United Bank Limited

UNCONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2010

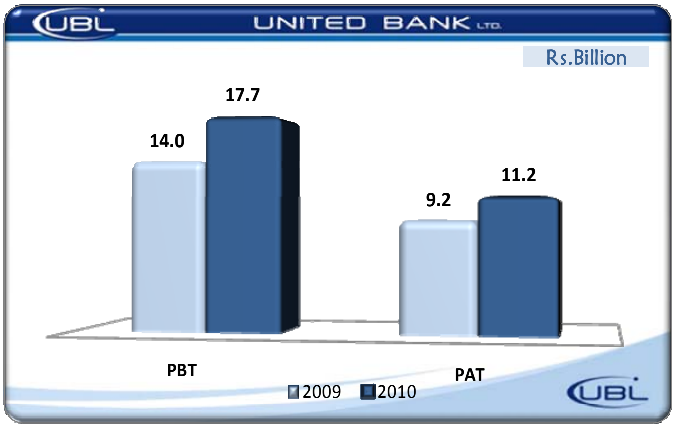
where you come first

Directors' Report to the Members

On behalf of the Board of Directors, I am pleased to present to you the 52nd Annual Report of United Bank Limited for the year ended December 31, 2010.

Financial Highlights

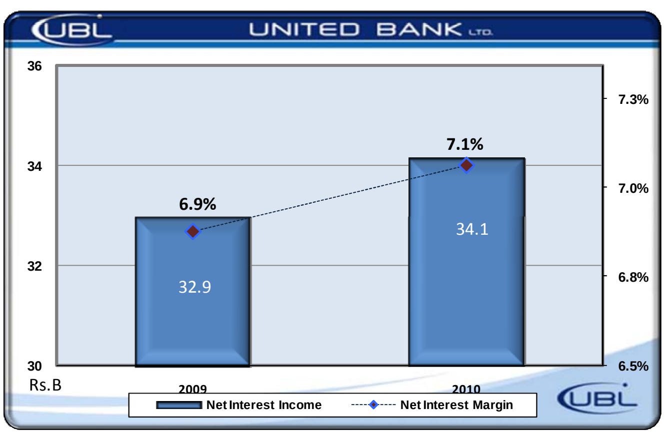
UBL achieved a profit after tax of Rs 11.2 billion which is 21% higher than the corresponding period last year and translates into earnings per share of Rs. 9.12 (2009: Rs. 7.51). On a consolidated basis, UBL achieved a profit after tax of Rs 11.0 billion, an increase of 16% over 2009.

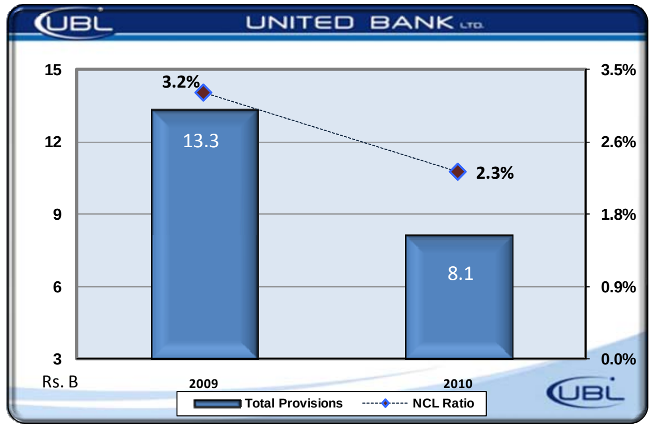


The Board of Directors' is pleased to recommend a Final cash dividend of Rs 4 per share i.e. 40 % and a bonus share issue of Nil for the year ended December 31, 2010, bringing the total cash dividend for the year 2010 to 50 %.

Despite the challenging economic environment, UBL has achieved a profit before tax of Rs 17.7 billion. This is 26% higher than last year as a result of continued improvement in operating efficiency and margins. Provisions for the year declined substantially due to the Bank's prudent approach given the difficult credit environment whilst the NPL formation has also reduced year on year.

Net interest income before provisions increased to Rs 34.1 billion, 4% higher than last year. The Bank's low cost deposit efforts resulted in an 80 bps reduction in the cost of deposits over last year. However, the yield on earning assets declined as average 6M KIBOR was 39 bps lower in 2010 compared to 2009. Consequently, net interest margin increased from 6.9% in 2009 to 7.1% in 2010.





Total provisions of Rs 8.1 billion for 2010 were significantly lower compared to Rs 13.3 billion in 2009 whilst our coverage at December 2010 stands at 69%. As a result, net credit loss ratio improved from 3.2% in 2009 to 2.3% in 2010. Net interest income after provisions is therefore up 28% to Rs 26.1 billion.

Fees and commissions generated from core banking businesses increased by 7% to Rs 6.3 billion as the bank significantly increased its market share of home remittances, and due to an overall growth in trade volumes and cross-sell of bancassurance. Exchange income increased by 36% to Rs 1.7 billion as a result of higher transaction volumes and better leveraging of market opportunities. In 2009, the bank recorded significant capital gains both on fixed income securities in the falling rate environment, as well as on equity securities as the stock market increased rapidly post the 2008 crisis. Consequently, capital gains reduced in 2010 by Rs 471 million. This, coupled with exceptional derivatives gains booked in the first half of 2009 resulted in the Bank recording lower Non-interest income, which reduced by 11% from the prior year.

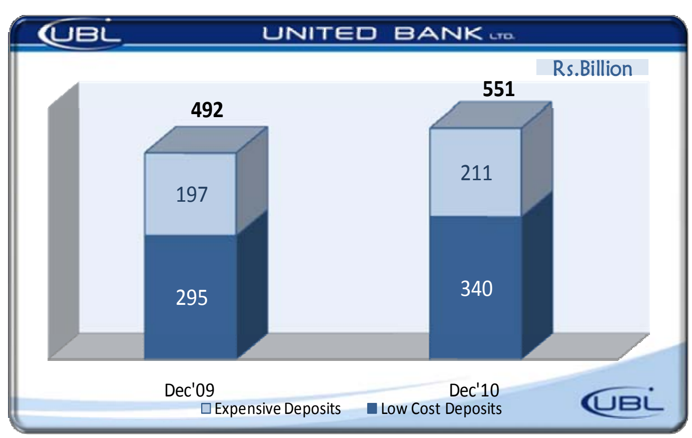
Focused cost management

Despite significant inflationary pressures (December YoY CPI of 15.5%), overall administrative expenses increased by only 7.0% over last year. Of this increase, nearly 60% (or Rs 692 million) was as a result of business building activities such as advertising spend and investments in IT, while 13% (approximately Rs 150 million) was due to the impact of Rupee devaluation on International expenses which, in US dollar terms, were restricted to 2009 levels.

UBL successfully managed to restrict the rise in premises and utility costs to 9% over last year, a considerable achievement given the spiraling increase in utility costs. Outsourced service charges increased by 15%. Some of these increases were partially offset by reduced personnel costs which declined by 3.7%.

Rationalized Balance Sheet

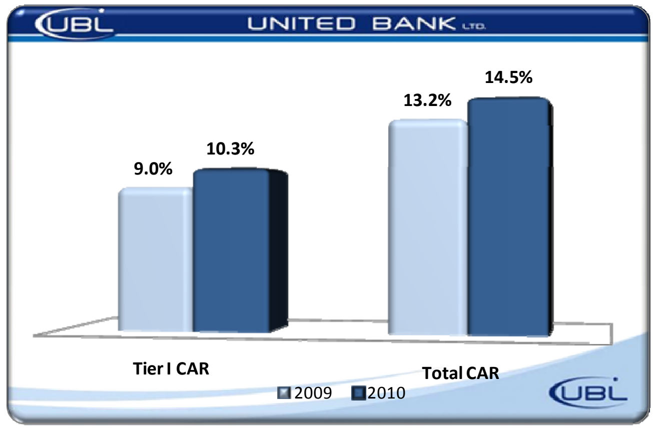
Gross advances have reduced by 3.6% as a result of rationalization across our portfolios and more prudent lending. The advances to deposits ratio (ADR) decreased from 78% in December 2009 to 67% in December 2010. The bank increased total



deposits by 11.9% over 2009 levels but at a significantly reduced cost, in line with its strategy of replacing high cost deposits with lower cost current and savings accounts. The Bank's domestic CASA increased from 76% in December 2009 to 78% in December 2010. Similarly, the bank's domestic low cost deposit mix improved from 66% in December 2009 to 68% in December 2010.

We were successful in improving our return on average assets from 1.5% in 2009 to 1.7% in 2010. Return on equity also improved from 19.5% in 2009 to 19.8% in 2010.

Improved Capital Ratios



UBL's strong internal capital generation resulted in a Rs 6.1 billion (14%) increase in Tier 1 Capital, despite keeping Risk Assets flat. Consequently, the unconsolidated Capital Adequacy Ratio (CAR) of the Bank improved from 13.2% in December 2009 to 14.5% in December 2010. The Tier-1 CAR of the Bank has also improved from 9.0% in December 2009 to 10.3% in December 2010. On a consolidated basis, the CAR improved to 15.0% in December 2010 (December 2009: 14.0%) while Tier-1 CAR improved from 9.5% in December 2009 to 10.4% in December 2010.

Economy Review

The year 2010 remained fraught with challenges, which impacted the macroeconomic landscape of the country. In the second half of the year, record floods inundated nearly 20% of the country and inflicted significant damage to the fragile economy. Continuing severe shortages of power and gas have exacerbated the situation and Large Scale Manufacturing (LSM), after exhibiting good growth of 5% in FY10, remained subdued during the first half of the current fiscal year. As a consequence, GDP growth estimates for 2010-11 have been scaled down to 2.8% from pre-flood estimates of 4.3%.

Inflationary pressures remained active throughout the year, with CPI at 15.5% year-on-year in December 2010 and averaging 13.9% for the year. Supply chain interruptions caused by crop damage resulted in volatile food prices and remained a key driver behind surging price pressures. Escalating power tariffs remained a regular feature throughout 2010, further fueling inflation.

The fiscal position remained fragile as revenue generation remained weak whilst expenditures escalated. FY 2010 fiscal deficit stood at 6.3% of GDP, far exceeding the IMF target.

Furthermore, taxation reforms including the Reformed General Sales Tax (RGST) have not yet been implemented due to severe opposition by political parties. The fiscal slippages and spiraling inflation have resulted in a steady increase in interest rates with the State Bank of Pakistan (SBP) raising the discount rate by 150 bps since July 2010 to 14.0%. Lack of fiscal austerity continues to strain domestic liquidity as banks shift towards government paper, which in turn has led to further crowding out of the private sector.

The external account position remained a key positive as the current account deficit for FY 2010 was better than expectations at 2% of GDP due to higher remittances and aid inflows, services inflows and increased exports. This trend has continued in FY 2011 as the country posted its first half-yearly current account surplus since 2003. Pakistan's equity markets also performed well and continued to attract foreign investment, with the KSE-100 Index gaining approximately 26% during 2010.

The banking sector of Pakistan has been in a consolidation phase since the beginning of 2009 due to the country's economic vulnerabilities. The sector has remained focused on deposits, which grew by nearly 15% in 2010, with aggressive solicitation of current and savings accounts (CASA). Credit lending has remained subdued and Gross Advances increased by only around 5% during 2010. The effects of the depressed economic activity, power shortages and high interest rates have significantly impacted borrowers. Non-Performing Loans (NPLs) have seen a sharp increase of 22%, standing at Rs 494 billion as of December 2010 while infection of the sector's portfolio has also deteriorated from 12.2% in December 2009 to 14.0% in December 2010.

International

UBL's International business continues to be a key segment for the Bank. In line with the Bank's overall policy, lending remained cautious, resulting in a reduction of 10% in loans and advances. Revenue from the International Business thus declined by 3% from 2009. This was more than offset by cost being contained at prior year levels as well as a 23% reduction in provisions. Consequently, pretax profit increased by 14% over last year. As the global economy continues to recover, UBL is enthusiastic about the future prospects of the International Business. The Bank will explore expansion into new territories which have the potential to enhance shareholder value and represent a natural progression from the existing footprint.

Core banking platform implementation (Project Genesis)

Project Genesis continues to move forward as planned and six branches went live this year on the new core banking system (CBS). This was a significant milestone as it enabled the Bank to test the capabilities of the system on a real time basis.

The Customer Service Platform (CSP), a customer relationship management tool, been rolled out in over 350 branches in 2010 and will be rolled out across the country in 2011. The Loan

Origination System (LOS) has been implemented for Commercial loans and Consumer products. LOS implementation for the rest of the Bank will be completed by 2012.

UBL is already starting to see the technological benefits and the improved service capability that these systems will bring to the Bank and its customers.

Key developments during 2010

Watan Card

The Government of Pakistan (GOP) selected UBL to disburse Rs. 20,000 each to over one million families displaced by the flooding. For this effort UBL issued debit cards, called “Watan cards”, to beneficiaries identified by NADRA and GOP. Additional planned installments in 2011 will assure beneficiaries have multiple opportunities to use (and get used to) the cards. UBL’s ultimate goal is to retain the beneficiaries as Branchless Banking customers by introducing them to the benefits of using additional services such as savings, remittances, and bill payments that are accessible via their Watan card Omni accounts.

