-	-

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	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retire- ment medical	Employee compensated absences
	(Rupees in '000)				
Fair value at the beginning of the year	6,526,828	291,292	739,180	-	-
Expected return on plan assets	843,551	41,702	90,031	-	-
Contribution by the Bank	-	75,044	5,979	-	-
Contribution by the employees	-	-	5,979	-	-
Amount paid by the fund to the Bank	(1,272,621)	(119,390)	(122,924)	-	-
Payment received on behalf of the fund	-	-	-	-	-
Actuarial gain / (loss) on plan assets	9,454	12,526	78,057	-	-
Fair value at the end of the year	6,107,212	301,174	796,302	-	-

36.1.8 Movement in (receivable from) / payable to defined benefit plans

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	(Rupees in '000)				
Opening balance	(402,731)	(15,502)	(131,566)	1,147,095	731,908
Mark-up receivable on Bank's balance	(13,046)	(237)	(1,773)	-	-
Charge / (reversal) for the year	(468,765)	60,447	(53,984)	93,179	152,261
Contribution by the Bank	-	(68,631)	(5,450)	-	-
Amount paid by the Fund to the Bank	1,214,658	77,251	85,232	-	-
Payment received on behalf of the Bank	-	-	-	-	-
Benefits paid by the Bank	(333,708)	(61,513)	(73,242)	(100,658)	(207,017)
Closing balance	(3,592)	(8,185)	(180,783)	1,139,616	677,152

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retire- ment medical	Employee compensated absences
	(Rupees in '000)				
Opening balance	(414,783)	(40,318)	(89,177)	1,219,400	613,602
Mark-up receivable on Bank's balance	(22,731)	(846)	(99)	-	-
Charge / (reversal) for the year	(583,852)	67,762	(31,717)	52,714	418,143
Contribution by the Bank	-	(75,044)	(5,979)	-	-
Amount paid by the Fund to the Bank	1,272,621	119,390	122,924	-	-
Payment received on behalf of the Bank	-	-	-	-	-
Benefits paid by the Bank	(653,986)	(86,446)	(127,518)	(125,019)	(299,837)
Closing balance	(402,731)	(15,502)	(131,566)	1,147,095	731,908

36.1.9 Charge for defined benefit plans

		2010				
		Pension fund	Gratuity fund	Benevolent fund	Post retire- ment medical benefit	Employee compensated absences
		(Rupees in '000)				
Current service cost		10,788	48,711	6,694	6,430	41,106
Interest cost		118,861	48,331	48,347	112,903	104,760
Expected return on plan assets		(642,077)	(40,904)	(87,822)	-	-
Recognition of prior service cost		-	-	-	-	-
Actuarial (gains) and losses		(188,569)	4,309	(15,753)	(26,154)	6,395
Return allocated to other funds	36.1.9.1	232,232	-	-	-	-
Employees' contribution		-	-	(5,450)	-	-
Settlement loss / gains		-	-	-	-	-
		(468,765)	60,447	(53,984)	93,179	152,261

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	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	(Rupees in '000)				
Current service cost	10,051	46,619	7,103	5,914	34,461
Interest cost	156,655	53,312	62,995	103,084	110,245
Expected return on plan assets	(843,551)	(41,702)	(90,031)	-	-
Recognition of prior service cost	-	-	-	-	62,201
Actuarial (gains) and losses	(229,260)	9,533	(5,805)	(32,042)	211,236
Return allocated to other funds	322,253	-	-	-	
Employees' contribution	-	-	(5,979)	-	-
Settlement loss / gains	-	-	-	(24,242)	-
	(583,852)	67,762	(31,717)	52,714	418,143

36.1.9.1 This represents return allocated to those employees who exercised the conversion option offered in the year 2001 as referred to in note 5.11.1.

36.1.10 Actual return on plan assets

Amongst the defined benefit plans, the pension, gratuity and benevolent fund plans are funded. The actual return earned on the assets during the year are:

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	(Rupees in '000)				
Expected return on plan assets	642,077	40,904	87,822	-	-
Actual gain / (loss) on plan assets	(7,392)	(7,677)	(9,875)	-	-
	634,685	33,227	77,947	-	-

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	(Rupees in '000)				
Expected return on plan assets	843,551	41,702	90,031	-	-
Actual gain / (loss) on plan assets	9,454	12,526	78,057	-	-
	853,005	54,228	168,088	-	-

36.1.11 Five year data on surplus/ (deficit) of the plans and experience adjustments

Pension Fund	2010	2009	2008	2007	2006
	(Rupees in '000)				
Present value of defined benefit obligation	(3,598,231)	(3,585,208)	(3,625,280)	(4,343,529)	(4,433,583)
Fair value of plan assets	5,527,239	6,107,212	6,526,828	7,260,256	7,116,577
Surplus	1,929,008	2,522,004	2,901,548	2,916,727	2,682,994
Experience adjustments on plan liabilities [loss / (gain)]	(214,828)	89,216	(87,141)	126,265	238,500
Experience adjustments on plan assets [loss / (gain)]	57,726	(282,376)	(1,195)	(11,848)	(411,713)
Gratuity Fund					
Present value of defined benefit obligation	(417,733)	(365,292)	(384,786)	(399,289)	(437,373)
Fair value of plan assets	325,781	301,174	291,292	356,676	335,449
Surplus / (deficit)	(91,952)	(64,118)	(93,494)	(42,613)	(101,924)
Experience adjustments on plan liabilities [loss / (gain)]	36,338	137,106	43,905	27,782	33,547
Experience adjustments on plan assets [loss / (gain)]	6,400	96,896	55,290	(5,179)	10,979
Benevolent Fund					
Present value of defined benefit obligation	(420,778)	(459,080)	(529,647)	(564,591)	(670,979)
Fair value of plan assets	799,917	796,302	739,180	914,356	917,522
Surplus / (deficit)	379,139	337,222	209,533	349,765	246,543
Experience adjustments on plan liabilities [loss / (gain)]	1,505	(8,798)	138,712	(90,203)	(11,064)
Experience adjustments on plan assets [loss / (gain)]	2,737	(56,670)	144,550	(45,638)	(64,187)
Post retirement medical benefit					
Present value of defined benefit obligation	(826,088)	(852,603)	(875,509)	(1,202,462)	(1,298,048)
Experience adjustments on plan liabilities [loss / (gain)]	(26,232)	37,473	761	(67,904)	(37,633)
Employee compensated absences					
Present value of defined benefit obligation	677,152	731,908	613,602	843,193	1,074,258
Experience adjustments on plan liabilities [loss / (gain)]	-	-	-	-	-

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36.1.12 Effects of a 1% movement in assumed medical cost trend rates

Annual medical expense limit is based on frozen non-monetized basic pay of employees as on June 30, 2001. Accordingly, movement in medical cost trend rates would not affect current service cost, interest cost and defined benefit obligations.

36.1.13 Components of plan assets as a percentage of total plan assets

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical benefit	Employee compensated absences
	(Percentage)				
Government securities	6.58%	98.51%	95.35%	-	-
Units of mutual funds	5.20%	0.00%	0.00%	-	-
Ordinary shares of listed companies	0.68%	0.75%	2.55%	-	-
Term finance certificates	9.72%	0.73%	1.99%	-	-
Others (including bank balances)	77.82%	0.01%	0.11%	-	-
	100.00%	100.00%	100.00%	-	-

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical benefit	Employee compensated absences
	(Percentage)				
Government securities	15.95%	51.14%	41.32%	-	-
Units of mutual funds	24.98%	17.84%	45.40%	-	-
Ordinary shares of listed companies	0.62%	0.77%	3.63%	-	-
Term finance certificates	7.23%	29.35%	-	-	-
Others (including bank balances)	51.22%	0.90%	9.65%	-	-
	100.00%	100.00%	100.00%	-	-

As per the actuarial recommendations the expected return on plan assets was taken as 14.5% per annum on Pension Fund Assets, Gratuity Fund Assets and Benevolent Fund Assets. The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

36.1.14 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent scheme. Based on actuarial advice, the management estimates that the charge in respect of defined benefit plans for the year ended December 31, 2011 would be as follows:

	2011				
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical benefit	Employee compensated absences
	(Rupees in '000)				
Expected charge for the year	(410,926)	71,743	(59,992)	96,810	190,540

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36.2 United National Bank Limited Pension and Life Assurance Scheme for U.K Employees.

As part of the Shareholders' Agreement ("the Agreement") signed on November 09, 2001 between UNBL and the shareholders, United Bank Limited and National Bank of Pakistan, it was agreed that UNBL may participate as an associated employer in the United Bank Limited Pension and Life Assurance Scheme ("the Scheme") with effect from completion of the transfer of the businesses (November 19, 2001) ("the Completion Date"). The Scheme is classified as a defined benefit scheme providing benefits based on final pensionable salary.

Under the terms of the Agreement, UNBL is responsible for the funding requirements of the active members whose employment was transferred to UNBL on the Completion Date and for any new members admitted to the scheme after this date. United Bank Limited remains responsible for the funding of the deferred members as till the Completion Date.

No new members have been admitted to the scheme in the year ended December 31, 2010.

The last full actuarial valuation of the scheme was carried out at January 01, 2008 and was updated as at January 01, 2010 by a qualified actuary on the basis of triennial valuations using Projected Unit Credit Method. The major assumptions used by the actuary are as follows:

	2010	2009
	---------- Per annum ----------	
Discount rate	5.50%	5.60%
Rate of revaluation of pension in deferment	5.00%	5.00%
Expected rate of salary increase	0.00%	0.00%
Expected rate of pension increase	3.50%	3.70%
Price inflation	3.50%	3.70%

The assets and liabilities of the scheme noted below relate to those employees for whom the UNBL has a funding liability. The combined assets in the scheme and the expected rate of return were:

	2010		2009	
	Percentage	(Rupees '000)	Percentage	(Rupees '000)
Other - insurance policy	5.50%	512,198	5.60%	510,254
Total market value of assets		512,198		510,254
Actuarial value of liability		(610,152)		(654,625)
Gross pension liability		(97,954)		(144,371)
Related Deferred Tax Relief		27,475		40,473
Net pension liability		(70,479)		(103,898)

The asset value supplied by the insurance company for 2009 is on an ongoing basis. If the policy had been surrendered at December 31, 2010 the surrender value would have been Rs.512.198 million (2009: Rs.510.250 million). It is not UNBL's intention to surrender the policy.