The Bill & Melinda Gates Foundation will contribute US$1.5 million through MEDA (Mennonite Economic Development Association) to support UBL’s management and administrative costs of procuring and distributing the cards as well as the cost of ongoing disbursements via Omni Agents. The funding will also support MEDA in monitoring and documenting the UBL Watan experience, in order to share learnings with the wider microfinance and financial sector communities globally.

UBL Omni

UBL Omni commenced commercial operations in April 2010 and with it achieved the honor of being the first commercial bank to launch branchless banking operations in Pakistan. With Omni, UBL aims to attract the unbanked population via its retail business agents called Omni Dukaans which are located in over 350 towns and cities of Pakistan and currently number more than 2,300.

Pakistan has nearly 65 million unique mobile phone subscribers whilst it has less than 20 million individuals with bank accounts. This provides the Bank with the unique platform of being able to include a large segment of the country’s unbanked population and provide them financial services which have previously remained inaccessible to them.

In recognition of UBL’s innovative product offering, strong management credentials and admirable goals of financial inclusion, the Bill and Melinda Gates Foundation has given UBL a grant of US$6.9 million through ShoreBank International to promote UBL Omni and ensure its reach to the widest possible community.

Launch of UBL First Minor Account

The Bank launched 'UBL First Minor PLS Savings Account' in 2010, a savings account designed especially for children, with exciting benefits that are unmatched in the industry. By providing an avenue to parents for financial planning for their children, it should also increase the number of parents in the banking system, as well as develop a new generation of customers loyal to UBL. This product has already generated a high degree of interest amongst children via the Bank's youth outreach and social media campaigns.

Launch of UBL Business Partner Plus

UBL launched 'Business Partner Plus' in 2010, the best current account offering in Pakistan. This is a specialized current checking account, with a full menu of services, aimed at providing the necessary tools for individuals, traders, businessmen and commercial customers to transact their entire bank related business activities nationwide through a single platform. This product has been a major success story in its first year of launch.

Signature: Priority Banking

2010 was the first full year of operations for the UBL Priority Banking lounges launched in November 2009. These exclusive lounges cater to the Bank's existing and potential high-net-worth customers, with relationship managers trained to offer a range of wealth management products to service customer needs. UBL has had a successful experience with this offering and plans to expand this business across Pakistan in the future.

Launch of Pakistan's First Premium Debit Card

In 2010, UBL in collaboration with MasterCard, announced the launch of Pakistan's first Premium Debit MasterCard , exclusively designed to cater to the needs of affluent consumers in Pakistan. Customers who fulfill the stipulated eligibility criteria are being offered this card, as part of UBL's continuing commitment to offering the best products to its customers. In addition to the features and privileges inherent in the card program, UBL has also teamed up with various partners to provide preferential benefits to its cardholders.

Wiz for ACCA

Wiz is a prepaid debit card which was launched in 2008, and UBL is the only bank in the country to have this offering. Customers can deposit up to a limit of Rs 200,000 in their debit card and use it all over the world. The card can be topped-up for usage (just like a prepaid mobile phone connection) from any UBL online branch.

UBL entered into a partnership with the Association of Chartered Certified Accountants, UK (ACCA), a global body of accounting professionals, which has thousands of registered students in Pakistan. In this connection, the Bank has launched a Wiz prepaid card specifically for ACCA students, which is especially convenient to them in making fee payments online. This is a key initiative that is expected to increase awareness and usage of the Wiz card.

Credit Ratings

The credit rating company JCR-VIS re-affirmed the bank's long-term entity rating at AA+ and the ratings of its four subordinated debt instruments at AA. The short term ratings remain at A-1+ which is the highest rating denoting the greatest certainty of timely payments by a financial institution. All ratings for UBL have been assigned a Stable outlook.

Capital Intelligence (CI), the international credit rating agency, has re-affirmed UBL's Foreign Currency long-term rating at B-, while it's Foreign Currency short-term rating has been upgraded from C to B in line with CI's sovereign ratings action on Pakistan. In addition, the Bank's Financial Strength rating has been re-affirmed at BB+, with the Outlook upgraded from Negative to Stable based on the Bank's strong performance in 2009 and the first half of 2010.

Future Outlook

Going forward, achieving macroeconomic stability remains a key challenge for Pakistan. Continued power and gas shortages along with high borrowing costs are expected to place further pressure on the LSM sector and consequently on GDP growth. Inflationary pressures are expected to remain high, averaging close to 15-16% for 2011.

Achieving fiscal austerity remains of utmost significance. The deficit target for 2011 is likely to be breached due to lower revenue generation along with weak expenditure control. However, the external account position should remain healthy as higher remittances, services inflows and increased exports are likely to continue during 2011. Inflationary pressures combined with the weak fiscal position are expected to result in a continued tight monetary policy during 2011.

Given the macroeconomic scenario, UBL's focus will remain on proactively managing its asset portfolio while exploring the acquisition of quality assets. The Bank will continue to grow its low cost deposit base by more efficiently leveraging its branch network. UBL also plans to significantly expand its Branchless Banking product to make financial services available to a broader range of people. The Bank is confident that, with the investments it has made in people, technology and products, it is well positioned for further growth.

Statement under Section XIX of the Code of Corporate Governance

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met. The Bank has adopted good Corporate Governance practices and the Directors are pleased to report that:

- The financial statements present fairly the state of affairs of the Bank, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of these unconsolidated financial statements, except for the changes in the accounting policies as described in note 5.1. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Banks in Pakistan have been followed in the preparation of the Accounts of financial statements without any departure there-from.
- The system of internal control in the Bank is sound in design, and effectively implemented and monitored.
- There are no significant doubts upon the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance.
- The Board has appointed the following three Committees with defined terms of references
    - Board Risk Management Committee
    - Board Human Resources & Compensation Committee
    - Board Audit Committee
- Performance highlights for the last six years are attached to these unconsolidated financial statements.

The Bank operates five post retirement funds Provident Fund, Gratuity, Pension, Benevolent, and General Provident Fund and two benefit schemes Post Retirement Medical and

Compensated Absences. Gratuity and Provident Fund Schemes are available to staff who joined the bank post privatization. The value of investments based on latest audited financial statements as at December 31, 2009 of these funds is as follows:

	Amounts in ‘000
Employees’ Provident Fund	2,829,590
Employees’ Gratuity Fund	297,030
Staff Pension Fund	6,132,050
Staff General Provident Fund	1,296,753
Officers / Non-Officers Benevolent Fund	787,303

Meetings of the Board

During the year under review, the Board of Directors met six times. The number of meetings attended by each director during the year is shown below:

Name of the Director		**Meetings attended**
His Highness Sheikh Nahayan Mabarak Al Nahayan	*Chairman*	03
Sir Mohammed Anwar Pervez, OBE, HPk	*Deputy Chairman*	06
Mr. Omar Z. Al Askari	*Director*	06
Mr. Zameer Mohammed Choudrey	*Director*	06
Dr. Ashfaque Hasan Khan *	*Director*	01
Mr. Muhammad Sami Saeed	*Director*	06
Mr. Amin Uddin	*Director*	06
Mr. Arshad Ahmad Mir	*Director*	06
Mr. Seerat Asghar *	*Director*	05
Mr. Atif R. Bokhari,	*President & CEO*	06

The Board appreciated the services rendered by Dr. Ashfaque Hasan Khan, the out going director.

* Mr. Seerat Asghar was appointed as a Director of UBL in place of Dr. Ashfaque Hasan Khan with effect from March 30, 2010.

Pattern of Shareholding

The pattern of shareholding as required u/s 236 of the Companies Ordinance, 1984 and Articles (xix) of the Code of Corporate Governance is given below :

Shareholders	No. of Shares	% of ordinary Shares
Bestway Group (BG)	380,355,324	31.07
Abu Dhabi Group (ADG)	312,165,804	25.50
State Bank of Pakistan	238,567,381	19.49
Government of Pakistan	3,354,550	0.27
Privatization Commission of Pakistan	1,714	0.00
General Public & others	169,818,347	13.87
NIT	1,307,327	0.11
Bank, DFIs & NBFIs	15,267,751	1.25
Insurance Companies	7,355,969	0.60
Modarabas & Mutual Funds	17,482,437	1.43
Securities & Exchange Commission of Pakistan	1	0.00
* International GDRs (non voting shares)	78,503,082	6.41
TOTAL OUTSTANDING SHARES	**1,224,179,687**	**100.00**

** ADG also holds 4.80% additional shares in the form of GDRs.*

The aggregate shares held by the following are:

		No. of shares
a)	**Associated Companies, undertakings & related parties**	
	- Bestway (Holdings) Limited	222,775,183
	- Bestway Cement Limited	93,649,744
	- Al Jaber Transport & General Contracting	59,993,236
b)	**NIT**	
	-National Bank of Pakistan – Trustee Department NI(U)T Fund	1,302,665
	-National Investment Trust Limited	4,662
c)	**Public sector companies and corporations**	147,515
d)	**Banks, DFIs, NBFIs, Insurance Companies, Modaraba & Mutual Funds**	40,106,157
e)	**Directors / CEO / Executives**	
	-H.H. Sheikh Nahayan Mabark Al Nahayan	78,942,102
	-Sir Mohammed Anwar Pervez,OBE,HPk	62,433,163
	-Omar Z. Al Askari	14,998,307
	-Zameer Mohammed Choudrey	1,497,234

	-Amin Uddin	2,750
	-Atif R. Bokhari	931,519
	-Other Executives *	2,985,792

* Figure for Other Executives includes 942 shares held by their spouses and minor children.

Shareholders holding 10% or more voting interest	No. of shares	%
-State Bank of Pakistan	238,567,381	19.4879
-Bestway (Holdings) Limited	222,775,183	18.1979

There was no trading in UBL shares carried out by any of the directors, CEO, CFO, and Company Secretary, or their spouses and minor children during the year

Risk Management Framework

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

As Pakistan progresses through a period of eco-political turmoil, UBL strengthened its capacity for identifying and reducing risk. The year saw emphasis on close monitoring of the asset portfolio across all segments, including actively working with clients to help them with repayments and restructuring. Steps were also taken to enhance the efficiency of the credit approval process through appropriate delegation of approval authority. A holistic Risk Management Policy was finalized in 2010. This is an umbrella policy, providing an integrated framework to encompass Credit, Liquidity, Agricultural, International, Market and Human Resource risk, aimed at portfolio quality improvement. A comprehensive Agriculture Credit Policy was also developed and finalized over the year. The formulation and approval of these policies involved input from the Board and senior management to ensure that risks were accurately assessed. In order to keep businesses aware of market and industry developments, the Credit Policy & Research Division provided regular updates on major macroeconomic issues and specific industry developments.

The Capital Adequacy Ratio (CAR) was maintained well above the prescribed regulatory threshold throughout the year. The CAR calculation process has been optimized through automation and system based reporting is expected to commence from 2011. The Bank continued its efforts towards implementing the Operational Risk Management Framework across the bank and achieved the deployment of operational risk monitor, a key milestone in this regard. The Bank plans to move to the Advanced Approach for Basel II, including all its components and has prepared a roadmap towards implementation.

In order to automate the loan origination process for Corporate, Commercial and SME borrowers, a Loan Origination System (LOS), one of the most critical components of UBL's new Core Banking System, has been implemented. LOS facilitates routing of credit applications created on a predefined format to recommenders and approvers electronically. During the year, the LOS has been successfully implemented for Consumer & SME loans. User Acceptance Testing (UAT) for Corporate and Commercial credit applications on LOS has been done successfully and Bank wide roll out covering all segments and customers is expected in 2012

Consumer financing portfolios remain stressed around the country due to the high inflationary environment with consequent escalation in borrowing costs. UBL continued to effectively manage its portfolio and developed a behavior scoring model as a risk management tool to facilitate automated credit limit management, collections management and transaction authorization. The Bank is in the process of developing an Application Scoring model for identification of quality acquisition prospects across the consumer portfolio

The Market and Treasury Risk unit has continued to review risk policies and procedures to ensure that operating controls are robust and limits are in place to manage risk without unduly hampering business. Towards this end, several initiatives have been taken during the current year. For the equity trading portfolio, a Value-at-Risk approach is being back tested and fine-tuned whereas for the derivatives portfolio a revised mechanism has been rolled out to measure and monitor pre-settlement risk. Market Risk Limit setting mechanisms have also been updated to place greater reliance on quantitative rather than subjective methods. For the banking book, several analytical tools are under review to supplement stress testing requirements.

The Bank also continues to invest in systems and people as part of its process of continuously strengthening the risk management function.

Auditors

The present auditors M/S. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants and M/S. BDO Ebrahim & Co., Chartered Accountants retire and being eligible, offer themselves for re-appointment in the forthcoming Annual General Meeting.

Conclusion

In conclusion, I extend my thanks and appreciation to UBL shareholders and customers as well as to my fellow members of the Board of Directors for their trust and support. We acknowledge the efforts and dedication demonstrated by our staff and would also like to express our earnest appreciation to the Government, the State Bank of Pakistan, the Securities & Exchange Commission and other regulatory bodies for their continued support.

For and on behalf of the Board,

Nahayan Mabarak Al Nahayan
Chairman

Abu Dhabi
February 21, 2011

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Note	2010	2009
		------- (Rupees in '000) -------	
ASSETS			
Cash and balances with treasury banks	6	67,461,668	61,470,047
Balances with other banks	7	18,192,142	5,407,470
Lendings to financial institutions	8	12,384,778	23,162,130
Investments	9	224,578,556	136,145,524
Advances			
Performing	10	318,673,884	342,663,339
Non-performing - net of provision	10	15,058,288	11,428,374
		333,732,172	354,091,713
Operating fixed assets	11	22,424,072	21,925,669
Deferred tax asset - net	12	1,298,403	608,876
Other assets	13	18,713,188	16,905,004
		698,784,979	619,716,433
LIABILITIES			
Bills payable	15	5,045,815	5,147,259
Borrowings	16	45,104,849	35,144,823
Deposits and other accounts	17	550,645,767	492,036,103
Sub-ordinated loans	18	11,985,748	11,989,800
Other liabilities	19	17,587,735	14,461,725
		630,369,914	558,779,710
NET ASSETS		68,415,065	60,936,723
REPRESENTED BY:			
Share capital	20	12,241,798	11,128,907
Reserves		21,688,637	18,959,537
Unappropriated profit		26,250,489	22,187,802
		60,180,924	52,276,246
Surplus on revaluation of assets - net of deferred tax	21	8,234,141	8,660,477
		68,415,065	60,936,723
CONTINGENCIES AND COMMITMENTS	22		

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

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

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

	Note	2010	2009
		------- (Rupees in '000) -------	
Mark-up / return / interest earned	24	59,331,761	61,107,025
Mark-up / return / interest expensed	25	25,223,253	28,163,787
Net mark-up / interest income		34,108,508	32,943,238
Provision against loans and advances - net	10.5	6,803,355	9,623,204
Provision against lending to financial institutions	8.5	-	560,852
Provision for diminution in value of investments - net	9.3	204,573	945,342
Bad debts written off directly	10.6	996,772	1,485,976
		8,004,700	12,615,374
Net mark-up / return / interest income after provisions		26,103,808	20,327,864
Non Mark-up / Interest Income			
Fee, commission and brokerage income		6,337,745	5,925,082
Dividend income		591,017	606,347
Income from dealing in foreign currencies		1,653,793	1,213,881
Gain on sale of securities - net	26	158,885	629,418
Unrealized loss on revaluation of investments classified as held for trading	9.4	(38,365)	(3,006)
Other income	27	1,417,557	3,047,849
Total non mark-up / return / interest income		10,120,632	11,419,571
		36,224,440	31,747,435
Non Mark-up / Interest Expenses			
Administrative expenses	28	17,765,056	16,608,561
Other provisions / write offs - net	29	63,233	642,274
Workers' Welfare Fund	30	413,542	397,547
Other charges	31	240,391	64,552
Total non mark-up / interest expenses		18,482,222	17,712,934
Profit before taxation		17,742,218	14,034,501
Taxation - Current	32	6,805,506	6,930,585
- Prior years	32	415,136	76,328
- Deferred	32	(638,354)	(2,165,099)
		6,582,288	4,841,814
Profit after taxation		11,159,930	9,192,687
		----------- (Rupees) -----------	
			Restated
Earnings per share - basic and diluted	33	9.12	7.51

The annexed notes from 1 to 48 and annexures form an integral part of these unconsolidated 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

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

	2010	2009
	------- (Rupees in '000) -------	
Profit after taxation	11,159,930	9,192,687
Other comprehensive income / (loss):		
Exchange differences on translation of net investment in foreign branches	419,851	1,549,269
Net gain on cash flow hedges	118,866	108,028
Related deferred tax liability on cash flow hedges	(41,603)	(37,810)
	77,263	70,218
	497,114	1,619,487
Comprehensive income transferred to equity - net of tax	11,657,044	10,812,174

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 unconsolidated financial statements.

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

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

	Note	2010	2009
		------- (Rupees in '000) -------	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		17,742,218	14,034,501
Less: Dividend income		591,017	606,347
		17,151,201	13,428,154
Adjustments:			
Depreciation		1,492,922	1,471,525
Amortization		221,047	184,241
Workers Welfare Fund		413,542	397,547
Provision for retirement benefits		16,638	462,726
Provision against loans and advances		6,803,355	9,623,204
Provision against lending to financial institutions		-	560,852
Provision for diminution in value of investments		204,573	945,342
Reversal of provision in respect of investments disposed off during the year		(337,899)	(1,208,712)
Provision against off balance sheet items		-	20,250
Gain on sale of fixed assets		(16,248)	(30,856)
Bad debts written-off directly		996,772	1,485,976
Amortization of cash flow hedge reserve		118,866	108,028
Unrealized loss on revaluation of investments classified as held for trading		38,365	3,006
Provision / (reversal of provision) against other assets		63,233	622,024
		10,015,166	14,645,153
		27,166,367	28,073,307
Decrease / (increase) in operating assets			
Lendings to financial institutions		10,777,352	(917,641)
Held for trading securities		(12,484,294)	743,410
Advances		12,559,414	5,938,782
Other assets (excluding advance taxation)		(1,185,766)	1,563,434
		9,666,706	7,327,985
(Decrease) / increase in operating liabilities			
Bills payable		(101,444)	(47,190)
Borrowings		9,960,026	(9,051,063)
Deposits and other accounts		58,609,664	8,476,041
Other liabilities (excluding current taxation)		2,697,443	(1,383,783)
		71,165,689	(2,005,995)
		107,998,762	33,395,297
Staff retirement benefits received / (paid)		977,691	(637,322)
Income taxes paid		(8,906,105)	(9,658,543)
Net cash inflow from operating activities		100,070,348	23,099,432
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in securities		(76,127,684)	(13,565,270)
Dividend income received		591,017	620,499
Investment in operating fixed assets		(2,263,630)	(1,550,661)
Sale proceeds from disposal of property and equipment		96,850	172,876
Net cash outflow from investing activities		(77,703,447)	(14,322,556)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of principal of sub-ordinated loans		(4,052)	(4,048)
Dividends paid		(4,006,407)	(1,011,719)
Net cash used in financing activities		(4,010,459)	(1,015,767)
Exchange differences on translation of net investment in foreign branches		419,851	1,549,269
Increase in cash and cash equivalents		18,776,293	9,310,378
Cash and cash equivalents at beginning of the year		66,877,517	57,567,139
Cash and cash equivalents at end of the year	34	85,653,810	66,877,517

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

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

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

	Share capital	Capital reserves: Statutory reserve	Capital reserves: Exchange translation reserve	Capital reserves: Reserve for issue of bonus shares	Cash flow hedge reserve	Unapprop-riated profit	Total
	(Rupees in '000)						
Balance as at January 1, 2009	10,117,188	10,376,375	5,401,771	-	(276,633)	16,604,076	42,222,777
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)
Transfer to reserve for issue of bonus share	-	-	-	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	-	-	-	-	-	9,192,687	9,192,687
Other comprehensive income - net of tax	-	-	1,549,269	-	70,218	-	1,619,487
Total comprehensive income	-	-	1,549,269	-	70,218	9,192,687	10,812,174
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-		253,014	253,014
Transfer to statutory reserve	-	1,838,537	-	-		(1,838,537)	-
Balance as at December 31, 2009	**11,128,907**	**12,214,912**	**6,951,040**	**-**	**(206,415)**	**22,187,802**	**52,276,246**
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)
Interim cash dividend for the half year ended June 30, 2010 declared at Re. 1.00 per share	-	-	-	-	-	(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	-	-	-	-	-	11,159,930	11,159,930
Other comprehensive income - net of tax	-	-	419,851	-	77,263	-	497,114
Total comprehensive income	-	-	419,851	-	77,263	11,159,930	11,657,044
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	254,041	254,041
Transfer to statutory reserve	-	2,231,986	-	-	-	(2,231,986)	-
Balance as at December 31, 2010	**12,241,798**	**14,446,898**	**7,370,891**	**-**	**(129,152)**	**26,250,489**	**60,180,924**

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

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

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

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

1. STATUS AND NATURE OF BUSINESS

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.

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 unconsolidated 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 Bank 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 Bank have been included in these unconsolidated 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 unconsolidated 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 unconsolidated 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 These unconsolidated financial statements represent the separate standalone financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary companies are presented separately.

3.4 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)	01 February 2010
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 12 - Income Taxes: Deferred Tax Amendment – Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Bank expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Bank'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 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These unconsolidated 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 judgments

The preparation of these unconsolidated 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 5.4 and 9)
ii) provision against investments (notes 5.4 and 9.3) and advances (notes 5.5 and 10.5)
iii) income taxes (notes 5.8 and 32)
iv) staff retirement benefits (notes 5.10 and 36)
v) fair value of derivatives (notes 5.15 and 19.4)
vi) operating fixed assets, depreciation and amortization (notes 5.6 and 11)
vii) impairment (note 5.7)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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 Bank 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.

5.2 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.

5.3 Lendings to / borrowings from financial institutions

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

5.3.1 Sale under repurchase agreements

Securities sold subject to a re-purchase agreement (repo) are retained in the unconsolidated 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.

5.3.2 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 unconsolidated 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.

5.4 Investments

Investments of the Bank, other than investments in subsidiaries and 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 Bank has the positive intent and ability to hold to maturity.

Available for sale

These are investments, other than those in subsidiaries and 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 Bank 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.

Investments in Subsidiaries and Associates

Investments in subsidiaries and associates are valued at cost less impairment, if any. A reversal of an impairment loss on associates and subsidiaries is recognized as it arises provided the increased carrying value does not exceed that it would have been had no impairment loss been recognized.

Gain or loss on sale of investments in subsidiaries and associates is included in the profit and loss account for the year.

5.5 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 Bank, 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 Bank'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.

5.6 Operating fixed assets and depreciation

5.6.1 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 includes exchange difference arising on currency translation at the year-end rates of exchange.

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 unconsolidated 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.

5.6.2 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.

5.6.3 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 Bank. The residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

5.7 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 Bank evaluates among other factors, the normal volatility in share price.

Impairment in investments in associates and subsidiaries

The Bank considers that a decline in the recoverable value of investment in associates and subsidiaries 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 account. Subsequent reversal of impairment loss, upto the cost of investment in associates and subsidiaries is credited to the profit and loss account.

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.

5.8 Taxation

5.8.1 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.

5.8.2 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 Bank 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.

5.9 Provisions

Provisions are recognized when the Bank 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 Bank 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.

5.10 Staff retirement and other benefits

5.10.1 Staff retirement benefit schemes

The Bank operates the following staff retirement schemes for its employees

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.

5.10.2 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.

5.10.3 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 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.

5.12 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.

5.13 Revenue recognition

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

5.13.1 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 operate, except where, in the opinion of the management, it would not be prudent to do so.

5.13.2 Dividend income

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

5.13.3 Fee, brokerage and commission

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

5.14 Foreign currencies

5.14.1 Functional and presentation currency

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

5.14.2 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.

5.14.3 Foreign operations

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

5.14.4 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 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.

5.14.5 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the unconsolidated 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 unconsolidated financial statements at the committed amount.

5.15 Financial instruments

5.15.1 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.

5.15.2 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.

5.15.3 Hedge accounting

The Bank 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 Bank applies hedge accounting for transactions which meet the specified criteria.

At the inception of the hedge relationship, the Bank 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 Bank 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.

5.15.4 Off setting

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

5.16 Segment reporting

A segment is a distinguishable component of the Bank 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.

5.16.1 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) Others

Other includes support functions of the bank which can not be classified in any of the above segment.

5.16.2 Geographical segments

The Bank operates in four geographical regions being:

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

5.17 Dividends and appropriations 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.

5.18 Earnings per share

The Bank 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 bank by the weighted average number of ordinary shares outstanding during the year.

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	Note	2010	2009
		------- (Rupees in '000) -------	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		11,680,324	10,911,325
Foreign currency		2,539,542	3,088,167
		14,219,866	13,999,492
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	11,960,999	15,372,202
With National Bank of Pakistan in local currency current account		13,798,332	8,609,162
National Prize Bonds		46,681	57,398
		67,461,668	61,470,047

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 of the Bank.

	Note	2010	2009
		------- (Rupees in '000) -------	
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		-	26,715
In deposit accounts	7.1	3,472	75,630
		3,472	102,345
Outside Pakistan			
In current accounts		2,902,027	3,933,891
In deposit accounts	7.1	15,286,643	1,371,234
		18,188,670	5,305,125
		18,192,142	5,407,470

7.1 These carry mark-up at rates ranging from 0.10% to 5.00% (2009: 0.12% to 2.01%) per annum.

	Note	2010	2009
		------- (Rupees in '000) -------	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
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 Bank	Further given as collateral /	Total	Held by Bank	Further given as collateral /	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.