36.2.1 Movement in surplus / (deficit) during the year

	2010	2009
	------- (Rupees in '000) -------	
Obligation at the beginning of the year	(103,897)	4,703
Current service cost	-	(14,089)
Past service cost	-	(28,178)
Interest (expense) / income	(8,431)	1,281
Employer`s contribution	-	21,262
Actuarial losses / (gains)	51,631	(121,679)
Exchange adjustment	(37,257)	(5,366)
Related deferred tax relief	27,475	38,169
Obligation at the end of the year	(70,479)	(103,897)

No directors were members of the defined benefit scheme during the year or as at December 31, 2010.

36.2.2 Analysis of the amount charged to operating profit

	2010	2009
	------- (Rupees in '000) -------	
Current service cost	-	14,089
Past service cost	-	28,178
Total operating charge	-	42,267

The defined benefit scheme is now closed to new entrants and future accrual has ceased from January 01, 2010. As a result of the curtailment in benefits UNBL recognised a past service cost of Rs.28.178 million in prior year.

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36.2.3 Analysis of the amount credited / (debited) to net interest income

	2010	2009
	------- (Rupees in '000) -------	
Expected return on pension scheme assets	26,609	29,331
Interest on pension scheme liabilities	(35,040)	(28,050)
Net return	(8,431)	1,281

36.3 UBL Fund Managers Limited

The latest actuarial valuation of the Company's gratuity fund has been carried out as at December 31, 2010 using the Projected Unit Credit Method. The main assumption used in the actuarial valuation are as follows:

36.3.1 Principal actuarial assumptions

The key assumptions used for actuarial valuation were as follows:

	2010	2009
	---------- Per annum ----------	
Discount rate	14.50%	12.75%
Expected rate of return on plan assets	14.50%	12.75%
Expected rate of salary increase	14.50%	12.75%

36.3.2 Reconciliation of payable to defined benefit plan

	2010	2009
	------- (Rupees in '000) -------	
Present value of defined benefit obligations	19,776	13,168
Fair value of plan assets	(11,619)	(7,246)
	8,157	5,922
Net actuarial losses not recognized	(2,749)	(1,131)
	5,408	4,791

36.3.3 Movement in defined benefit obligation

	2010	2009
Obligation at the beginning of the year	13,168	8,041
Current service cost	4,730	4,045
Interest cost	1,948	1,491
Benefits paid	(1,701)	(250)
Actuarial losses / (gains)	1,631	(159)
Obligation at the end of the year	19,776	13,168

36.3.4 Movement in the fair value of plan assets

	2010	2009
Fair value of plan assets at the beginning of the year	7,246	3,061
Expected return on plan assets	1,270	828
Contributions to the plan	4,791	2,930
Benefits paid	(1,701)	(250)
Actuarial gains	13	677
	11,619	7,246

36.3.5 Plan assets are comprise as follows:

	2010	2009
Debt	7,936	2,809
Cash	592	847
Equity	2,582	3,575
Others	509	15
	11,619	7,246

36.3.6 Charge for defined benefit plan

	2010	2009
Current service cost	4,730	4,045
Interest cost	1,948	1,491
Expected return on plan asset	(1,270)	(828)
Amortization of loss	-	83
	5,408	4,791
Actual return on plan assets	1,301	1,433

	2010	2009
	------- (Rupees in '000) -------	
36.3.7 Movement in net liability recognised		
Opening net asset	4,791	2,930
Expense recognised	5,408	4,791
Contribution to the fund made during the year	(4,791)	(2,930)
Closing net assets	5,408	4,791

37 OTHER EMPLOYEE BENEFITS

37.1 Defined contribution plan

The Bank operates a contributory provident fund scheme for 5,209 (2009: 5,356) employees who are not in the pension scheme. The employer and employee both contribute 8.33% of the basic salary to the funded scheme every month.

37.2 Employee Motivation and Retention Scheme

The Bank operates a long term motivation and retention scheme for its employees. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of the Bank .The liability of the Bank in respect of this scheme is fixed and approved each year by the Board of Directors of the Bank .The scheme is managed by separate Trusts formed in respect of each year. During the year, Rs.206.819 million (2009: Rs.40.212 million) and Rs.33.817 million (2009: Rs.6.409 million) were received by the executives and the chief executive respectively from the scheme. For further details, refer note 19.1.

37.3 Benazir Employees' Stock Option Scheme

The Government of Pakistan (GoP), being one of the shareholders of the Bank, decided to launch the Benazir Employees' Stock Option Scheme on August 14, 2009, whereby the GoP intends to transfer free of cost 26,391,483 shares of the Bank, including 26,025,533 shares held by the SBP as at December 31, 2010, to UBL Employees Empowerment Trust [the "Trust"].

As per the Trust Deed such shares will be allocated through Unit Certificates to eligible employees in proportion to their entitlement which will be based on length of service subject to certain restrictions. The Trust is entitled to receive dividends declared, of which 50 percent will be distributed amongst employees on the basis of units held. The balance 50 percent would be remitted to a Central Revolving Fund of the Privatization Commission of Pakistan for payment to employees at the time of end of service settlement on fulfilment of vesting conditions, against surrendered units with the shares underlying such surrendered units being transferred back to the GoP.

This generalized scheme being a government policy to provide empowerment to employees of State Owned Enterprises and other entities where the GoP has a shareholding, may attract the provisions of amended IFRS-2 (Share-based Payments). However, keeping in view the nature, characteristics, exceptions and manner of operation of the generalized scheme, the applicability of IFRS-2 to the said scheme is under consideration of the Institute of Chartered Accountants of Pakistan and the Securities and Exchange Commission of Pakistan.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fees	-	-	42,993	54,090	7,935	9,163
Managerial remuneration	61,349	61,287	-	-	2,899,401	2,691,546
Charge for defined benefit plan	1,001	1,001	-	-	215,447	231,579
Charge for defined contribution plan	1,880	1,880	-	-	77,172	62,835
Rent and house maintenance	4,750	2,375	-	-	399,407	345,490
Utilities	269	148	-	-	176,827	110,030
Medical	65	56	-	-	86,505	74,326
Conveyance	-	-	-	-	306,773	292,845
Reimbursement of children's education fees	1,106	5,928	-	-	-	-
Others	3,133	1,880	-	-	196,209	184,724
	73,553	74,555	42,993	54,090	4,365,676	4,002,538
Number of persons	1	1	9	7	1,360	1,246

The Bank's President / Chief Executive Officer and certain Executives are provided with free use of Group maintained cars and household equipment.

In addition to the above, all executives including Chief Executive Officer of the Bank, are also entitled to certain short and long term employee benefits which are disclosed in notes 36 and 37 to these financial statements.

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39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. Fair value of unquoted equity investments, is determined on the basis of break-up value of these investments as per the latest available audited financial statements. The provision for impairment of associates and other investments has been determined in accordance with the Group's accounting policy as stated in notes 4.2 and 5.8 to these consolidated financial statements respectively.

The fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of a current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 5.6 to these consolidated financial statements.

The repricing profile, effective rates and maturity of financial instruments are stated in note 44 to these consolidated financial statements.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since these are either short-term in nature or, in the case of customer loans and deposits, are frequently repriced.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the year ended December 31, 2010					
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Asset management	Others
	(Rupees in '000)					
Total income	471,169	2,647,783	32,132,512	9,208,767	370,918	764,339
Total expenses	(102,402)	(690,072)	(21,703,895)	(4,291,011)	(315,443)	(804,042)
Profit / (loss) before tax	368,767	1,957,711	10,428,617	4,917,756	55,475	(39,703)
Segment return on assets (ROA) (%)	5.4%	0.7%	1.1%	1.8%	7.4%	-
Segment cost of funds (%)	0.3%	8.0%	4.0%	10.7%	-	-

	For the year ended December 31, 2009					
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Asset management	Others
	(Rupees in '000)					
Total income	187,140	3,860,120	30,605,367	9,456,906	464,019	1,609,080
Total expenses	(641,566)	(831,738)	(21,643,892)	(7,302,410)	(300,779)	(1,070,066)
Profit / (loss) before tax	(454,426)	3,028,382	8,961,475	2,154,496	163,240	539,014
Segment return on assets (ROA) (%)	-5.4%	1.4%	1.0%	1.0%	21.6%	-
Segment cost of funds (%)	6.6%	9.3%	4.9%	10.0%	-	-

	As at December 31, 2010					
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Asset management	Others
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	5,004,302	257,667,931	199,958,760	265,008,433	483,062	30,811,271
Segment non performing loans (NPL)	-	2,002,017	21,787,039	24,810,869	-	13,153
Segment provision required against NPL	-	10,105	16,691,950	16,828,908	-	13,153
Segment liabilities	4,665,722	258,459,687	170,683,576	245,510,597	37,560	(29,101,679)

	As at December 31, 2009					
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Asset management	Others
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	7,166,858	166,715,474	219,950,038	247,434,473	495,052	26,360,866
Segment non performing loans (NPL)	-	-	19,342,444	20,709,293	-	13,500
Segment provision required against NPL	-	-	13,546,998	14,140,352	-	13,500
Segment liabilities	6,410,759	161,934,319	203,523,777	221,518,027	51,050	(20,334,384)

41. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, it acts as custodian for some of the Term Finance Certificates it arranges and distributes on behalf of its customers.

42. RELATED PARTY TRANSACTIONS

The Group has related party transactions with its associates, employee benefit plans (refer notes 36 and 37) and its directors and executive officers (including their associates).

Details of loans and advances to key management personnel, the companies or firms in which the Directors of the Group are interested as directors, partners or in case of private companies as members are given in note 10.8 to these consolidated financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 36 to these consolidated financial statements for the details of plans).