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.

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9. INVESTMENTS

9.1 Investments by type

	Note	2010 Held by bank	2010 Given as collateral	2010 Total	2009 Held by bank	2009 Given as collateral	2009 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		1,297,405	-	1,297,405	-	-	-
		15,095,990	1,189,144	16,285,134	3,706,540	97,306	3,803,846
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		3,629,299	-	3,629,299	3,639,088	-	3,639,088
Preference shares		463,977	-	463,977	188,895	-	188,895
Ordinary shares of unlisted companies	9.7	445,382	-	445,382	441,574	-	441,574
Term Finance Certificates		2,163,810	-	2,163,810	1,948,689	-	1,948,689
Units of mutual funds		164,662	-	164,662	191,299	-	191,299
Foreign securities		14,878,099	-	14,878,099	12,740,879	-	12,740,879
		88,313,537	21,231,926	109,545,463	78,792,487	3,978,323	82,770,810
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		-	-	-	478,184	-	478,184
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		2,184,264	-	2,184,264	1,687,712	-	1,687,712
CDC SAARC Fund		428	-	428	421	-	421
		95,181,046	-	95,181,046	45,750,454	-	45,750,454
Associates							
United Growth and Income Fund		3,030,136	-	3,030,136	5,002,027	-	5,002,027
UBL Liquidity Plus Fund		2,600,000	-	2,600,000	600,000	-	600,000
United Composite Islamic Fund		250,000	-	250,000	386,997	-	386,997
United Islamic Income Fund		200,000	-	200,000	250,000	-	250,000
United Stock Advantage Fund		250,000	-	250,000	250,000	-	250,000
UBL Participation Protected Plan		200,000	-	200,000	200,000	-	200,000
UBL Capital Protected Fund - II		100,000	-	100,000	-	-	-
UBL Savings Income Fund		100,000	-	100,000	-	-	-
UBL Islamic Savings Fund		150,000	-	150,000	-	-	-
UBL Islamic Retirement Savings Fund		90,000	-	90,000	-	-	-
UBL Retirement Savings Fund		90,000	-	90,000	-	-	-
UBL Capital Protected Fund - I		75,075	-	75,075	75,075	-	75,075
UBL Insurers Limited		240,000	-	240,000	150,000	-	150,000
Oman United Exchange Company, Muscat		6,981	-	6,981	6,981	-	6,981
	9.9	7,382,192	-	7,382,192	6,921,080	-	6,921,080
Subsidiaries							
United National Bank, UK		1,482,011	-	1,482,011	1,482,011	-	1,482,011
United Bank AG Zurich, Switzerland		589,837	-	589,837	589,837	-	589,837
UBL Fund Managers Limited		100,000	-	100,000	100,000	-	100,000
United Executors and Trustees Company Ltd		30,100	-	30,100	30,100	-	30,100
		2,201,948	-	2,201,948	2,201,948	-	2,201,948
		208,174,713	22,421,070	230,595,783	137,372,509	4,075,629	141,448,138
Provision for diminution in value of investments	9.3	(2,658,000)	-	(2,658,000)	(2,252,653)	-	(2,252,653)
Investments (net of provisions)		205,516,713	22,421,070	227,937,783	135,119,856	4,075,629	139,195,485
Deficit on revaluation of available for sale securities	21.2	(3,309,144)	(11,718)	(3,320,862)	(3,049,359)	2,404	(3,046,955)
Deficit on revaluation of held for trading securities	9.4	(38,201)	(164)	(38,365)	(2,286)	(720)	(3,006)
Total investments		202,169,368	22,409,188	224,578,556	132,068,211	4,077,313	136,145,524

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	Note	2010	2009
		------- (Rupees in '000) -------	
9.2 Investments by segment			
Federal Government Securities			
Market Treasury Bills		127,315,215	48,577,758
Pakistan Investment Bonds		24,722,104	19,761,871
Government of Pakistan - Sukuk		4,152,000	3,500,000
Government of Pakistan - Eurobonds		3,938,516	4,348,741
Government of Pakistan - Guaranteed Bonds		51,399	1,485,057
		160,179,234	77,673,427
Foreign Securities			
Market Treasury Bills		5,917,073	5,852,457
Government securities		4,770,078	3,214,893
CDC SAARC Fund		428	421
Other securities		13,589,690	11,213,698
		24,277,269	20,281,469
Ordinary Shares			
Listed companies		3,638,227	3,639,088
Unlisted companies	9.7	445,382	441,574
		4,083,609	4,080,662
Preference Shares		463,977	188,895
Units of Mutual Funds		164,662	191,299
Term Finance Certificates			
Listed companies		2,437,296	2,667,774
Unlisted companies		26,833,263	24,570,114
		29,270,559	27,237,888
Sukuk Bonds		2,548,739	2,640,040
Debentures		4,392	4,592
Participation Term Certificates		19,202	26,838
Investments in subsidiaries and associates	9.9	9,584,140	9,123,028
Total investments at cost		230,595,783	141,448,138
Provision for diminution in value of investments	9.3	(2,658,000)	(2,252,653)
Investments (net of provisions)		227,937,783	139,195,485
Deficit on revaluation of available for sale securities	21.2	(3,320,862)	(3,046,955)
Deficit on revaluation of held for trading securities	9.4	(38,365)	(3,006)
Total investments		224,578,556	136,145,524

		2010	2009
9.3	**Particulars of provision for diminution in value of investments:**	------- (Rupees in '000) -------	
9.3.1	Opening balance	2,252,653	2,536,770
	Charged during the year	342,610	1,249,158
	Reversed during the year	(138,037)	(303,816)
	Net charge for the year	204,573	945,342
	Reversed on disposal	(337,899)	(1,208,712)
	Transfers	548,318	-
		210,419	(1,208,712)
	Written off during the year	(9,645)	(20,747)
	Closing balance	2,658,000	2,252,653

9.3.2 Particulars of provision for diminution in value of investments by type

	2010	2009
Available for sale securities		
Ordinary shares of listed companies	2,017,835	1,830,318
Ordinary shares of unlisted companies	141,512	150,275
Foreign securities	281,585	-
	2,440,932	1,980,593
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	15,360	135,646
	2,658,000	2,252,653

9.3.3 Particulars of provision for diminution in value of investments by segment

	2010	2009
Ordinary Shares		
Listed companies	2,017,835	1,830,318
Unlisted companies	141,512	150,275
Foreign securities	281,585	-
	2,440,932	1,980,593
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	15,360	135,646
	2,658,000	2,252,653

9.4 Unrealized gain / (loss) on revaluation of held for trading securities

	2010	2009
Market Treasury Bills	(353)	1,416
Pakistan Investment Bonds	2,440	(4,422)
Ordinary shares of listed companies	91	-
Foreign securities	(40,543)	-
	(38,365)	(3,006)

9.5 Investments include certain approved / government securities which are held by the Bank 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 Bank 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 Bank'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 Bank 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.

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In order to achieve the strategic restructuring of Khushhali Bank Limited, a consortium of commercial banks including the Bank 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 unconsolidated financial statements. Details in respect of quality of available for sale securities are also disclosed in Annexure 'A'.

9.9 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.

9.10 The Bank has tested the investment in its associates for impairment by comparing the recoverable value to the carrying value.

For Mutual Funds, the recoverable value is determined to be the Net Asset Value of the Fund. The Bank has determined that no impairment loss exists for the year. For certain Funds, an improvement in the recoverable value during the year has resulted in reversal of impairment losses recognized till the year ended December 31, 2009 which has been credited to the profit and loss account for the year.

For UBL Insurers Ltd (UIL), the recoverable value was determined using a value in use (VIU) calculation using cashflow projections based on financial budgets prepared by the management of UIL for the forecast period. Cashflows beyond the forecast period have been extrapolated using growth rates consistent with the economic environment of the country.

The discount rate of 18.77% is used for determining the VIU of UIL, which reflects UIL management’s estimate of the cost of equity applicable to UIL. The cost of equity has been calculated using the Capital Asset Pricing Model (CAPM). Parameters used in the CAPM calculation are based on published third party data. In the current year, the Bank has determined that no impairment loss exists in its investment in UIL. Accordingly, reversal of impairment losses on UIL recognized till the year ended December 31, 2009 has been credited to the profit and loss account for the year.

10. ADVANCES

	Note	Performing 2010	Performing 2009	Non-performing 2010	Non-performing 2009	Total 2010	Total 2009
		(Rupees in '000)					
Loans, cash credits, running finances, etc.							
In Pakistan	10.2	228,034,418	244,389,399	40,726,130	32,220,534	268,760,548	276,609,933
Outside Pakistan		75,230,030	82,463,971	5,198,923	4,064,166	80,428,953	86,528,137
		303,264,448	326,853,370	45,925,053	36,284,700	349,189,501	363,138,070
Bills discounted and purchased							
Payable in Pakistan		12,429,950	11,607,055	2,235,582	2,400,013	14,665,532	14,007,068
Payable outside Pakistan		4,404,982	4,916,421	431,925	416,683	4,836,907	5,333,104
		16,834,932	16,523,476	2,667,507	2,816,696	19,502,439	19,340,172
Advances - gross		320,099,380	343,376,846	48,592,560	39,101,396	368,691,940	382,478,242
Provision against advances	10.5						
- Specific		-	-	(33,534,272)	(27,673,022)	(33,534,272)	(27,673,022)
- General		(1,425,496)	(713,507)	-	-	(1,425,496)	(713,507)
		(1,425,496)	(713,507)	(33,534,272)	(27,673,022)	(34,959,768)	(28,386,529)
Advances - net of provision		318,673,884	342,663,339	15,058,288	11,428,374	333,732,172	354,091,713

		Performing 2010	Performing 2009	Non-performing 2010	Non-performing 2009	Total 2010	Total 2009
		(Rupees in '000)					
10.1	**Particulars of advances - gross**						
10.1.1	In local currency	235,079,268	253,182,814	42,816,359	33,781,868	277,895,627	286,964,682
	In foreign currencies	85,020,112	90,194,032	5,776,201	5,319,528	90,796,313	95,513,560
		320,099,380	343,376,846	48,592,560	39,101,396	368,691,940	382,478,242
10.1.2	Short term	244,216,178	230,096,641	-	-	244,216,178	230,096,641
	Long term	75,883,202	113,280,205	48,592,560	39,101,396	124,475,762	152,381,601
		320,099,380	343,376,846	48,592,560	39,101,396	368,691,940	382,478,242

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.48,593 million (2009: Rs.39,101 million) which have been placed under non-performing status as detailed below:

Category of Classification	2010 Classified advances Domestic	Overseas	Total	Provision Required Domestic	Overseas	Total	Provision held 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	1,588,399	32,176,303	27,239,551	1,588,399	28,827,950	27,239,551	1,588,399	28,827,950
	42,961,712	5,630,848	48,592,560	30,183,983	3,350,289	33,534,272	30,183,983	3,350,289	33,534,272

Category of Classification	2009 Classified advances Domestic	Overseas	Total	Provision Required Domestic	Overseas	Total	Provision held Domestic	Overseas	Total
	(Rupees in '000)								
Other Assets Especially Mentioned *	386,517	-	386,517	-	-	-	-	-	-
Substandard	3,802,275	1,473,002	5,275,277	891,498	368,251	1,259,749	891,498	368,251	1,259,749
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	1,311,446	25,735,869	21,602,032	1,311,446	22,913,478	21,602,032	1,311,446	22,913,478
	34,620,547	4,480,849	39,101,396	25,145,119	2,527,903	27,673,022	25,145,119	2,527,903	27,673,022

* The Other Assets Especially Mentioned category pertains to agricultural finance only.

10.5 Particulars of provision against advances

	Note	2010 Specific	General	Total	2009 Specific	General	Total
		(Rupees in '000)					
Opening balance		27,673,022	713,507	28,386,529	18,563,334	1,199,769	19,763,103
Exchange adjustments		197,274	-	197,274	272,286	13,018	285,304
Charge / (Reversals)							
Charge for the year		8,043,159	910,973	8,954,132	11,530,793	-	11,530,793
Reversals		(1,956,300)	(194,477)	(2,150,777)	(944,245)	(963,344)	(1,907,589)
		6,086,859	716,496	6,803,355	10,586,548	(963,344)	9,623,204
Transfers		133,267	(4,507)	128,760	(464,064)	464,064	-
Amounts written off	10.6	(556,150)	-	(556,150)	(1,285,082)	-	(1,285,082)
Closing balance		33,534,272	1,425,496	34,959,768	27,673,022	713,507	28,386,529

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: Nil) which the Bank carries as matter of prudence given the current economic environment and is based on management estimates.