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42.1 RELATED PARTY TRANSACTIONS

Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2010			2009		
	Key management personnel	Associates	Other related parties	Key management personnel	Associates	Other related parties
	(Rupees in '000)					
Balances with other banks						
In saving accounts	-	-	2,773	-	-	-
Lendings to financial institutions						
Call Money Lendings	-	-	350,000	-	-	-
Investments In shares / mutual funds						
Opening balance	-	7,522,641	50,372	-	2,905,831	50,372
Investment made during the year	-	2,738,412	-	-	4,481,858	-
Investment sold / liquidated during the year	-	(2,434,051)	-	-	(380,751)	-
Equity method adjustment	-	(160,787)	-	-	515,703	-
Closing balance	-	7,666,215	50,372	-	7,522,641	50,372
Ordinary Shares	-	-	46,634			13,950
Term Finance Certificates	-	-	148,368	-	-	41,534
Advances						
Opening balance	102,750	-	-	148,875	-	-
Addition during the year	170,447	-	-	38,092	-	
Repaid during the year	(131,435)	-	-	(84,217)	-	-
Closing balance	141,762	-	-	102,750	-	-
Other Assets						
Interest markup accrued			4,656			2,103
Receivable from staff retirement funds	-	-	66,595	-	-	1,045,899
Prepaid insurance	-	1,368		-	18,759	-
Remuneration receivable from management of fund	-	14,398	-	-	15,256	-
Sales load receivable	-	304	-	-	3,913	-
Other receivable	-	-	-	-	108,522	-
Borrowings						
Opening balance	-	300,000	100,000	-	-	-
Borrowings during the year	-	2,100,000	-	-	1,650,000	1,100,000
Settled during the year	-	(2,400,000)	(100,000)	-	(1,350,000)	(1,000,000)
Closing balance	-	-	-	-	300,000	100,000
Overdrawn nostros	-	533	-	-	319	-
Deposits and other accounts						
Opening balance	19,365	164,877	56,453	20,149	147,701	308,347
Received during the year	444,766	31,725,811	34,749,151	258,920	15,508,596	1,151,870
Withdrawn during the year	(439,274)	(28,111,680)	(34,742,618)	(259,704)	(15,491,420)	(1,403,764)
Closing balance	24,857	3,779,008	62,986	19,365	164,877	56,453
Sub-ordinated loans	5	5,999	-	5	761,987	-
Other Liabilities						
Interest / markup payable on deposits	41	17,769	1,024	174	449	1,095
Interest / markup payable on borrowings	-	-	-	-	814	1,899
Interest / markup payable on sub-ordinated loans	-	167	-	-	36,497	-
Unrealised loss on derivative transactions	-	-	618,818	-	-	307,241
Provision for employee benefit scheme	-	-	250,000	-	-	210,000
Other payable	-	-	-	-	26,851	-

	2010			2009		
	Key management personnel	Associates	Other related parties	Key management personnel	Associates	Other related parties
	(Rupees in '000)					
Mark-up / return / interest earned	9,238	-	75,321	7,398	-	29,597
Dividend received	-	356,010	1,600	-	228,516	-
Net gain on sale of investment	-	2,393	-	-	-	-
Realised gain on derivative transactions	-	-	2,127,895	-	-	1,662,595
Remuneration received from management of fund	-	319,268	-	-	376,969	-
Sales load received	-	9,130	-	-	18,486	-
Other income	528	749	23	-	576	-
Mark-up / return / interest paid	716	242,488	8,984	389	69,402	816
Remuneration paid	336,588	-	-	268,383	-	-
Post employment benefits	12,224	-	-	10,286	-	-
Non-executive directors' fee and allowances	-	-	42,993	-	-	54,090
Net charge for defined contribution plans	-	-	104,035	-	-	416,114
Net reversal for the defined benefit plans	-	-	(402,939)	-	-	(493,415)
Payment for employee motivation and retention scheme	-	-	210,000	-	-	50,005
Other expenses						
Insurance premium paid	-	204,492	-	-	215,804	-
Insurance claims settled	-	164,859	-	-	217,907	-

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43. CAPITAL ADEQUACY

43.1 The Basel II Framework is applicable to the Bank whereby the Standardized Approach for reporting Capital Adequacy is currently implemented. Under the said approach, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach.

The Group's capital adequacy is reported using the rules and ratios provided by the State Bank of Pakistan.

The subsidiaries comply with the capital adequacy and risk management frameworks prescribed by their respective regulations in their jurisdictions.

The capital adequacy ratio is a measure of the amount of Group's capital expressed as a percentage of its risk weighted assets. Measuring capital adequacy requires risk mitigants to be applied to the amount of assets shown on a Group's balance sheet. These assets are then applied weightages according to the degree of inherent risk. The capital adequacy ratios compares the amount of eligible capital with the total of risk-weighted assets (RWAs).

The Group has developed Internal Capital Adequacy Assessment Process (ICAAP) as per the guidelines provided by the SBP. This framework has been approved by the Group's Board of Directors and submitted to the SBP. The Group additionally covers risk not yet included under Pillar I, so as to carry adequate capital to cater for any future business requirements. The Group will review the ICAAP framework on an annual basis and changes/updates will be recommended to the Basel II committee for onward submission to the Board of Directors.

The Group plans to move towards the Advanced Approach for Basel II, including the Foundation Internal Ratings Based Approach for credit risk, Internal Models Approach for market risk and the Alternate Standardized Approach for operational risk.

43.2 Capital Management

The objective of managing capital is to safeguard the Group's ability to continue as a going concern. It is the policy of the Group to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Statutory minimum capital and capital adequacy requirements

The SBP through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks / Development Finance Institutions to be raised to Rs.10 billion by the year ending December 31, 2013.

The paid-up capital of the Group for the year ended December 31, 2010 stood at Rs.12,241.798 million (2009: Rs.11,128.907 million) and is in compliance with SBP requirements. In addition, banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposure of the Banks. The Group's CAR as at December 31, 2010 was 15.04% (2009: 14.03%). The Group and its individually regulated operations have complied with all capital requirements throughout the year.

Tier 1 capital, includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits after deduction of book value of goodwill / intangibles, deficit on revaluation of available for sale investments and 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II framework.

Tier 2 capital includes general provisions for loan losses, reserves on the revaluation of fixed assets and equity investments, foreign exchange translation reserves and subordinated debts (upto maximum of 50% of total eligible tier 1 capital) after deduction of 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II Framework.

Tier 3 capital has also been prescribed by the SBP for managing market risk; however, the Group does not have any Tier 3 capital.

Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the SBP that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of credit risk, market risk and operational risk.

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43.3 Capital Adequacy Ratio

The capital adequacy ratio, calculated in accordance with the SBP's guidelines on capital adequacy was as follows:

	2010	2009
	------- (Rupees in '000) -------	
Regulatory capital base		
Tier I Capital		
- Fully paid up capital	12,241,798	11,128,907
- Statutory and general reserves as disclosed on the balance sheet	14,465,696	12,354,984
- Unappropriated profits	27,576,333	23,617,874
- Non-controlling interest	2,207,241	2,279,691
	56,491,068	49,381,456
Deductions:		
- Book value of intangibles	1,460,661	491,511
- Shortfall in provisions irrespective of relaxation provided	261,637	-
- Reciprocal cross holdings by banks	5,999	-
- 50 % of Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position	107,573	33,792
	1,835,870	525,303
Total eligible Tier 1 Capital	54,655,198	48,856,153
Supplementary Capital		
Tier II Capital		
- General provisions or general reserves for loan losses-up to maximum of 1.25% of risk weighted assets	1,425,496	569,195
- Revaluation reserves up to 45%	5,882,008	5,980,110
- Foreign exchange translation reserve	9,765,294	9,019,387
- Subordinated debt - upto maximum of 50% of total eligible Tier 1 capital	7,852,176	8,300,938
- Cash flow hedge reserve	(198,695)	(317,562)
Total Tier II Capital	24,726,279	23,552,068
Deductions:		
- 50 % of Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position	107,573	33,792
	107,573	33,792
Total eligible Tier 2 Capital	24,618,706	23,518,276
Total Eligible Capital	79,273,904	72,374,429

Risk weighted exposures		Capital requirements		Risk weighted assets	
	Note	**2010**	**2009**	**2010**	**2009**
Credit risk		---------- (Rupees in '000) ----------			
Claims on:					
Federal and Provincial Government, SBP and Other Sovereigns – in foreign currency		1,910,721	1,304,341	19,107,205	13,043,410
Public Sector Enterprises		1,285,319	1,197,023	12,853,191	11,970,232
Banks		3,588,852	2,591,925	35,888,515	25,919,253
Corporate		23,688,885	25,181,850	236,888,847	251,818,497
Retail portfolio		3,428,589	4,683,906	34,285,894	46,839,059
Secured by residential property		174,425	196,697	1,744,250	1,966,966
Past due loans		1,945,383	1,429,507	19,453,834	14,295,066
Listed equity investments		932,518	908,622	9,325,181	9,086,220
Unlisted equity investments		83,345	66,274	833,448	662,736
Investments in fixed assets		2,322,391	2,324,257	23,223,905	23,242,572
Other assets		673,872	682,561	6,738,724	6,825,606
		40,034,300	40,566,963	400,342,994	405,669,617
Market risk					
Interest rate risk		2,355,478	1,830,566	29,443,475	22,882,079
Equity exposure risk		305,596	337,635	3,819,945	4,220,436
Foreign exchange risk		949,623	673,653	11,870,288	8,420,665
		3,610,697	2,841,854	45,133,708	35,523,180
Operational risk		6,524,466	5,980,740	81,555,828	74,759,246
		50,169,463	49,389,557	527,032,530	515,952,043

Capital adequacy ratio		
Total eligible regulatory capital held	79,273,904	72,374,429
Total risk weighted assets	527,032,530	515,952,043
Capital adequacy ratio	**15.04%**	**14.03%**

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43.4. Credit Risk - General Disclosures

The Group follows the standardized approach for all its Credit Risk Exposures. The standardized approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels. Where no external rating is available, a 100% risk weight is used.

Under the standardized approach, the capital requirement is based on the credit rating assigned to counterparties by External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. The Group selects particular ECAI(s) for each type of claim. In this connection, the Group utilizes the credit ratings assigned by ECAIs such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company Limited – Vital Information Systems), Fitch, Moody's and Standard & Poors. The Group also utilizes rating scores of Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits".

Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

Long – Term Rating Grades Mapping

SBP Rating grade	Fitch	Moody's	S & P	PACRA	JCR-VIS	ECA Scores
1	AAA	Aaa	AAA	AAA	AAA	0
	AA+	Aa1	AA+	AA+	AA+	1
	AA	Aa2	AA	AA	AA	
	AA-	Aa3	AA-	AA-	AA-	
2	A+	A1	A+	A+	A+	2
	A	A2	A	A	A	
	A-	A3	A-	A-	A-	
3	BBB+	Baa1	BBB+	BBB+	BBB+	3
	BBB	Baa2	BBB	BBB	BBB	
	BBB-	Baa3	BBB-	BBB-	BBB-	
4	BB+	Ba1	BB+	BB+	BB+	4
	BB	Ba2	BB	BB	BB	
	BB-	Ba3	BB-	BB-	BB-	
5	B+	B1	B+	B+	B+	5
	B	B2	B	B	B	6
	B-	B3	B-	B-	B-	
6	CCC+ and below	Caa1 and below	CCC+ and below	CCC	CCC	7
				CC	CC	
				C	C	
					D	

Short – Term Rating Grades Mapping

SBP Rating Grade	Fitch	Moody's	S & P	PACRA	JCR-VIS
S1	F1	P-1	A-1+	A-1+	A-1+
			A-1	A-1	A-1
S2	F2	P-2	A-2	A-2	A-2
S3	F3	P-3	A-3	A-3	A-3
S4	Others	Others	Others	Others	Others

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Types of exposures and ECAI's used

	JCR-VIS	PACRA	FITCH	Moody's	ECA scores
Corporate	✓	✓	✓	-	-
Banks	✓	✓	✓	✓	-
Sovereigns	-	-	-	-	✓
PSE	✓	✓	-	-	-

Credit exposures subject to Standardized Approach

Exposures	Rating category	2010 Amount outstanding	2010 Deduction CRM	2010 Net amount	2009 Amount outstanding	2009 Deduction CRM	2009 Net amount
		(Rupees in '000)			(Rupees in '000)		
Cash and Cash Equivalents	-	14,472,104	-	14,472,104	13,813,277	-	13,813,277
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	-	121,556,124	12,686,226	108,869,898	62,121,705	6,228,951	55,892,754
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	-	5,043,830	-	5,043,830	4,487,971	-	4,487,971
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	1	207,144	-	207,144	1,946,332	-	1,946,332
	2	3,063,371	-	3,063,371	12,669,156	-	12,669,156
	3	7,766,882	-	7,766,882	-	-	-
	4,5	-	-	-	6,668,157	(22,570)	6,690,727
	6	9,743,058	2,332	9,740,726	2,528,342	-	2,528,342
	Unrated	-	-	-	26,338	-	26,338
		20,780,455	2,332	20,778,123	23,838,325	(22,570)	23,860,895
Corporate	0	-	-	-	-	-	-
	1	24,189,772	2,437,971	21,751,801	15,388,248	9,092	15,379,156
	2	22,955,606	191	22,955,415	6,182,276	107,907	6,074,369
	3,4	1,081,533	-	1,081,533	1,679,117	-	1,679,117
	5,6	1,456,141	75,002	1,381,139	1,182,235	-	1,182,235
	Unrated	235,683,438	17,775,900	217,907,538	270,537,693	28,284,682	242,253,011
		285,366,490	20,289,064	265,077,426	294,969,569	28,401,681	266,567,888
Banks	0	-	-	-	-	-	-
	1	46,327,423	17,890,757	28,436,666	37,788,122	22,769,911	15,018,211
	2,3	36,295,927	2,470,749	33,825,178	26,124,854	47,116	26,077,738
	4,5	7,171,065	1,162,030	6,009,035	3,506,514	576	3,505,938
	6	-	-	-	-	-	-
	Unrated	14,559,116	-	14,559,116	12,899,955	158,346	12,741,609
		104,353,531	21,523,536	82,829,995	80,319,445	22,975,949	57,343,496
Claims on banks with maturity less than 3 months and denominated in foreign currency	1,2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	-	-	-	-	-	-
		-	-	-	-	-	-
Public sector	0	-	-	-	-	-	-
	1	89,861	193	89,668	6,656,459	589,581	6,066,878
	2,3	4,666	2,678	1,988	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	81,359,035	55,690,508	25,668,527	66,982,129	45,468,416	21,513,713
		81,453,562	55,693,379	25,760,183	73,638,588	46,057,997	27,580,591
Retail	75%	48,894,320	3,179,795	45,714,525	65,720,344	3,268,265	62,452,079
	35%	4,983,571	-	4,983,571	5,619,903	-	5,619,903
		53,877,891	3,179,795	50,698,096	71,340,247	3,268,265	68,071,982
Equity Investments							
- Listed	100%	9,325,181	-	9,325,181	9,086,220	-	9,086,220
- Unlisted	150%	555,632	-	555,632	441,824	-	441,824
		9,880,813	-	9,880,813	9,528,044	-	9,528,044
Past due loans							
- Less than 20%	150%	4,923,887	1,450,172	3,473,715	3,576,454	212,420	3,364,034
- Between 20% to 50%	100%	11,380,748	9,844	11,370,904	11,399,342	4,191,246	7,208,096
- More than 50%	50%	3,677,090	-	3,677,090	25,846,230	23,347,721	2,498,509
		19,981,725	1,460,016	18,521,709	40,822,026	27,751,387	13,070,639
Past due loans secured against mortgage of residential property:							
- past due for more than 90 days	100%	560,433	-	560,433	626,876	80,912	545,964
- past due by 90 days	50%	946,757	-	946,757	891,713	400,312	491,401
		1,507,190	-	1,507,190	1,518,589	481,224	1,037,365
All Fixed Assets	100%	23,223,905	-	23,223,905	23,242,572	-	23,242,572
Others		6,738,724		6,738,724	8,372,309	1,546,703	6,825,606
Total		748,236,344	114,834,348	633,401,996	708,012,667	136,689,587	571,323,080

Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Group has adopted the Comprehensive Approach of Credit Risk Mitigation for the Banking Book. No credit risk mitigation benefit is taken in the Trading Book. In instances where the Group’s exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Comprehensive Approach of CRM, then the Group reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. the risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

Cash, lien on deposits, government securities and eligible guarantees etc. are considered as eligible collateral under the Comprehensive Approach of Credit Risk Mitigation. The Group has in place detailed guidelines with respect to valuation and management of these types of collateral. In order to be prudent, the Group calculates the Credit Risk Mitigation benefit using the realizable value of eligible collateral.

44. RISK MANAGEMENT

This section presents information about the Bank's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default

- Market risk is the risk of loss arising from adverse movements in market variables such as interest rates, exchange rates and equity indices

- Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when due

- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

- Equity position risk is the risk that arises due to changes in prices of individual stocks or levels of equity indices.

Managing risk continues to present a major challenge to the entire banking industry. Success in the banking business depends on how well an institution manages its risks. The main goal is not to eliminate risk, but rather to be proactive in identifying, assessing and managing risks to the organisation's strategic advantage at the optimum.

The Bank has an integrated risk management structure in place. The Board Risk Management Committee oversees the whole risk management process of the Bank. The Risk & Credit Policy Group assists the Board Risk Management Committee. The Bank is organized into the functions of Credit Administration, Market and Treasury Risk, Commercial and FIRMU Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II. Each risk category is headed by a senior manager who reports directly to the Group Executive, Risk and Credit Policy. The role of the Risk and Credit Policy Group includes:

- Determining guidelines relating to Bank's appetite for risk.

- Recommending risk management policies in accordance with the Basel-II framework and international best practices.

- Reviewing policies/ manuals and ensuring that these are in accordance with the risk management policies.

- Developing systems and resources to review the key risk exposures of the Group.

- Approving credits.

- Granting approval authority to qualified and experienced individuals.

- Reviewing the adequacy of credit training across the Group.

- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.

- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

44.1 Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer or counterparty is either unwilling to perform an obligation or its ability to perform such an obligation is impaired resulting in an economic loss to the Group.

The credit risk management process is driven by the Group's Credit Policy, which provides policies and procedures in relation to credit initiation, approval, documentation and disbursement, credit maintenance and remedial management.

The Credit risk function is organized into Corporate, Commercial/SME and Retail credit. Corporate and Retail credit functions are centrally organized while the Commercial credit function is organized regionally across the network. Individual credit authorities are delegated by the Board according to seasoning/maturity of respective credit officers.

The Group manages, limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and to industries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographical region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Limits are also applied in a variety of forms to portfolios or sectors where the Group considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