10.5.2 Particulars of provision against advances

	2010 Specific	General	Total	2009 Specific	General	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	3,350,288	415,169	3,765,457	3,345,320	144,311	3,489,631
	33,534,272	1,425,496	34,959,768	27,673,022	713,506	28,386,528

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		Note	2010	2009
10.6	**Particulars of write-offs**		------- (Rupees in '000) -------	
10.6.1	Against provisions	10.5	556,150	1,285,082
	Directly charged to profit and loss account		996,772	1,485,976
			1,552,922	2,771,058
10.6.2	Write-offs of Rs.500,000 and above	10.7	764,563	1,588,946
	Write-offs of below Rs.500,000		788,359	1,182,112
			1,552,922	2,771,058

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 unconsolidated 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
10.8	**Particulars of loans and advances to executives, directors, associated companies etc.**		------- (Rupees in '000) -------	
	Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons			
	Balance at the beginning of the year		1,482,474	981,319
	Loans granted during the year		717,242	1,020,264
	Repayments made during the year		(581,135)	(519,109)
	Balance at the end of the year		1,618,581	1,482,474
11.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	11.1	1,334,951	997,617
	Property and equipment	11.2	20,166,071	20,439,417
	Intangible assets	11.3	923,050	488,635
			22,424,072	21,925,669
11.1	**Capital work-in-progress**			
	Civil works	11.1.1	537,257	484,612
	Equipment		268,949	202,119
	Software	11.1.2	517,776	297,984
	Advances to suppliers and contractors		10,969	12,902
			1,334,951	997,617

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

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

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11.2 Property and equipment

		2010												
		COST/ REVALUATION						ACCUMULATED DEPRECIATION					Net book value	Annual rate
	Note	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 / (depreciation on deletions)	Reversal due to revaluation	Exchange Adjustment/ Other adjustments	At December 31, 2010	at December 31, 2010	of depreciation %
		---------- (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		118,967	22,025 -	- -	173,900 -	- -	314,892	-	15,002 -	- -	- -	15,002	299,890	5
Buildings on leasehold land		2,149,539	56,072 (5,431)	8,788 (8,707)	- (173,900)	161 -	2,026,522	36,283	99,979 (5,431)	- (8,707)	347 -	122,471	1,904,051	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		885,786	75,064 (17,770)	- -	- -	2,192 -	945,272	477,661	78,998 (14,760)	- -	2,196 -	544,095	401,177	10
Electrical, office and computer equipment		3,896,827	704,628 (31,186)	- -	- -	- (8,199)	4,562,070	2,427,235	682,097 (29,681)	- -	- (24,665)	3,054,986	1,507,084	20-25
Vehicles		267,752	48,877 (34,854)	- -	- -	174 -	281,949	158,981	34,307 (22,631)	- -	- (2,549)	168,108	113,841	20
Assets held under operating lease														
Ijarah assets	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
2010		24,252,109	1,270,573 (230,125)	8,788 (8,707)	1,264,617 (1,264,617)	10,391 (8,199)	25,294,830	3,812,692	1,492,923 (142,994)	- (8,707)	2,561 (27,716)	5,128,759	20,166,071	

		2009												
		COST/ REVALUATION						ACCUMULATED DEPRECIATION					Net book value	Annual rate
	Note	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 / (depreciation on deletions)	Reversal due to revaluation	Exchange Adjustment/ Other adjustments	At December 31, 2009	at December 31, 2009	of depreciation %
		---------- (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		81,021	- (112)	44,923 (7,840)	- -	975 -	118,967	3,826	4,126 (112)	- (7,840)	- -	-	118,967	5
Buildings on leasehold land		1,904,654	- (5,240)	434,008 (184,470)	- -	587 -	2,149,539	128,769	93,934 (1,965)	- (184,470)	498 (483)	36,283	2,113,256	5
Leasehold Improvements		1,169,850	305,714 -	- -	- -	19,449 -	1,495,013	255,761	149,724 -	- -	9,929 -	415,414	1,079,599	10
Furniture and fixtures		801,949	104,078 (28,986)	- -	- -	8,745 -	885,786	418,311	73,279 (22,734)	- -	8,805 -	477,661	408,125	10
Electrical, office and computer equipment		3,137,525	777,812 (52,476)	- -	- -	33,966 -	3,896,827	1,833,212	616,013 (42,430)	- -	20,440 -	2,427,235	1,469,592	20-25
Vehicles		272,066	51,958 (58,969)	- -	- -	2,697 -	267,752	141,973	58,523 (43,690)	- -	2,175 -	158,981	108,771	20
Assets held under operating lease														
Ijarah assets	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
2009		19,857,159	1,290,404 (368,226)	4,139,592 (715,373)	- -	68,212 (19,659)	24,252,109	3,242,596	1,471,524 (226,207)	- (715,373)	41,910 (1,758)	3,812,692	20,439,417	

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	1,043,528	654,002 (4,140)	19,899	1,713,289	554,893	221,047 (2,691)	16,990	790,239	923,050	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	777,027	267,182 (8,825)	8,144	1,043,528	374,687	184,241 (8,825)	4,790	554,893	488,635	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 on the basis of professional assessment of present market values and resulted in a surplus of Rs.4,139.592 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	69,201	73,256
Buildings on leasehold land	1,584,701	1,679,280

11.5 Carrying amount of temporarily idle property	59,812	158,927

11.6 The cost of fully depreciated assets still in use

Furniture and fixtures	234,275	233,962
Electrical, office and computer equipment	1,665,921	1,220,822
Vehicles	69,474	33,601
	1,969,670	1,488,385

11.7 Details of disposal 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 unconsolidated financial statements.

11.8 The Islamic Banking Branches of the Bank 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:

	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

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	Note	2010	2009
		------- (Rupees in '000) -------	
12. DEFERRED TAX ASSET - NET			
Deferred tax asset - net	12.1	1,298,403	608,876

12.1 Movement in temporary differences during the year

	2010			
	At January 01, 2010	Recognised in profit and loss account	Others	At December 31, 2010
	---------- (Rupees in '000) ----------			
Deductible temporary differences on				
- Deficit on revaluation of investments	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	4,662,598	541,702	-	5,204,300
	6,031,636	480,615	54,265	6,566,516
Taxable temporary differences on				
- Surplus on revaluation of fixed assets	(5,275,900)	136,794	(3,092)	(5,142,198)
- Accelerated tax depreciation	(146,860)	20,945	-	(125,915)
	(5,422,760)	157,739	(3,092)	(5,268,113)
	608,876	638,354	51,173	1,298,403

	2009			
	At January 01, 2009	Recognised in profit and loss account	Others	At December 31, 2009
	---------- (Rupees in '000) ----------			
Deductible temporary differences on				
- Deficit on revaluation of investments	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	2,658,457	2,004,141	-	4,662,598
	6,245,091	1,958,994	(2,172,449)	6,031,636
Taxable temporary differences on				
- Surplus on revaluation of fixed assets	(3,972,755)	136,238	(1,439,383)	(5,275,900)
- Accelerated tax depreciation	(216,727)	69,867	-	(146,860)
	(4,189,482)	206,105	(1,439,383)	(5,422,760)
	2,055,609	2,165,099	(3,611,832)	608,876

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13. OTHER ASSETS

	Note	2010	2009
		------- (Rupees in '000) -------	
Income / mark-up accrued in local currency		11,753,658	11,036,384
Income / mark-up accrued in foreign currency		1,181,889	272,232
		12,935,547	11,308,616
Advance taxation - net of provision for taxation	13.1	3,686,910	2,001,447
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	142,266
Unrealized gain on derivative financial instruments	23.2	693,675	499,672
Advance against Murabaha		-	383,929
Suspense accounts		224,948	169,309
Stationery and stamps on hand		151,528	143,825
Advances, deposits, advance rent and other prepayments		727,888	771,109
Others		1,139,563	1,139,428
		21,065,632	19,538,896
Provision held against other assets	13.2	(2,352,444)	(2,633,892)
Other assets (net of provisions)		18,713,188	16,905,004

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.

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: 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.

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13.2 Provision against other assets

	Note	2010	2009
		------- (Rupees in '000) -------	
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	909,328	202,356
	5,045,815	5,147,259

16. BORROWINGS

	2010	2009
In Pakistan	43,401,942	30,953,356
Outside Pakistan	1,702,907	4,191,467
	45,104,849	35,144,823

16.1 Particulars of borrowings with respect to currencies

	2010	2009
In local currency	43,401,942	30,953,357
In foreign currencies	1,702,907	4,191,466
	45,104,849	35,144,823

16.2 Details of borrowings from financial institutions

	Note	2010	2009
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		456,617	648,559
Trading liabilities		806,942	96,586
Other borrowings	16.9	917,536	1,263,624
		2,609,290	10,688,052
		45,104,849	35,144,823

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 & 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 represents 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.

17. DEPOSITS AND OTHER ACCOUNTS

	2010	2009
	------- (Rupees in '000) -------	
Customers		
Fixed deposits	162,426,884	150,792,206
Savings deposits	193,982,616	178,287,618
Sundry deposits	4,767,873	4,643,923
Margin deposits	3,696,330	4,319,476
Current accounts - remunerative	3,412,476	2,114,809
Current accounts - non-remunerative	180,688,420	150,803,732
	548,974,599	490,961,764
Financial Institutions		
Remunerative deposits	1,518,443	964,066
Non-remunerative deposits	152,725	110,273
	1,671,168	1,074,339
	550,645,767	492,036,103

17.1 Particulars of deposits and other accounts

	2010	2009
In local currency	415,739,343	368,303,869
In foreign currencies	134,906,424	123,732,234
	550,645,767	492,036,103

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 Kibor+1.35%	February 2018	Semi Annual	5,994,000	5,996,400
							11,985,748	11,989,800

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

	Note	2010	2009
		------- (Rupees in '000) -------	
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		8,427,554	7,015,536
Mark-up / return / interest payable in foreign currency		334,841	353,032
Accrued expenses	19.1	2,141,153	1,528,824
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		99,544	95,736
Provision against off - balance sheet obligations	19.2	669,891	682,141
Unrealized loss on forward foreign exchange contracts		654,579	207,567
Deferred liabilities	19.3	2,113,439	2,098,414
Unrealized loss on derivative financial instruments	19.4.1 & 23.2	753,854	557,414
Workers Welfare Fund payable		413,542	397,547
Insurance payable against consumer assets		183,095	393,288
Others		127,945	61,706
		17,587,735	14,461,725

19.1 This includes an accrual of Rs.250 million (2009: Rs.210 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 Bank 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.

	Note	2010	2009
		------- (Rupees in '000) -------	
19.2 Provision against off - balance sheet obligations			
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			
Provision for post retirement medical benefits	36.4	1,139,616	1,147,095
Provision for gratuity		296,671	219,411
Provision for compensated absences	36.4	677,152	731,908
		2,113,439	2,098,414

19.4 Unrealized gain / (loss) on derivative financial instruments

	Note	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 (Number of shares)	2009 (Number of shares)		2010	2009
2,000,000,000	2,000,000,000	Ordinary shares of Rs.10 each	20,000,000	20,000,000

20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs.10 each

2010 (Number of shares)	2009 (Number of shares)		2010	2009
		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)

Name of shareholder	2010 Number of shares held	2010 Percentage of shareholding	2009 Number of shares held	2009 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.

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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.

	Note	2010	2009
		------- (Rupees in '000) -------	
21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF DEFERRED TAX			
Surplus arising on revaluation of assets - net of tax:			
Fixed assets	21.1	10,392,701	10,640,998
Securities	21.2	(2,158,560)	(1,980,521)
		8,234,141	8,660,477

21.1 Surplus on revaluation of fixed assets

	Note	2010	2009
Surplus on revaluation of fixed assets at January 01		15,916,898	12,193,629
Revaluation of fixed assets during the year / adjustments		8,788	4,139,592
Written off during the year		-	(27,071)
Exchange adjustments		48	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year		(254,041)	(253,014)
Related deferred tax liability on incremental depreciation charged during the year	12.1	(136,794)	(136,238)
		(381,999)	3,723,269
		15,534,899	15,916,898
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
		10,392,701	10,640,998

21.2 Surplus / (Deficit) on revaluation of available-for-sale securities

	Note	2010	2009
Market Treasury Bills		(55,830)	20,995
Pakistan Investment Bonds		(1,937,605)	(1,129,224)
Listed shares		(34,452)	93,619
Mutual fund units		(709)	(2,302)
Term Finance Certificates, Sukuk, other Bonds etc.		(27,242)	(43,856)
Overseas securities		(1,265,024)	(1,986,187)
		(3,320,862)	(3,046,955)
Related deferred tax asset	12.1	1,162,302	1,066,434
		(2,158,560)	(1,980,521)

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct credit substitutes

	2010	2009
Contingent liabilities in respect of guarantees given favouring		
Government	8,742,208	10,818,102
Banking companies and other financial institutions	5,316,009	2,758,243
Others	6,079,170	7,396,201
	20,137,387	20,972,546

22.2 Transaction-related contingent liabilities

	2010	2009
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

		2010	2009
		------- (Rupees in '000) -------	
22.3	**Trade-related contingent liabilities**		
	Contingent liabilities in respect of letters of credit opened favouring		
	Government	58,157,874	56,186,541
	Others	69,337,219	61,762,728
		127,495,093	117,949,269
22.4	**Other contingencies**		
	Claims against the bank not acknowledged as debts	29,934,358	20,668,309

22.5 Commitments in respect of forward lending

The Bank 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
		------- (Rupees in '000) -------	
22.6	**Commitments in respect of forward foreign exchange contracts**		
	Sale	85,434,818	46,364,122
	Purchase	130,653,749	90,952,188
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**	571,403	567,882

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 Bank 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 the aspects of both 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 Bank's books, and handles its reporting to the SBP.