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44.2 Segmental information

44.2.1 Segments by class of business

	2010					
	Gross Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	6,217,583	1.65%	8,389,268	1.48%	6,082,131	1.12%
Agri business	53,034,196	14.09%	33,824,201	5.96%	315,807	0.06%
Textile spinning	17,497,654	4.65%	1,289,002	0.23%	5,058,213	0.93%
Textile weaving	6,722,278	1.79%	2,477,437	0.44%	4,289,442	0.79%
Textile composite	23,145,685	6.15%	330,764	0.06%	814,737	0.15%
Textile others	13,780,445	3.66%	2,182,465	0.38%	3,740,450	0.69%
Cement	6,803,468	1.81%	1,908,802	0.34%	2,801,403	0.52%
Sugar	8,153,681	2.17%	3,078,292	0.54%	358,817	0.07%
Shoes and leather garments	2,447,523	0.65%	2,216,787	0.39%	298,515	0.06%
Automobile and transportation equipment	4,516,043	1.20%	3,027,770	0.53%	4,940,641	0.91%
Financial	4,989,842	1.33%	16,853,440	2.97%	299,486,924	55.26%
Insurance	-	0.00%	22,443,630	3.95%	43,143	0.01%
Electronics and electrical appliances	2,399,152	0.64%	3,265,744	0.58%	1,541,579	0.28%
Production and transmission of energy	39,057,078	10.37%	17,157,862	3.02%	58,716,619	10.83%
Paper and allied	789,310	0.21%	2,189,563	0.39%	660,772	0.12%
Surgical and metal	2,265,932	0.60%	1,450,750	0.26%	335,306	0.06%
Contractors	4,263,223	1.13%	16,640,821	2.93%	19,463,140	3.59%
Wholesale traders	20,811,787	5.53%	36,074,167	6.36%	1,319,555	0.24%
Fertilizer dealers	6,823,565	1.81%	8,494,701	1.50%	677,458	0.12%
Sports goods	803,919	0.21%	840,738	0.15%	17,885	0.00%
Food industries	6,858,339	1.82%	3,931,436	0.69%	3,699,826	0.68%
Airlines	6,033,039	1.60%	308,457	0.05%	108,106	0.02%
Cables	661,900	0.18%	96,185	0.02%	744,510	0.14%
Construction	21,866,860	5.81%	8,675,833	1.53%	10,260,326	1.89%
Containers and ports	1,813,903	0.48%	1,543,051	0.27%	2,974,909	0.55%
Engineering	1,531,426	0.41%	3,472,111	0.61%	1,618,692	0.30%
Glass and Allied	301,653	0.08%	385,593	0.07%	220,958	0.04%
Hotels	2,708,633	0.72%	1,223,853	0.22%	438,627	0.08%
Infrastructure	2,273,671	0.60%	4,285,714	0.76%	31,461,991	5.81%
Media	620,575	0.16%	365,056	0.06%	40,879	0.01%
Polyester and fibre	1,980,509	0.53%	623,175	0.11%	78,234	0.01%
Telecommunication	11,333,927	3.01%	3,894,923	0.69%	1,167,952	0.22%
Individuals	68,881,652	18.30%	278,129,372	49.00%	18,590,080	3.43%
Others	25,091,573	6.66%	76,540,295	13.48%	59,604,206	11.00%
	376,480,024	100.00%	567,611,258	100.00%	541,971,833	100.00%

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	2009					
	Gross Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	6,081,931	1.56%	11,971,327	2.38%	1,235,141	0.27%
Agri business	50,894,347	13.03%	21,026,267	4.17%	48,362	0.01%
Textile spinning	19,541,766	5.00%	1,225,983	0.24%	3,153,486	0.70%
Textile weaving	7,788,745	1.99%	804,049	0.16%	3,307,899	0.73%
Textile composite	21,246,034	5.44%	965,467	0.19%	244,588	0.05%
Textile others	13,090,077	3.35%	1,981,459	0.39%	2,521,137	0.56%
Cement	6,508,094	1.67%	988,097	0.20%	1,471,077	0.33%
Sugar	7,068,609	1.81%	2,360,348	0.47%	16,915	0.00%
Shoes and leather garments	2,200,397	0.56%	1,827,377	0.36%	11,522	0.00%
Automobile and transportation equipment	5,574,069	1.43%	4,318,840	0.86%	1,306,428	0.29%
Financial	5,679,937	1.45%	11,835,140	2.35%	262,516,211	58.29%
Insurance	-	0.00%	13,802,720	2.74%	37,673	0.01%
Electronics and electrical appliances	2,159,288	0.55%	7,076,567	1.40%	1,931,037	0.43%
Production and transmission of energy	41,179,308	10.55%	19,932,300	3.96%	20,328,644	4.51%
Paper and allied	1,125,589	0.29%	1,016,292	0.20%	267,165	0.06%
Surgical and metal	567,366	0.15%	1,553,961	0.31%	95,659	0.02%
Contractors	2,600,466	0.67%	18,104,119	3.59%	20,133,503	4.47%
Wholesale traders	11,749,311	3.01%	26,658,663	5.29%	1,383,149	0.31%
Fertilizer dealers	5,729,029	1.47%	9,516,985	1.89%	1,461,840	0.32%
Sports goods	432,121	0.11%	868,470	0.17%	70,510	0.02%
Food industries	7,470,504	1.91%	3,231,634	0.64%	2,241,180	0.50%
Airlines	5,569,645	1.43%	1,621,206	0.32%	118,910	0.03%
Cables	379,600	0.10%	225,097	0.04%	255,330	0.06%
Construction	26,087,924	6.68%	7,793,699	1.55%	7,829,209	1.74%
Containers and ports	95,855	0.02%	1,223,696	0.24%	1,036,486	0.23%
Engineering	1,496,050	0.38%	3,124,994	0.62%	3,093,417	0.69%
Glass and Allied	444,982	0.11%	914,092	0.18%	316,022	0.07%
Hotels	2,747,484	0.70%	1,018,965	0.20%	303,976	0.07%
Infrastructure	2,507,584	0.64%	4,547,147	0.90%	32,018	0.01%
Media	-	0.00%	448,233	0.09%	77,411	0.02%
Polyester and fibre	3,403,956	0.87%	409,196	0.08%	117,122	0.03%
Telecommunication	8,557,307	2.19%	3,526,634	0.70%	25,329,025	5.62%
Individuals	81,411,045	20.85%	269,979,202	53.59%	3,361,186	0.75%
Others	39,105,533	10.01%	47,933,446	9.51%	84,734,076	18.81%
	390,493,953	100.00%	503,831,672	100.00%	450,387,314	100.00%

44.2.2 Segment by Sector

	2010					
	Gross Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	64,910,148	17.24%	73,257,674	12.91%	84,238,317	15.54%
Private	311,569,876	82.76%	494,353,584	87.09%	457,733,516	84.46%
	376,480,024	100.00%	567,611,258	100.00%	541,971,833	100.00%

	2009					
	Gross Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	66,948,105	17.14%	50,369,132	10.00%	63,563,612	14.11%
Private	323,545,848	82.86%	453,462,540	90.00%	386,823,702	85.89%
	390,493,953	100.00%	503,831,672	100.00%	450,387,314	100.00%

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

	2010		2009	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	---------------------------- (Rupees in '000) ----------------------------			
Chemical and pharmaceuticals	226,502	196,114	309,349	177,596
Agri business	1,430,020	903,057	1,508,525	862,526
Textile spinning	5,417,208	4,479,514	5,017,860	3,927,267
Textile weaving	910,470	873,022	888,722	867,460
Textile composite	5,210,214	2,337,315	998,902	765,271
Textile others	2,282,350	1,937,098	2,935,380	2,365,528
Cement	-	-	4,450	4,450
Sugar	33,638	33,638	33,638	33,638
Shoes and leather garments	226,903	224,110	241,948	180,321
Automobile and transportation equipment	726,577	650,422	1,019,508	704,676
Financial	2,166,734	64,132	59,305	22,348
Electronics and electrical appliances	365,354	345,164	542,892	428,957
Production and transmission of energy	3,049,109	2,981,719	2,927,748	1,942,137
Paper and allied	179,264	113,240	173,212	116,438
Surgical and metal	-	-	1,775	1,775
Wholesale traders	1,167,377	881,274	1,024,613	648,018
Fertilizer dealers	7,490	6,878	6,182	4,364
Sports goods	128,325	128,325	280,675	279,310
Food industries	1,258,725	964,667	795,442	781,194
Construction	3,885,120	1,134,507	4,106,175	1,249,378
Engineering	440,297	410,139	353,454	353,454
Glass and Allied	24,527	12,264	29,796	14,899
Hotels	485,993	113,086	489,493	116,586
Polyester and fibre	1,751,479	1,743,679	1,702,376	1,668,561
Individuals	13,241,553	9,817,528	11,145,588	8,073,785
Others	3,997,849	3,193,224	3,468,229	2,110,913
	48,613,078	33,544,116	40,065,237	27,700,850

44.2.4 Details of non performing advances and specific provision by sector

	2010		2009	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	---------------------------- (Rupees in '000) ----------------------------			
Public / Government	-	-	-	-
Private	48,613,078	33,544,116	40,065,237	27,700,850
	48,613,078	33,544,116	40,065,237	27,700,850

44.2.5 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan operations	14,702,642	553,501,773	39,841,245	428,490,945
Middle East	2,655,182	138,860,848	24,430,003	108,368,163
United States of America	173,800	3,158,076	1,322,216	2,586,153
Karachi Export Processing Zone	34,109	487,149	331,686	232,152
Europe	122,890	29,381,797	9,209,030	2,294,420
	2,985,981	171,887,870	35,292,935	113,480,888
	17,688,623	725,389,643	75,134,180	541,971,833

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan operations	11,804,300	484,433,342	32,231,500	368,991,478
Middle East	2,322,795	130,479,211	25,356,043	77,206,577
United States of America	111,414	2,138,970	1,259,785	320,870
Karachi Export Processing Zone	58,448	708,459	321,518	166,269
Europe	95,224	22,661,929	8,149,517	3,702,120
	2,587,881	155,988,569	35,086,863	81,395,836
	14,392,181	640,421,911	67,318,363	450,387,314

Total assets employed include intra group items of Rs.Nil.

44.3 Market Risk

Market risk is the uncertainity that the Group may experience due to movements in market prices. It results from changes in interest rates, exchange rates, equity prices and volatilities of individual market factors as well as the correlations between them. Each component of risk includes a general market risk and a specific aspect of market risk that originates in the portfolio structure of a bank.

Measuring and controlling market risk is usually carried out at the portfolio level. However, certain controls are applied, where necessary, to individual risk types, to particular books and to specific exposures. Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price, volatility, market depth and liquidity. These controls also include limits on exposure to individual market risk variables ('risk factors') as well as on concentrations of tenors, issuers etc.

Trading activities are centered in the Treasury and Capital Markets (TCM) Group to faclitate clients as well as run proprietary positions. The Group is active in the cash and derivative markets for equity, interest rate and foreign exchange.

Market and Treasury Risk (MTR) division performs market risk management activities. The division is composed of two units, i.e., Market Risk Management and Treasury Middle Office. The Market Risk Management unit is responsible for the development and review of market risk policies and processes, and is involved in research, financial modeling and testing/implementation of risk management systems. Treasury Middle Office is responsible for monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, and MIS reporting.

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The scope of market risk management is as follows:

- To keep the market risk exposure within the Group's risk appetite as assigned by the Board of Directors (BoD) and the Board Risk Management Committee (BRMC).

- To implement Risk Management policies approved by the BoD and BRMC jointly with the senior management through Market Risk Committee (MRC).

- To review new product proposals, propose/recommend/approve procedures for market risk management. Various limits are assigned to different businesses on a product-portfolio basis. The products are approved through product programs, where risks are identified and limits and parameters are set. Any transaction/ product falling beyond the Product Policy Manual are approved through separate transaction / product memos.

- To develop, review and upgrade procedures for effective implementation of market risk management policy. It also includes implementation of an Enterprise Risk Management solution for market risk.

- To maintain a comprehensive database for performing risk analysis, stress testing and scenario analysis. Stress testing activities are performed on a quarterly basis which also includes banking book along-with trading book.

44.3.1 Foreign Exchange Risk

	2010			
	Assets	**Liabilities**	**Off - balance sheet items**	**Net foreign currency exposure**
	---------------------------------- (Rupees in '000)	----------------------------------		
Pakistan Rupee	543,967,513	469,783,294	(10,416,912)	63,767,307
US Dollar	51,721,592	39,509,427	(12,599,803)	(387,638)
Pound Sterling	25,215,268	24,991,638	7,056,742	7,280,372
Japanese Yen	10,406	7,916	1,053	3,543
Euro	2,731,292	5,970,493	3,414,013	174,812
UAE Dirham	73,556,548	82,624,436	8,968,295	(99,593)
Bahrain Dinar	9,079,631	11,750,538	2,654,725	(16,182)
Qatari Riyal	3,541,983	3,746,636	256,878	52,225
Other Currencies	15,565,410	11,871,085	665,009	4,359,334
	725,389,643	650,255,463	-	75,134,180

	2009			
	Assets	**Liabilities**	**Off - balance sheet items**	**Net foreign currency exposure**
	---------------------------------- (Rupees in '000)	----------------------------------		
Pakistan Rupee	544,326,154	477,308,787	(11,086,237)	55,931,130
US Dollar	33,366,944	33,073,859	(544,997)	(251,912)
Pound Sterling	18,293,044	18,760,474	9,339,081	8,871,651
Japanese Yen	315,278	275,066	(41,117)	(905)
Euro	1,040,133	4,601,339	3,497,421	(63,785)
UAE Dirham	3,078,195	2,121,758	(1,061,846)	(105,409)
Bahrain Dinar	18,850,218	18,874,901	-	(24,683)
Qatari Riyal	795,762	-	(842,508)	(46,746)
Other Currencies	20,356,183	18,087,364	740,202	3,009,021
	640,421,911	573,103,548	-	67,318,363

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Foreign Exchange Risk is the uncertainty that the Group is exposed to due to changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

The Group is an active participant in currency cash and derivatives markets and carries currency risk from these trading activities, conducted primarily by Treasury and Capital Markets Group. These trading exposures are subject to prescribed stress tests and sensitivity analysis.

The Group's reporting currency is the Pakistani Rupee, but its assets, liabilities, income and expenses are denominated in different currencies. Treasury and Capital Markets Group from time to time, proactively hedges significant expected foreign currency earnings / costs within a time horizon of up to one year, in accordance with the instructions of the SBP and subject to pre-defined limits.

44.3.2 Equity position risk

Equity position risk arises due to changes in prices of individual stocks or levels of equity indices. The Group’s equity book comprises of Held for Trading (HFT) & Available for Sale (AFS) portfolios. The objective of the HFT portfolio is to make short-term capital gains, whilst the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. Separate product program manuals have been developed to discuss in detail the objectives and policies, risks and mitigants, limits and controls for the equity portfolios the Group.

44.3.3 Yield / Interest Rate Risk

Interest rate risk is the uncertainty resulting from changes in interest rates, including changes in the shape of yield curves. Interest rate risk is inherent in many of the Group's businesses and arises from factors such as mismatches between contractual maturities or re-pricing of on and off balance sheet assets and liabilities. Interest rate risk arises mainly through HTM investments, advances and deposits. The interest sensitivity profile is prepared on a quarterly basis based on the re-pricing or maturities of assets and liabilities.

The objective of yield / interest rate risk management is to minimize adverse variances in the Group's profitability. Interest rate risk in the banking book is managed by performing periodic gap analysis, sensitivity analysis and stress testing.

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44.3.4 Mismatch of interest rate sensitive assets and liabilities

	Effective yield/ Interest rate	Total	2010 Exposed to Yield / Interest risk: Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years	Non-interest bearing financial instruments
	%	(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.28%	67,667,226	-	-	-	-	-	-	-	-	-	67,667,226
Balances with other banks	0.7%	25,980,928	19,533,240	4,239,309	211,360	-	-	-	-	-	-	1,997,019
Lendings to financial institutions	9.2%	12,384,778	5,170,604	2,679,720	732,223	1,284,550	2,165,956	145,058	206,667	-	-	-
Investments	11.0%	231,717,214	14,349,668	75,393,453	82,847,477	15,846,289	3,619,142	3,650,019	4,572,191	17,912,130	3,961,636	9,565,209
Advances	11.7%											
Performing		326,441,450	52,735,525	186,687,213	57,323,119	11,909,154	4,178,645	7,623,532	5,875,584	34,180	74,498	-
Non Performing		15,068,962	-	-	-	-	-	-	-	-	-	15,068,962
Operating fixed assets - Ijara assets	6.55%-25.00%	692,584	346,292	9,765	18,603	26,533	48,910	125,787	80,692	35,908	94	-
Other assets	0%	14,227,854	-	-	-	-	-	-	-	-	-	14,227,854
		694,180,996	92,135,329	269,009,460	141,132,782	29,066,526	10,012,653	11,544,396	10,735,134	17,982,218	4,036,228	108,526,270
Liabilities												
Bills payable	0%	5,074,700	-	-	-	-	-	-	-	-	-	5,074,700
Borrowings	11.0%	47,631,814	28,608,736	5,596,108	7,670,247	544,798	332,891	855,859	569,933	3,336,625	-	116,617
Deposits and other accounts	4.0%	567,611,258	113,347,019	129,330,528	63,404,043	51,534,152	3,044,356	2,281,413	2,358,697	8,692,490	-	193,618,560
Subordinated loans	11.91%	11,985,748	-	7,991,228	-	665,040	1,330,080	1,999,400	-	-	-	
Liabilities against assets subject to finance lease	0.00%	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	0%	15,747,885	-	-	-	-	-	-	-	-	-	15,747,885
		648,051,405	141,955,755	142,917,864	71,074,290	52,743,990	4,707,327	5,136,672	2,928,630	12,029,115	-	214,557,762
On-balance sheet gap		46,129,591	(49,820,426)	126,091,596	70,058,492	(23,677,464)	5,305,326	6,407,724	7,806,504	5,953,103	4,036,228	(106,031,492)
Non financial net assets		29,004,589										
Total net assets		75,134,180										
Off-balance sheet financial instruments												
Interest Rate Derivatives - Long position		6,985,703	2,000,000	1,129,713	380,183	-	500,000	1,000,000	-	1,975,807	-	-
Interest Rate Derivatives - Short position		(6,985,703)	-	(1,629,713)	(1,880,183)	(1,000,000)	-	(1,000,000)	-	(1,475,807)	-	-
Cross Currency Swap - Long position		35,570,843	5,255,285	24,893,088	5,422,470	-	-	-	-	-	-	-
Cross Currency Swap - Short Position		(35,570,843)	(5,255,285)	(24,893,088)	(5,422,470)	-	-	-	-	-	-	-
Swaptions - Long Position		-	-	-	-	-	-	-	-	-	-	-
Swaptions -Short Position		-	-	-	-	-	-	-	-	-	-	-
FX Options - Long position		2,055,442	-	-	-	-	-	-	-	-	-	2,055,442
FX Options - Short position		(2,055,442)	-	-	-	-	-	-	-	-	-	(2,055,442)
Commodity options - Long position		-	-	-	-	-	-	-	-	-	-	-
Commodity options - Short position		-	-	-	-	-	-	-	-	-	-	-
Equity Indices - Long position		-	-	-	-	-	-	-	-	-	-	-
Equity Indices - Short position		-	-	-	-	-	-	-	-	-	-	-
Forward Rate Agreements-Short position		-	-	-	-	-	-	-	-	-	-	-
Forward Rate Agreements-Long position		-	-	-	-	-	-	-	-	-	-	-
Forward Purchase of Govt. Securities		-	-	-	-	-	-	-	-	-	-	-
Forward Sale of Govt. Securities		(441,981)	-	(441,981)	-	-	-	-	-	-	-	-
Foreign currency forward sales		(85,906,329)	(48,388,154)	(32,245,519)	(5,246,944)	(25,712)	-	-	-	-	-	-
Foreign currency forward purchases		131,134,706	52,344,200	50,772,312	26,823,607	1,149,200	45,387	-	-	-	-	-
Off-balance sheet gap		44,786,396	5,956,046	17,584,812	20,076,663	123,488	545,387	-	-	500,000	-	-
Total Yield/Interest Risk Sensitivity Gap		90,915,987	(43,864,380)	143,676,408	90,135,155	(23,553,976)	5,850,713	6,407,724	7,806,504	6,453,103	4,036,228	(106,031,492)
Cumulative Yield/Interest Risk Sensitivity Gap			(43,864,380)	99,812,028	189,947,183	166,393,207	172,243,920	178,651,644	186,458,148	192,911,251	196,947,479	90,915,987

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.