Derivative Risk Management

There are a number of risks undertaken by the Bank, which need to be monitored and assessed, and they 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 Bank'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 Bank, as a policy, hedges back-to-back all Options transactions. The Bank 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 Bank 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 liquidity risk.

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 Bank 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 Bank's Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices, end-user roles and responsibilities.

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 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	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

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23.2 Maturity analysis of derivatives

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

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

24. MARK-UP / RETURN / INTEREST EARNED

	2010	2009
	(Rupees in '000)	
On loans and advances to customers	40,027,810	45,512,875
On lendings to financial institutions		
- Call money lending	75,784	300,863
- Securities purchased under resale agreements	930,386	1,115,663
- Advances to financial institutions	227,360	286,755
	1,233,530	1,703,281
On investments in		
- Held for trading securities	780,660	941,878
- Available for sale securities	8,116,778	9,417,929
- Held to maturity securities	8,921,541	3,372,692
- Associates and subsidiaries	340	18,532
	17,819,319	13,751,031
On deposits with financial institutions	218,100	115,508
Discount income	33,002	24,330
	59,331,761	61,107,025

25. MARK-UP / RETURN / INTEREST EXPENSED

	2010	2009
On deposits	18,962,625	22,210,362
On securities sold under repurchase agreements	1,686,337	1,622,552
On other short - term borrowings	2,974,333	2,584,549
On long - term borrowings	1,428,292	1,511,574
Discount expense	171,666	234,750
	25,223,253	28,163,787

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		Note	2010	2009
26.	**GAIN ON SALE OF SECURITIES - NET**		------- (Rupees in '000) -------	
	Federal Government Securities			
	Market Treasury Bills		(598)	108,683
	Pakistan Investment Bonds		(12,899)	46,290
			(13,497)	154,973
	Ordinary shares			
	Listed companies		110,967	331,362
	Other securities		61,415	143,083
			158,885	629,418
27.	**OTHER INCOME**			
	Charges recovered from customers		770,293	1,162,018
	Rent on properties		121,551	134,643
	Income from dealing in derivatives		509,465	1,720,332
	Others		16,248	30,856
			1,417,557	3,047,849
28.	**ADMINISTRATIVE EXPENSES**			
	Personnel Cost			
	Salaries, allowances etc.	28.1	7,067,760	6,914,343
	Charge for compensated absences	36.7	152,261	418,143
	Medical expenses		380,919	373,907
	Contribution to defined contribution plan		104,035	416,114
	Reversal in respect of defined benefit obligations		(239,658)	(371,531)
			7,465,317	7,750,976
	Premises Cost			
	Rent, taxes, insurance, electricity etc.		2,266,225	2,025,555
	Depreciation	11.2	560,058	553,425
	Repairs and maintenance		82,906	85,684
			2,909,189	2,664,664
	Other Operating Cost			
	Outsourced service charges including sales commission		1,515,927	1,313,164
	Advertisement and publicity		765,856	221,107
	Communications		742,184	722,241
	Depreciation	11.2	932,864	918,100
	Legal and professional charges		276,249	217,776
	Banking service charges		408,576	355,089
	Stationery and printing		431,297	336,597
	Travelling		176,953	161,192
	Cash transportation charges		287,641	339,024
	Repairs and maintenance		102,485	82,607
	Maintenance contracts		509,225	362,105
	Insurance expense		82,819	164,073
	Vehicle expense		132,446	107,213
	Amortization	11.3	221,047	184,241
	Training and seminars		43,497	44,326
	Office running expense		199,861	152,318
	Entertainment		96,486	89,921
	Cartage, freight and conveyance		64,411	68,553
	Auditors' remuneration	28.3	39,620	44,835
	Subscriptions		22,097	26,121
	Brokerage expenses		16,521	19,457
	Sub-ordinated debt related costs		7,086	7,990
	Donations	28.2	82,282	55,975
	Non-executive Directors' fee and allowances		42,993	54,090
	Miscellaneous expenses		190,127	144,806
			7,390,550	6,192,921
			17,765,056	16,608,561

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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. 570.475 million (2009: Rs. 312.106 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	-
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
		82,282	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 & 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	24,226	35,702
Fee for audit of EPZ branch	250	-	-	250
Out of pocket expenses	1,725	1,709	234	3,668
	7,713	7,447	24,460	39,620

	2009			
	Ernst & Young Ford Rhodes Sidat Hyder	**BDO Ebrahim & Co.**	**Overseas Auditors**	**Total**
	---------------------------- (Rupees in '000) ----------------------------			
Audit fee	5,738	5,738	29,588	41,064
Fee for audit of EPZ branch	221	-	-	221
Out of pocket expenses	1,868	1,682	-	3,550
	7,827	7,420	29,588	44,835

	Note	2010	2009
		------- (Rupees in '000) -------	
29. OTHER PROVISIONS / WRITE OFFS - NET			
(Reversal) / provision against other assets - net	13.2	(122,261)	339,131
Provision against off - balance sheet obligations	19.2	-	20,250
Other provisions / write offs		188,424	276,716
Provision against Ijara Assets - Specific		(803)	9,191
Reversal against Ijara Assets - General		(2,127)	(3,014)
		63,233	642,274

30. WORKERS' WELFARE FUND

The Bank is 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.

	2010	2009
	------- (Rupees in '000) -------	
31. OTHER CHARGES		
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	1,002,082	22,653	5,780,771	6,805,506
Prior year tax	415,136	-	-	415,136
Deferred tax	(2,343)	(239)	(635,772)	(638,354)
	1,414,875	22,414	5,144,999	6,582,288

	2009			
	Overseas	Azad Kashmir	Domestic	Total
	---------------------------------- (Rupees in '000)			--------------------------------
Current tax	872,430	113,181	5,944,974	6,930,585
Prior year tax	76,328	-	-	76,328
Deferred tax	(7,677)	(684)	(2,156,738)	(2,165,099)
	941,081	112,497	3,788,236	4,841,814

	2010	2009
	------- (Rupees in '000) -------	
32.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	17,742,218	14,034,501
Tax on income @ 35% (2009: 35%)	6,209,776	4,912,075
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates / permanent differences	(44,107)	(271,683)
Prior year tax charge	415,136	76,328
Others	1,483	125,094
Tax charge	6,582,288	4,841,814

33. EARNINGS PER SHARE

	2010	2009
	------- (Rupees in '000) -------	
Profit after taxation for the year	11,159,930	9,192,687
	------- (Number of shares) -------	
Weighted average number of ordinary shares	1,224,179,687	1,224,179,687
	---------- (Rupees) ----------	
Earnings per share - basic and diluted	9.12	7.51

33.1 Diluted earnings per share has not been presented as the Bank 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 year.

34. CASH AND CASH EQUIVALENTS

	Note	2010	2009
		------- (Rupees in '000) -------	
Cash and balances with treasury banks	6	67,461,668	61,470,047
Balances with other banks	7	18,192,142	5,407,470
		85,653,810	66,877,517

35. STAFF STRENGTH

	2010	2009
	------------ (Number) ------------	
Permanent	8,473	8,448
Contractual basis	26	18
Bank's own staff strength at the end of the year	8,499	8,466
Outsourced	3,074	2,905
Total number of employees at the end of the year	11,573	11,371

36. DEFINED BENEFIT PLANS

36.1 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.

36.2 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's 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.

36.3 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%

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

	Note	2010				
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	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 benefit	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

36.5 Movement in defined benefit obligation

	Note	2010				
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	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	36.8.1	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 benefit	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

36.6 Movement in fair value of plan assets

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	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	-	-

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	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	-	-

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

	2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	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 retirement medical benefit	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

36.8 Charge for defined benefit plans

		2010				
		Pension fund	Gratuity fund	Benevolent fund	Post retirement 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	36.8.1	232,232	-	-	-	-
Employees' contribution		-	-	(5,450)	-	-
Settlement loss / gains		-	-	-	-	-
		(468,765)	60,447	(53,984)	93,179	152,261

	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

36.8.1 This represents return allocated to those employees who exercised the conversion option offered in the year 2001, as referred to in note 5.10.1.

36.9 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
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
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	-	-

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

	2010	2009	2008	2007	2006
Pension Fund			(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 / (deficit)	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)]	-	-	-	-	-

36.11 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.

36.12 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
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
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.

36.13 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

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.

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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	-	-
Managerial remuneration	61,349	61,287	-	-	2,415,831	2,272,550
Charge for defined benefit plans	1,001	1,001	-	-	215,447	189,601
Charge for defined contribution plan	1,880	1,880	-	-	56,021	48,875
Rent and house maintenance	4,750	2,375	-	-	384,325	333,228
Utilities	269	148	-	-	171,749	105,803
Medical	65	56	-	-	78,025	66,902
Conveyance	-	-	-	-	306,773	292,845
Reimbursement of children's education fees	1,106	5,928	-	-	-	-
Others	3,133	1,880	-	-	123,137	110,800
	73,553	74,555	42,993	54,090	3,751,308	3,420,604
Number of persons	1	1	9	7	1,244	1,135

The Bank's President / Chief Executive Officer and certain Executives are provided with free use of Bank 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.

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, other than investments in associates and subsidiaries, 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 Bank's accounting policy as stated in notes 4.2 and 5.7 to these unconsolidated 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 Bank's accounting policy as stated in note 5.5 to these unconsolidated financial statements.

The repricing profile, effective rates and maturity of financial instruments are stated in note 44 to these unconsolidated 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 & sales	Retail banking	Commercial banking	Others
	(Rupees in '000)				
Total income	471,169	2,647,783	31,156,420	9,208,767	745,001
Total expenses	(102,402)	(690,072)	(20,600,157)	(4,291,011)	(803,280)
Profit before tax	368,767	1,957,710	10,556,263	4,917,756	(58,279)
Segment return on assets (ROA) (%)	5.4%	0.7%	1.2%	1.8%	-
Segment cost of funds (%)	0.3%	8.0%	4.0%	10.7%	-

	For the year ended December 31, 2009				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Others
	(Rupees in '000)				
Total income	187,140	3,860,120	29,250,527	9,456,906	1,608,116
Total expenses	(641,566)	(831,738)	(20,483,277)	(7,302,410)	(1,069,316)
(Loss) / profit before tax	(454,426)	3,028,383	8,767,250	2,154,496	538,799
Segment return on assets (ROA) (%)	-5.4%	1.4%	1.0%	1.0%	-
Segment cost of funds (%)	6.6%	9.3%	4.9%	10.0%	-

	As at December 31, 2010				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Others
	(Rupees in '000)				
Segment assets (gross of NPL provisions)	5,004,302	257,667,931	173,895,858	265,008,433	30,742,726
Segment non performing loans (NPL)	-	2,002,017	21,766,521	24,810,869	13,153
Segment provision required against NPL	-	10,105	16,682,106	16,828,908	13,153
Segment liabilities	4,665,722	258,459,687	150,835,644	245,510,597	(29,101,736)

	As at December 31, 2009				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Others
	(Rupees in '000)				
Segment assets (gross of NPL provisions)	7,166,858	166,715,474	199,789,782	247,434,473	26,282,869
Segment non performing loans (NPL)	-	-	18,378,603	20,709,293	13,500
Segment provision required against NPL	-	-	13,519,170	14,140,352	13,500
Segment liabilities	6,410,759	161,934,319	189,251,044	221,518,027	(20,334,440)