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	2009											
	Effective yield/ Interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial instruments
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years	
	%	(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.01%	61,562,141	15,707,909	-	-	-	-	-	-	-	-	45,854,232
Balances with other banks	0.6%	14,049,990	6,546,749	2,029,733	680,099	-	-	-	-	-	-	4,793,409
Lendings to financial institutions	10.8%	23,162,130	18,483,354	2,773,622	385,669	143,875	1,210,610	165,000	-	-	-	-
Investments	10.4%	137,734,578	6,054,477	49,292,312	28,353,250	17,014,397	3,252,847	4,407,582	1,432,058	13,138,356	3,639,751	11,149,548
Advances	13.0%											
Performing		349,715,209	77,542,326	144,052,123	52,589,999	51,493,148	10,279,900	6,853,267	6,853,267	-	-	51,179
Non Performing		12,364,387	-	-	-	-	-	-	-	-	-	12,364,387
Operating fixed assets - Ijara assets	10% - 23%	514,391	-	-	514,391	-	-	-	-	-	-	-
Other assets	0%	13,108,576	-	-	-	-	-	-	-	-	-	13,108,576
		612,211,402	124,334,815	198,147,790	82,523,408	68,651,420	14,743,357	11,425,849	8,285,325	13,138,356	3,639,751	87,321,331
Liabilities												
Bills payable	0%	5,166,361	-	-	-	-	-	-	-	-	-	5,166,361
Borrowings	11.2%	37,168,277	11,691,719	6,701,606	14,316,171	455,496	526,093	283,755	137,058	2,928,274	88,581	39,524
Deposits and other accounts	4.8%	503,831,672	103,680,943	123,272,252	42,761,077	52,195,507	7,234,507	3,539,662	3,539,662	3,513,600	-	164,094,462
Subordinated loans	12.60%	11,989,800	-	7,994,424	-	424	665,467	1,330,085	1,999,400	-	-	-
Liabilities against assets subject to finance lease	11.5-14.5%	611	-	-	478	133	-	-	-	-	-	-
Other liabilities	0%	13,358,662	-	-	-	-	-	-	-	-	-	13,358,662
		571,515,383	115,372,662	137,968,282	57,077,726	52,651,560	8,426,067	5,153,502	5,676,120	6,441,874	88,581	182,659,009
On-balance sheet gap		40,696,019	8,962,153	60,179,508	25,445,682	15,999,860	6,317,290	6,272,347	2,609,205	6,696,482	3,551,170	(95,337,678)
Non financial net assets		26,622,344										
Total net assets		67,318,363										
Off-balance sheet financial instruments												
Interest Rate Derivatives - Long position		11,014,381	7,094,496	175,000	421,208	1,050,196	102,273	750,000	1,000,000	421,208	-	-
Interest Rate Derivatives - Short position		(11,014,381)	(957,598)	(382,598)	(2,198,481)	-	(1,000,000)	-	(6,054,496)	(421,208)	-	-
Cross Currency Swap - Long position		36,372,837	5,712,267	25,438,470	5,222,100	-	-	-	-	-	-	-
Cross Currency Swap - Short Position		(36,372,837)	(5,712,267)	(25,438,470)	(5,222,100)	-	-	-	-	-	-	-
Swaptions - Long Position		2,527,248	-	2,527,248	-	-	-	-	-	-	-	-
Swaptions -Short Position		(2,527,248)	-	(2,527,248)	-	-	-	-	-	-	-	-
FX Options - Long position		410,535	-	-	-	-	-	-	-	-	-	410,535
FX Options - Short position		(410,535)	-	-	-	-	-	-	-	-	-	(410,535)
Commodity options - Long position		-	-	-	-	-	-	-	-	-	-	-
Commodity options - Short position		-	-	-	-	-	-	-	-	-	-	-
Equity Indices - Long position		-	-	-	-	-	-	-	-	-	-	-
Equity Indices - Short position		-	-	-	-	-	-	-	-	-	-	-
Forward Rate Agreements-Short position		-	-	-	-	-	-	-	-	-	-	-
Forward Rate Agreements-Long position		-	-	-	-	-	-	-	-	-	-	-
Forward Purchase of Govt. Securities		-	-	-	-	-	-	-	-	-	-	-
Forward Sale of Govt. Securities		-	-	-	-	-	-	-	-	-	-	-
Foreign currency forward sales		(47,499,455)	(35,327,341)	(11,286,064)	(886,050)	-	-	-	-	-	-	-
Foreign currency forward purchases		92,086,590	26,411,085	42,328,428	22,624,587	722,491	-	-	-	-	-	-
Off-balance sheet gap		44,587,135	(2,779,358)	30,834,766	19,961,264	1,772,687	(897,727)	750,000	(5,054,496)	-	-	-
Total Yield/Interest Risk Sensitivity Gap		85,283,154	6,182,795	91,014,274	45,406,946	17,772,547	5,419,563	7,022,347	(2,445,291)	6,696,482	3,551,170	(95,337,678)
Cumulative Yield/Interest Risk Sensitivity Gap			6,182,795	97,197,069	142,604,014	160,376,561	165,796,124	172,818,471	170,373,180	177,069,662	180,620,832	85,283,154

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.

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44.4 Liquidity Risk

Liquidity risk is the risk to the Group arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The Assets and Liability Management Committee (ALCO) of the Group has the responsibility for the formulation overall strategy and oversight of liquidity management and meets on a monthly basis or more frequently, if required.

The Group's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position, and regular liquidity stress testing under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Group's business.

44.4.1 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Group

The maturity profile set out below has been prepared as required by IAS on the basis of contractual maturities, except for products that do not have a contractual maturity which are shown in the first bucket. The maturity profile disclosed in note 44.4.2 includes maturities of products that do not have a contractual maturity, as determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical behavioural pattern of these products.

	2010									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	67,667,226	62,619,532	-	-	-	-	-	-	-	5,047,694
Balances with other banks	25,980,928	21,530,259	4,239,309	211,360	-	-	-	-	-	-
Lendings to financial institutions	12,384,778	5,996,233	2,679,728	897,322	1,071,050	1,388,722	145,058	206,665	-	-
Investments	231,717,214	11,853,741	43,738,459	63,448,607	36,103,690	17,925,607	22,700,516	11,281,533	12,838,951	11,826,110
Advances	341,510,412	110,803,529	49,421,817	33,330,206	27,112,702	9,935,324	13,886,891	45,929,735	40,953,470	10,136,738
Operating fixed assets	24,684,566	2,408,336	410,927	883,482	1,414,936	1,970,618	998,142	1,583,020	2,267,867	12,747,238
Deferred tax asset	1,298,247	-	-	-	584,125	714,122	-	-	-	-
Other assets	20,146,272	6,199,723	9,279,214	183,940	4,176,229	297,012	-	9,504	650	-
	725,389,643	221,411,353	109,769,454	98,954,917	70,462,732	32,231,405	37,730,607	59,010,457	56,060,938	39,757,780
Liabilities										
Bills payable	5,074,700	4,895,421	179,279	-	-	-	-	-	-	-
Borrowings	47,631,814	29,655,296	5,596,108	7,547,247	544,798	332,891	761,776	524,380	2,669,318	-
Deposits and other accounts	567,611,258	435,033,340	56,131,986	25,441,292	21,159,934	5,323,709	4,090,718	4,003,809	16,426,470	-
Subordinated loans	11,985,748	-	2,028	-	666,640	1,997,816	2,667,136	670,128	5,982,000	-
Liabilities against assets subject to finance leases	-	-	-	-	-	-	-	-	-	-
Other liabilities	17,951,943	(832,995)	7,150,286	679,457	5,847,004	2,711,842	494,052	-	1,902,297	-
	650,255,463	468,751,062	69,059,687	33,667,996	28,218,376	10,366,258	8,013,682	5,198,317	26,980,085	-
Net assets	75,134,180	(247,339,709)	40,709,767	65,286,921	42,244,356	21,865,147	29,716,925	53,812,140	29,080,853	39,757,780
Represented by:										
Share capital	12,241,798									
Reserves	24,101,838									
Unappropriated profit	27,576,333									
Non-controlling interest	2,207,241									
Surplus on revaluation of assets	9,006,970									
	75,134,180									

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	2009									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	61,562,141	48,461,144	-	-	-	-	-	-	-	13,100,997
Balances with other banks	14,049,990	9,836,577	2,662,509	899,726	180,043	37,672	-	-	-	433,463
Lendings to financial institutions	23,162,130	18,323,555	2,319,313	783,185	216,592	354,485	1,000,000	165,000	-	-
Investments	137,734,578	2,132,842	20,045,826	19,544,119	20,076,565	6,708,279	8,084,089	33,793,777	25,404,237	1,944,844
Advances	362,079,596	122,194,667	44,938,461	37,724,332	37,850,760	27,098,325	7,526,873	25,376,341	51,269,189	8,100,648
Operating fixed assets	23,734,082	1,940,947	364,608	749,032	769,222	2,347,761	907,601	1,613,853	2,622,572	12,418,486
Deferred tax asset	649,814	40,744	-	-	273,858	335,212	-	-	-	-
Other assets	17,449,580	1,790,871	1,781,912	9,618,760	2,133,950	1,740,158	-	383,929	-	-
	640,421,911	204,721,347	72,112,629	69,319,154	61,500,990	38,621,892	17,518,563	61,332,900	79,295,998	35,998,438
Liabilities										
Bills payable	5,166,361	4,972,520	193,841	-	-	-	-	-	-	-
Borrowings	37,168,277	11,700,809	6,732,040	14,366,171	405,496	526,093	283,755	137,058	2,928,274	88,581
Deposits and other accounts	503,831,672	426,804,901	42,046,318	8,488,651	9,957,838	6,811,436	702,303	1,062,379	7,957,846	-
Subordinated loans	11,989,800	-	2,024	-	2,024	668,667	1,997,821	3,334,864	5,984,400	-
Liabilities against assets subject to finance leases	611	-	-	-	611	-	-	-	-	-
Other liabilities	14,946,827	30,693,887	(26,713,934)	1,729,996	7,450,947	(126,524)	-	-	1,912,455	-
	573,103,548	474,172,117	22,260,289	24,584,818	17,816,916	7,879,672	2,983,879	4,534,301	18,782,975	88,581
Net assets	67,318,363	(269,450,770)	49,852,340	44,734,336	43,684,074	30,742,220	14,534,684	56,798,599	60,513,023	35,909,857

Represented by:

Share capital	11,128,907
Reserves	21,167,954
Unappropriated profit	23,617,875
Non-controlling Interest	2,279,691
Surplus on revaluation of assets	9,123,936
	67,318,363

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

44.4.2 Maturities of assets and liabilities - based on working prepared by the Assets and Liabilities Management Committee (ALCO) of the Group

Current and savings deposits do not have any contractual maturity therefore, current deposits and savings accounts have been classified between all four maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

	2010									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	67,667,226	32,630,131	5,961,763	4,315,224	4,895,168	5,617,703	226,485	184,107	13,836,645	-
Balances with other banks	25,980,928	19,725,869	6,043,699	211,360	-	-	-	-	-	-
Lendings to financial institutions	12,384,778	5,096,880	3,579,671	897,322	1,070,458	1,388,722	145,058	206,667	-	-
Investments	231,717,214	12,854,140	42,379,183	67,041,417	28,460,278	9,414,858	14,304,419	28,789,336	26,360,101	2,113,482
Advances - Performing	326,441,450	97,158,964	98,492,837	27,027,709	25,160,493	6,924,150	12,388,931	21,201,986	28,367,635	9,718,745
- Non Performing	15,068,962	-	-	-	-	-	-	-	15,068,962	-
Other assets	20,146,272	2,009,611	1,484,016	11,867,123	3,850,892	297,012	-	9,504	628,114	-
Operating fixed assets	24,684,566	2,192,872	1,937	2,905	8,556	19,364	11,620	23,240	22,424,072	-
Deferred tax Assets	1,298,247	-	-	-	584,125	714,122	-	-	-	-
	725,389,643	171,668,467	157,943,106	111,363,060	64,029,970	24,375,931	27,076,513	50,414,840	106,685,529	11,832,227
Liabilities										
Bills payable	5,074,700	4,068,123	1,006,577	-	-	-	-	-	-	-
Borrowing	47,631,814	31,249,685	10,138,567	5,326,026	-	-	-	917,536	-	-
Deposits and other accounts	567,611,258	124,708,489	89,810,309	63,521,312	58,651,534	63,173,648	4,090,812	4,003,812	159,651,342	-
Subordinated loan	11,985,748	-	2,028	-	666,640	1,997,816	2,667,136	670,128	5,982,000	-
Liabilities against assets subject to finance leases	-									
Other liabilities	17,951,943	(6,098,754)	1,272,008	(561,825)	5,154,457	2,711,842	494,053	10,040,293	2,841,691	2,098,178
	650,255,463	153,927,543	102,229,489	68,285,513	64,472,631	67,883,306	7,252,001	15,631,769	168,475,033	2,098,178
Net assets	75,134,180	17,740,924	55,713,617	43,077,547	(442,661)	(43,507,375)	19,824,512	34,783,071	(61,789,504)	9,734,049

Represented by:	
Share capital	12,241,798
Reserves	24,101,838
Unappropriated profit	27,576,333
Non-controlling interest	2,207,241
Surplus on revaluation of assets	9,006,970
	75,134,180

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2009									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years
		(Rupees in '000)								
Assets										
Cash and balances with treasury banks	61,562,141	30,417,709	5,744,339	3,821,791	4,031,174	5,046,748	107,770	294,807	12,097,803	-
Balances with other banks	14,049,990	10,364,189	2,443,990	824,096	180,043	37,672	-	-	200,000	-
Lendings to financial institutions	23,162,130	20,623,296	2,159,149	169,075	-	210,610	-	-	-	-
Investments	137,734,578	17,557,963	19,241,497	18,917,627	16,066,142	5,469,278	3,794,038	29,480,465	25,093,085	2,114,483
Advances - Performing	349,715,209	113,791,821	53,482,143	34,093,945	31,042,626	26,082,159	8,800,873	26,010,075	47,508,041	8,903,526
- Non Performing	12,364,387	-	-	-	-	-	-	-	12,364,387	-
Other assets	17,449,580	3,166,659	1,019,732	12,540,173	62,799	-	-	-	660,217	-
Operating fixed assets	23,734,082	1,745,741	-	-	-	62,671	-	-	21,925,670	-
Deferred tax Assets	649,814	40,744	-	-	274,188	334,882	-	-	-	-
	640,421,911	197,708,122	84,090,850	70,366,707	51,656,972	37,244,020	12,702,681	55,785,347	119,849,203	11,018,009
Liabilities										
Bills payable	5,166,361	3,983,539	1,182,822	-	-	-	-	-	-	-
Borrowing	37,168,277	15,452,801	13,603,220	6,848,198	-	-	-	1,264,058	-	-
Deposits and other accounts	503,831,672	99,619,122	101,402,301	49,270,259	54,014,009	60,048,963	1,826,977	4,593,456	133,056,585	-
Subordinated loan	11,989,800	-	2,024	-	2,024	668,667	1,997,821	3,334,864	5,984,400	-
Liabilities against assets subject to finance leases	611	-	-	-	611	-	-	-	-	-
Other liabilities	14,946,827	485,102	12,363,311	-	-	-	-	-	2,098,414	-
	573,103,548	119,540,564	128,553,678	56,118,457	54,016,644	60,717,630	3,824,798	9,192,378	141,139,399	-
Net assets	67,318,363	78,167,558	(44,462,828)	14,248,250	(2,359,672)	(23,473,610)	8,877,883	46,592,969	(21,290,196)	11,018,009

Represented by:

Share capital	11,128,907
Reserves	21,167,954
Unappropriated profit	23,617,875
Non-controlling interest	2,279,691
Surplus on revaluation of assets	9,123,936
	67,318,363

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

44.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's Operational Risk Management implementation framework is based on the advanced risk management architecture. The framework is flexible enough to implement in stages, and permits the overall risk management approach to evolve in response to organizational learning and the future needs of the organization.

Following are the high-level strategic initiatives that the Group has undertaken for the effective implementation of Operational Risk Management:

- Recruiting skilled resources for Operational Risk Management.

- Developing an operational risk management infrastructure.

- Determining the current state of key risks and their controls residing in each business unit.

- Developing policies, procedures and defining end-to-end information flow to establish a vigorous governance infrastructure.

- Implementing systems for data collection, migration, validation and retention for current and historical reference and calculation.

A consolidated Business Continuity Plan is being augmented for the Group which encompasses roles and responsibilities, recovery strategy, IT and structural backups, scenario and impact analyses and testing directives.

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and creating an inventory of risks and controls within the Group. A methodology for Risk and Control Self Assessment has been implemented at all core units of the Group.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

45. ISLAMIC BANKING BUSINESS

The Group operates 6 (2009: 5) Islamic banking branches and 17 (2009: 15) Islamic banking windows. The statement of financial position of the Group's Islamic Banking Branches at December 31, 2010 is as follows:

	2010	2009
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	389,582	208,180
Balances with other banks	46,654	93,410
Lendings to financial institutions	450,000	100,000
Investments	2,884,260	1,563,953
Financing and receivables		
- Murabaha	203,787	154,650
- Musharaka	166,667	222,222
- Diminishing Musharaka	90,888	261,259
	461,342	638,131
Operating fixed assets including assets given on Ijara	426,052	598,452
Due from head office	83,725	-
Other assets	297,649	548,396
Total Assets	5,039,264	3,750,522
LIABILITIES		
Bills payable	970	4,522
Deposits and other accounts		
- Current accounts	724,750	429,412
- Saving accounts	933,100	209,676
- Term deposits	1,456,596	459,878
- Deposits from financial institutions - remunerative	1,344,775	1,109,452
	4,459,221	2,208,418
Due to head office	-	948,744
Other liabilities	101,782	84,544
	4,561,973	3,246,228
NET ASSETS	477,291	504,294
REPRESENTED BY		
Islamic Banking Fund	681,000	681,000
Accumulated losses	(203,000)	(174,404)
	478,000	506,596
Deficit on revaluation of assets	(709)	(2,302)
	477,291	504,294

The profit and loss account of the Group's Islamic Banking Branches for the year ended December 31, 2010 is as follows:

	2010	2009
	--------- (Rupees in '000) ---------	
Return earned	623,262	484,098
Return expensed	(308,015)	(110,927)
	315,247	373,171
(Provision) / reversal for diminution in value of investment	(69,091)	99,904
Reversal / (provision) against assets given on Ijarah	2,930	(6,177)
	(66,161)	93,727
Net return after provision	249,086	466,898
Other Income		
Fee, commission and brokerage income	5,996	4,444
Dividend income	9,871	12,169
Income from dealing in foreign currencies	1,414	2,904
Loss on sale of securities	(4,750)	(14,969)
Other income	2,184	4,201
Total other income	14,715	8,749
	263,801	475,647
Other Expenses		
Administrative expenses	(289,921)	(304,000)
Other provision / write offs	(2,476)	-
Total other Expenses	(292,397)	(304,000)
Net (loss) / profit for the year	(28,596)	171,647
Accumulated losses brought forward	(174,404)	(346,051)
Accumulated losses carried forward	(203,000)	(174,404)

	2010	2009
	--------- (Rupees in '000) ---------	
Remuneration to Shariah Advisor / Board	2,615	1,924
Charity Fund		
Opening balance	20,732	19,609
Addition during the period	840	6,629
Payment / utilization during the period	(9,780)	(5,506)
Closing balance	11,792	20,732

46. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on Februsry 21, 2011 has proposed a cash dividend in respect of 2010 of Rs. 4 per share (2009: cash dividend Re.2.50 per share). In addition, the directors have also announced a bonus issue of Nil (2009: 10%). These appropriations will be approved in the forthcoming Annual General Meeting. The consolidated financial statements for the year ended December 31, 2010 do not include the effect of these appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2011.

47. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 21, 2011, by the Board of Directors of the Group.

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FOR THE YEAR ENDED DECEMBER 31, 2010

48. GENERAL

48.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these consolidated financial statements for the purposes of better presentation. Major reclassifications made are as follows:

- Rs.249.990 million has been reclassified from other income - others to mark-up/interest earned on advances to customers (income on ijarah financing).

- Rs.1,122.772 million has been reclassified from balance with SBP in foreign currency deposit account to balance with SBP in foreign currency current account.

- Rs.1,650.896 million has been reclassified from borrowing in Pakistan to borrowing outside Pakistan.

- Unrealized mark-up held in suspense account amounting to Rs.1,087.189 million has been merged with provision against other assets.

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

Atif R. Bokhari	Muhammad Sami Saeed	Sir Mohammed Anwar Pervez, OBE, HPk	Nahayan Mabarak Al Nahayan
President & Chief Executive Officer	Director	Deputy Chairman	Chairman