41. TRUST ACTIVITIES

The Bank 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 Bank has related party transactions with its associates, subsidiary companies (refer note 9), 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 Bank are interested as directors, partners or in case of private companies as members are given in note 10.8 to these unconsolidated 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 unconsolidated 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	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Balances with other banks								
In current accounts	-	1,274,033	-	-	-	564,453	-	-
In saving accounts	-	-	-	2,773	-	-	-	-
In deposit accounts								
Opening balance	-	-	-	-	-	-	-	-
Placements during the year	-	4,960,214	-	-	-	1,251,860	-	-
Settled during the year	-	(4,960,214)	-	-	-	(1,251,860)	-	-
Closing balance	-	-	-	-	-	-	-	-
Lendings to financial institutions								
Call Money Lendings	-	-	-	350,000	-	-	-	-
Investments								
In shares / mutual funds - cost								
Opening balance	-	2,201,948	6,921,080	50,372	-	2,201,948	2,899,663	50,372
Investment made during the year	-	-	2,620,000	-	-	-	4,157,468	-
Investment sold / liquidated during the year	-	-	(2,158,888)	-	-	-	(136,051)	-
Closing balance	-	2,201,948	7,382,192	50,372	-	2,201,948	6,921,080	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	
Other receivable	-	2,369	-	-	-	4,109	108,522	-
Borrowings								
Opening balance	-	-	300,000	100,000	-	-	-	-
Borrowings during the year	-	1,461,661	2,100,000	-	-	-	1,650,000	1,100,000
Settled during the year	-	(1,461,661)	(2,400,000)	(100,000)	-	-	(1,350,000)	(1,000,000)
Closing balance	-	-	-	-	-	-	300,000	100,000
Overdrawn nostros	-	120,552	533	-	-	160,227	319	-
Deposits and other accounts								
Opening balance	19,365	112,363	164,877	56,453	20,149	35,835	147,701	308,347
Received during the year	444,766	127,967,474	31,725,811	34,749,151	258,920	77,334,856	15,508,596	1,151,870
Withdrawn during the year	(439,274)	(127,929,360)	(28,111,680)	(34,742,618)	(259,704)	(77,258,327)	(15,491,420)	(1,403,764)
Closing balance	24,857	150,477	3,779,008	62,986	19,365	112,364	164,877	56,453
Sub-ordinated loans	5	-	5,999	-	5	-	761,987	-
Other Liabilities								
Interest / markup payable on deposits	41	50	17,769	1,024	174	170	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
Unearned income	-	-	-	-	-	435	-	-
Provision for employee benefit scheme	-	-	-	250,000	-	-	-	210,000
Other payable	-	-	-	-	-	-	26,851	-
Others	-	10,000	-	-	-	-	-	-

	2010				2009			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Mark-up / return / interest earned	9,238	1,012	-	75,321	7,398	17,828	-	29,597
Dividend income	-	101,870	356,010	1,600	-	164,068	228,516	-
Net gain on sale of investment	-		2,393	-	-	-	-	-
Realised gain on derivative transactions	-	-	-	2,127,895	-	-	-	1,662,595
Other income	528	3,193	749	23	-	5,990	576	-
Mark-up / return / interest paid	716	679	242,488	8,984	389	388	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 defined benefit plans	-	-	-	(402,939)	-	-	-	(493,415)
Payment for employee motivation and retention scheme	-	-	-	210,000	-	-	-	50,005
Other expenses		13,407						
Insurance premium paid	-	-	204,492	-	-	-	215,804	-
Insurance claims settled	-	-	164,859	-	-	-	217,907	-
Contingencies and Commitments								
FX interbank deal purchase	-	-	-	-	-	63	-	-
FX interbank deal sale	-	-	-	-	-	63	-	-

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

The capital adequacy ratio is a measure of the amount of a Bank'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 Bank's balance sheet. These assets are then applied weightages according to the degree of inherent risk. The capital adequacy ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs).

The Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) as per the guidelines provided by the SBP. This framework has been approved by the Bank’s Board of Directors and submitted to the SBP. The Bank additionally covers risk not yet included under Pillar I, so as to carry adequate capital to cater for any future business requirements. The Bank 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 Bank 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 Bank's ability to continue as a going concern. It is the policy of the Bank 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 Bank 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 Bank for the year ended December 31, 2010 stood at Rs.12,241.798 million (2009:11,128.907 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 Bank. The Bank’s CAR as at December 31, 2010 was 14.51% (2009: 13.18%). The Bank 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 Bank 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
Regulatory capital base	--------- (Rupees in '000) ---------	
Tier 1 Capital		
- Fully paid-up capital	12,241,798	11,128,907
- Statutory reserves	14,446,898	12,214,912
- Un-appropriated profit	26,250,489	22,187,802
	52,939,185	45,531,621
Deductions:		
- Book value of intangibles	1,440,826	488,635
- 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	-	-
	1,224,465	1,134,633
	2,932,927	1,623,268
Total eligible Tier 1 Capital	50,006,258	43,908,353
Supplementary Capital		
Tier 2 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%	5,496,317	5,791,474
- Foreign exchange translation reserves	7,370,891	6,951,040
- 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 2 Capital	21,946,185	21,295,085
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	1,224,465	1,134,633
Total eligible Tier 2 Capital	20,721,720	20,160,452
Total eligible Capital	70,727,978	64,068,805

Risk weighted exposures	Note	Capital requirements		Risk weighted assets	
		2010	2009	2010	2009
Credit risk		------------- (Rupees in '000) -------------			
Claims on:					
Federal and Provincial Government, SBP and Other Sovereigns – in foreign currency		1,806,245	1,247,825	18,062,446	12,478,248
Public Sector Enterprises		1,285,319	1,197,023	12,853,191	11,970,232
Banks		3,197,031	2,159,799	31,970,310	21,597,993
Corporate		22,086,826	24,197,367	220,868,255	241,973,670
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		1,944,316	1,289,105	19,443,160	12,891,048
Listed equity investments		900,932	841,421	9,009,323	8,414,206
Unlisted equity investments		83,307	66,236	833,073	662,361
Investments in fixed assets		2,098,325	2,143,704	20,983,246	21,437,035
Other assets		530,330	623,550	5,303,299	6,235,503
		37,535,645	38,646,633	375,356,447	386,466,321
Market risk					
Interest rate risk		2,268,723	1,810,310	28,359,037	22,628,873
Equity exposure risk		296,776	303,257	3,709,701	3,790,707
Foreign exchange risk		40,273	45,689	503,413	571,112
		2,605,772	2,159,256	32,572,151	26,990,692
Operational risk		6,356,450	5,800,078	79,455,626	72,500,981
		46,497,867	46,605,967	487,384,224	485,957,994

Capital adequacy ratio	2010	2009
Total eligible regulatory capital held	70,727,978	64,068,805
Total risk weighted assets	487,384,224	485,957,994
Capital adequacy ratio	**14.51%**	**13.18%**

43.4. Credit Risk - General Disclosures

The Bank 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 Bank selects particular ECAI(s) for each type of claim. In this connection, the Bank 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 Bank 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 CC C	CCC CC C D	7

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

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	-	14,266,546	-	14,266,546	13,747,521	-	13,747,521
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	9,046,552	2,332	9,044,220	2,169,127	-	2,169,127
	Unrated	-	-	-	-	-	-
		20,083,949	2,332	20,081,617	23,452,772	(22,570)	23,475,342
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	219,662,847	17,775,900	201,886,947	260,692,866	28,284,682	232,408,184
		269,345,899	20,289,064	249,056,835	285,124,742	28,401,681	256,723,061
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	6,722,706	-	6,722,706	4,257,435	158,346	4,099,089
		96,517,121	21,523,536	74,993,585	71,676,925	22,975,949	48,700,976
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%	9,009,323	-	9,009,323	8,414,206	-	8,414,206
- Unlisted	150%	555,382	-	555,382	441,574	-	441,574
		9,564,705	-	9,564,705	8,855,780	-	8,855,780
Past due loans							
- Less than 20%	150%	4,923,887	1,450,172	3,473,715	2,612,613	184,591	2,428,022
- Between 20% to 50%	100%	11,360,230	-	11,360,230	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
		19,961,207	1,450,172	18,511,035	39,858,185	27,723,558	12,134,627
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%	20,983,246	-	20,983,246	21,437,035	-	21,437,035
Others		5,303,299		5,303,299	7,782,206	1,546,703	6,235,503
Total		719,464,569	114,824,504	604,640,066	685,042,266	136,661,758	548,380,508

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

The Bank 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 Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Comprehensive Approach of CRM, then the Bank 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 Bank has in place detailed guidelines with respect to valuation and management of these types of collateral. In order to be prudent, the Bank 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 group 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 Bank .

- Approving credits.

- Granting approval authority to qualified and experienced individuals.

- Reviewing the adequacy of credit training across the Bank.

- 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 Bank.

The credit risk management process is driven by the Bank'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 Bank 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 Bank 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	1.69%	8,389,268	1.52%	6,082,131	1.13%
Agri business	53,034,196	14.38%	33,824,201	6.14%	315,807	0.06%
Textile spinning	17,497,654	4.75%	1,289,002	0.23%	5,058,213	0.94%
Textile weaving	6,722,278	1.82%	2,477,437	0.45%	4,289,442	0.79%
Textile composite	23,145,685	6.28%	330,764	0.06%	814,737	0.15%
Textile others	13,779,179	3.74%	2,182,465	0.40%	3,740,450	0.69%
Cement	6,803,468	1.85%	1,908,802	0.35%	2,801,403	0.52%
Sugar	8,153,681	2.21%	3,078,292	0.56%	358,817	0.07%
Shoes and leather garments	2,447,523	0.66%	2,216,787	0.40%	298,515	0.06%
Automobile and transportation equipment	4,455,055	1.21%	3,027,770	0.55%	4,940,641	0.92%
Financial	4,895,906	1.33%	15,918,040	2.89%	298,818,733	55.37%
Insurance	-	0.00%	22,443,630	4.08%	43,143	0.01%
Electronics and electrical appliances	2,385,744	0.65%	3,265,744	0.59%	1,541,579	0.29%
Production and transmission of energy	39,057,078	10.59%	17,157,862	3.12%	58,716,619	10.88%
Paper and allied	789,310	0.21%	2,189,563	0.40%	660,772	0.12%
Surgical and metal	2,265,932	0.61%	1,450,750	0.26%	335,306	0.06%
Contractors	4,263,223	1.16%	16,640,821	3.02%	19,463,140	3.61%
Wholesale traders	20,775,990	5.64%	36,074,167	6.55%	1,290,820	0.24%
Fertilizer dealers	6,823,565	1.85%	8,494,701	1.54%	677,458	0.13%
Sports goods	803,919	0.22%	840,738	0.15%	17,885	0.00%
Food industries	6,848,598	1.86%	3,931,436	0.71%	3,699,826	0.69%
Airlines	6,033,039	1.64%	308,457	0.06%	108,106	0.02%
Cables	661,900	0.18%	96,185	0.02%	744,510	0.14%
Construction	21,866,860	5.93%	8,675,833	1.58%	10,260,326	1.90%
Containers and ports	1,813,903	0.49%	1,543,051	0.28%	2,974,909	0.55%
Engineering	1,531,426	0.42%	3,472,111	0.63%	1,618,692	0.30%
Glass and allied	301,653	0.08%	385,593	0.07%	220,958	0.04%
Hotels	2,708,633	0.73%	1,223,853	0.22%	438,627	0.08%
Infrastructure	2,273,671	0.62%	4,285,714	0.78%	31,461,991	5.83%
Media	620,575	0.17%	365,056	0.07%	40,879	0.01%
Polyester and fibre	1,980,509	0.54%	623,175	0.11%	78,234	0.01%
Telecommunication	11,333,927	3.07%	3,894,923	0.71%	1,167,952	0.22%
Individuals	65,802,937	17.85%	267,478,119	48.58%	17,737,304	3.29%
Others	20,597,340	5.59%	71,161,457	12.92%	58,859,489	10.91%
	368,691,940	100.00%	550,645,767	100.00%	539,677,414	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	1.59%	11,971,327	2.43%	1,235,141	0.28%
Agri business	50,894,347	13.31%	21,026,267	4.27%	48,362	0.01%
Textile spinning	19,541,766	5.11%	1,225,983	0.25%	3,153,486	0.71%
Textile weaving	7,788,745	2.04%	804,049	0.16%	3,307,899	0.74%
Textile composite	21,246,034	5.55%	965,467	0.20%	244,588	0.05%
Textile others	13,088,122	3.42%	1,981,459	0.40%	2,521,137	0.56%
Cement	6,508,094	1.70%	988,097	0.20%	1,471,077	0.33%
Sugar	7,068,609	1.85%	2,360,348	0.48%	16,915	0.00%
Shoes and leather garments	2,200,397	0.58%	1,827,377	0.37%	11,522	0.00%
Automobile and transportation equipment	5,213,278	1.36%	4,318,840	0.88%	1,306,428	0.29%
Financial	5,485,383	1.43%	11,227,495	2.28%	261,681,089	58.55%
Insurance	-	-	13,802,720	2.81%	37,673	0.01%
Electronics and electrical appliances	2,143,745	0.56%	7,076,567	1.44%	1,931,037	0.43%
Production and transmission of energy	41,179,308	10.77%	19,932,300	4.05%	20,328,644	4.55%
Paper and allied	1,125,589	0.29%	1,016,292	0.21%	267,165	0.06%
Surgical and metal	567,366	0.15%	1,553,961	0.32%	95,659	0.02%
Contractors	2,600,466	0.68%	18,104,119	3.68%	20,133,503	4.50%
Wholesale traders	11,558,910	3.02%	26,658,663	5.42%	1,383,149	0.31%
Fertilizer dealers	5,729,029	1.50%	9,516,985	1.93%	1,461,840	0.33%
Sports goods	432,121	0.11%	868,470	0.18%	70,510	0.02%
Food industries	7,301,248	1.91%	3,231,634	0.66%	2,241,180	0.50%
Airlines	5,569,645	1.46%	1,621,206	0.33%	118,910	0.03%
Cables	379,600	0.10%	225,097	0.05%	255,330	0.06%
Construction	26,087,922	6.82%	7,793,699	1.58%	7,829,209	1.75%
Containers and ports	95,855	0.03%	1,223,696	0.25%	1,036,486	0.23%
Engineering	1,496,050	0.39%	3,124,994	0.64%	3,093,417	0.69%
Glass and allied	444,982	0.12%	914,092	0.19%	316,022	0.07%
Hotels	2,692,321	0.70%	1,018,965	0.21%	303,976	0.07%
Infrastructure	2,507,584	0.66%	4,547,147	0.92%	32,018	0.01%
Media	-	0.00%	448,233	0.09%	77,411	0.02%
Polyester and fibre	3,403,956	0.89%	409,196	0.08%	117,122	0.03%
Telecommunication	8,557,307	2.24%	3,526,634	0.72%	25,329,025	5.67%
Individuals	78,997,010	20.65%	258,791,280	52.60%	732,798	0.16%
Others	34,491,522	9.02%	47,933,444	9.74%	84,734,075	18.96%
	382,478,242	100.00%	492,036,103	100.00%	446,923,805	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	64,861,230	17.59%	71,320,777	12.95%	84,207,505	15.60%
Private	303,830,710	82.41%	479,324,990	87.05%	455,469,909	84.40%
	368,691,940	100.00%	550,645,767	100.00%	539,677,414	100.00%

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	66,893,877	17.49%	48,825,774	9.92%	63,089,984	14.12%
Private	315,584,365	82.51%	443,210,329	90.08%	383,833,821	85.88%
	382,478,242	100.00%	492,036,103	100.00%	446,923,805	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	750,787	704,676
Financial	2,151,805	57,003	10,125	10,125
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	13,238,040	9,816,791	11,142,751	8,073,785
Others	3,995,773	3,191,246	2,825,126	2,095,308
	48,592,560	33,534,272	39,101,396	27,673,022

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	48,592,560	33,534,272	39,101,396	27,673,022
	48,592,560	33,534,272	39,101,396	27,673,022

44.2.5 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	---------- (Rupees in '000) ----------			
Pakistan operations	14,879,127	556,278,906	42,331,160	428,490,946
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
	2,863,091	142,506,073	26,083,905	111,186,468
	17,742,218	698,784,979	68,415,065	539,677,414

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	---------- (Rupees in '000) ----------			
Pakistan operations	11,541,844	486,389,793	33,999,377	369,230,089
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
	2,492,657	133,326,640	26,937,346	77,693,716
	14,034,501	619,716,433	60,936,723	446,923,805

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

44.3 Market Risk

Market risk is the uncertainity that the Bank 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 Bank 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.

The scope of market risk management is as follows:

- To keep the market risk exposure within the Bank'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	546,744,646	470,070,512	(8,122,491)	68,551,643
US Dollar	51,721,592	39,509,427	(12,599,803)	(387,638)
Pound Sterling	4,441,658	9,743,709	5,342,193	40,142
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)
Bahraini 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	6,957,223	6,946,247	85,137	96,113
	698,784,979	630,369,914	-	68,415,065

	2009			
	Assets	**Liabilities**	**Off - balance sheet items**	**Net foreign currency exposure**
	---------------------------- (Rupees in '000) ----------------------------			
Pakistan Rupee	546,286,005	477,497,360	(7,384,117)	61,404,528
US Dollar	33,366,944	33,073,859	(544,997)	(251,912)
Pound Sterling	998,474	7,051,265	5,995,613	(57,178)
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)
Bahraini Dinar	18,850,218	18,874,901	-	(24,683)
Qatari Riyal	795,762	-	(842,508)	(46,746)
Other Currencies	14,985,424	15,284,162	381,551	82,813
	619,716,433	558,779,710	-	60,936,723

Foreign Exchange Risk is the uncertainty that the Bank 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 Bank 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 Bank'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 Bank'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 of the Bank.

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 Bank'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 Bank'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 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non-interest bearing financial instruments
On-balance sheet financial instruments	%	(Rupees in '000)										
Assets												
Cash and balances with treasury banks	0.28%	67,461,668	-	-	-	-	-	-	-	-	-	67,461,668
Balances with other banks	0.67%	18,192,142	15,290,082	-	-	-	-	-	-	-	-	2,902,060
Lendings to financial institutions	9.20%	12,384,778	5,170,604	2,679,720	732,223	1,284,550	2,165,956	145,058	206,667	-	-	-
Investments	11.01%	224,578,556	12,623,734	71,921,560	81,181,895	14,806,550	3,291,050	3,640,867	4,300,605	17,197,357	3,952,527	11,662,411
Advances	11.75%	-										
Performing		318,673,884	46,588,038	186,585,426	55,872,077	11,908,971	4,104,428	7,623,532	5,875,584	41,330	74,498	-
Non-performing		15,058,288	-	-	-	-	-	-	-	-	-	15,058,288
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%	12,782,351	-	-	-	-	-	-	-	-	-	12,782,351
		669,824,251	80,018,750	261,196,471	137,804,798	28,026,604	9,610,344	11,535,244	10,463,548	17,274,595	4,027,119	109,866,778
Liabilities												
Bills payable	0%	5,045,815	-	-	-	-	-	-	-	-	-	5,045,815
Borrowings	11.02%	45,104,849	26,295,293	5,499,203	7,670,247	544,798	332,891	855,859	569,933	3,336,625	-	-
Deposits and other accounts	3.98%	550,645,767	106,133,728	128,561,488	59,940,763	50,327,484	3,044,356	2,281,413	2,358,697	8,692,490	-	189,305,348
Subordinated loans	11.91%	11,985,748	-	7,991,228	-	665,040	1,330,080	1,999,400	-	-	-	-
Other liabilities	0%	15,371,258	-	-	-	-	-	-	-	-	-	15,371,258
		628,153,437	132,429,021	142,051,919	67,611,010	51,537,322	4,707,327	5,136,672	2,928,630	12,029,115	-	209,722,421
On-balance sheet gap		41,670,814	(52,410,271)	119,144,552	70,193,788	(23,510,718)	4,903,017	6,398,572	7,534,918	5,245,480	4,027,119	(99,855,643)
Non financial net assets		26,744,251										
Total net assets		68,415,065										
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		(6,985,702)	-	(1,629,713)	(1,880,183)	(1,000,000)	-	(1,000,000)	-	(1,475,806)	-	-
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		(85,434,818)	(47,916,643)	(32,245,519)	(5,246,944)	(25,712)	-	-	-	-	-	-
Foreign currency forward purchases		130,653,749	51,863,243	50,772,312	26,823,607	1,149,200	45,387	-	-	-	-	-
Off-balance sheet gap		44,776,951	5,946,600	17,584,812	20,076,663	123,488	545,387	-	-	500,001	-	-
Total Yield/Interest Risk Sensitivity Gap		86,447,765	(46,463,671)	136,729,364	90,270,451	(23,387,230)	5,448,404	6,398,572	7,534,918	5,745,481	4,027,119	(99,855,643)
Cumulative Yield/Interest Risk Sensitivity Gap			(46,463,671)	90,265,693	180,536,144	157,148,914	162,597,318	168,995,890	176,530,808	182,276,289	186,303,408	86,447,765

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 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	
On-balance sheet financial instruments	%		---------- (Rupees in '000) ----------									
Assets												
Cash and balances with treasury banks	0.01%	61,470,047	15,681,570	-	-	-	-	-	-	-	-	45,788,477
Balances with other banks	0.60%	5,407,470	1,371,234	509,093	-	-	-	-	-	-	-	3,527,143
Lendings to financial institutions	10.80%	23,162,130	18,483,355	2,773,622	385,669	143,875	1,210,609	165,000	-	-	-	-
Investments	10.40%	136,145,524	5,374,947	47,973,335	28,353,250	16,789,553	3,041,921	4,271,666	1,432,058	12,855,537	3,639,751	12,413,506
Advances	13.00%	-										
Performing		342,663,339	71,959,301	143,918,602	51,399,501	51,399,501	10,279,900	6,853,266	6,853,268	-	-	-
Non-performing		11,428,374	-	-	-	-	-	-	-	-	-	11,428,374
Operating fixed assets - Ijara assets	10% - 23%	514,391	-	-	514,391	-	-	-	-	-	-	-
Other assets	0%	12,679,886	-	-	-	-	-	-	-	-	-	12,679,886
		593,471,161	112,870,407	195,174,652	80,652,811	68,332,929	14,532,430	11,289,932	8,285,326	12,855,537	3,639,751	85,837,386
Liabilities												
Bills payable	0%	5,147,259	-	-	-	-	-	-	-	-	-	5,147,259
Borrowings	11.20%	35,144,823	9,707,789	6,701,606	14,316,171	455,496	526,093	283,755	137,058	2,928,274	88,581	-
Deposits and other accounts	4.78%	492,036,103	97,982,622	122,687,037	41,990,016	51,671,445	7,234,507	3,539,662	3,539,662	3,513,600	-	159,877,552
Subordinated loans	12.60%	11,989,800	-	7,994,424	-	424	665,467	1,330,085	1,999,400	-	-	-
Other liabilities	0%	12,912,216	-	-	-	-	-	-	-	-	-	12,912,216
		557,230,201	107,690,411	137,383,067	56,306,187	52,127,365	8,426,067	5,153,502	5,676,120	6,441,874	88,581	177,937,027
On-balance sheet gap		36,240,960	5,179,996	57,791,585	24,346,624	16,205,564	6,106,363	6,136,430	2,609,206	6,413,663	3,551,170	(92,099,641)
Non financial net assets		25,005,130										
Total net assets		60,936,723										
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		(46,364,122)	(34,192,008)	(11,286,064)	(886,050)	-	-	-	-	-	-	-
Foreign currency forward purchases		90,952,188	25,276,683	42,328,428	22,624,587	722,490	-	-	-	-	-	-
Off-balance sheet gap		44,588,066	(2,778,427)	30,834,766	19,961,264	1,772,686	(897,727)	750,000	(5,054,496)	-	-	-
Total Yield/Interest Risk Sensitivity Gap		80,829,026	2,401,569	88,626,351	44,307,888	17,978,250	5,208,636	6,886,430	(2,445,290)	6,413,663	3,551,170	(92,099,641)
Cumulative Yield/Interest Risk Sensitivity Gap			2,401,569	91,027,920	135,335,808	153,314,058	158,522,694	165,409,124	162,963,834	169,377,497	172,928,667	80,829,026

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 Bank 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 Bank 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 Bank'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 Bank's business.

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

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 year 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	67,461,668	62,413,974	-	-	-	-	-	-	-	5,047,694
Balances with other banks	18,192,142	18,192,142	-	-	-	-	-	-	-	-
Lendings to financial institutions	12,384,778	5,996,232	2,679,728	897,322	1,071,050	1,388,722	145,058	206,666	-	-
Investments	224,578,556	11,307,380	42,175,850	60,507,870	34,639,810	16,341,063	22,691,364	10,876,835	12,124,178	13,914,206
Advances	333,732,172	108,993,549	49,121,031	32,235,289	26,694,559	8,189,310	13,515,536	45,505,611	40,277,897	9,199,390
Operating fixed assets	22,424,072	215,464	408,990	880,577	1,406,380	1,951,254	986,522	1,559,780	2,267,867	12,747,238
Deferred tax asset	1,298,403	-	-	-	584,281	714,122	-	-	-	-
Other assets	18,713,188	4,766,639	9,279,214	183,940	4,176,229	297,012	-	9,504	650	-
	698,784,979	211,885,380	103,664,813	94,704,998	68,572,309	28,881,483	37,338,480	58,158,396	54,670,592	40,908,528
Liabilities										
Bills payable	5,045,815	4,866,536	179,279	-	-	-	-	-	-	-
Borrowings	45,104,849	27,225,236	5,499,203	7,547,247	544,798	332,891	761,776	524,380	2,669,318	-
Deposits and other accounts	550,645,767	425,310,960	53,655,661	21,965,865	19,939,781	5,269,612	4,073,609	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	-
Other liabilities	17,587,735	(1,197,203)	7,150,286	679,457	5,847,004	2,711,842	494,052	-	1,902,297	-
	630,369,914	456,205,529	66,486,457	30,192,569	26,998,223	10,312,161	7,996,573	5,198,317	26,980,085	-
Net assets	68,415,065	(244,320,149)	37,178,356	64,512,429	41,574,086	18,569,322	29,341,907	52,960,079	27,690,507	40,908,528

Represented by:

Share capital	12,241,798
Reserves	21,688,637
Unappropriated profit	26,250,489
Surplus on revaluation of assets	8,234,141
	68,415,065

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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 year 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	61,470,047	48,369,050	-	-	-	-	-	-	-	13,100,997
Balances with other banks	5,407,470	4,679,858	218,519	75,630	-	-	-	-	-	433,463
Lendings to financial institutions	23,162,130	18,323,555	2,319,313	783,185	216,592	354,485	1,000,000	165,001	-	-
Investments	136,145,524	1,397,991	19,884,073	19,544,119	19,633,800	5,864,771	7,334,674	33,785,590	24,952,486	3,748,020
Advances	354,091,713	119,816,466	44,750,609	37,577,696	37,313,539	25,371,579	6,859,613	24,697,592	50,393,665	7,310,954
Operating fixed assets	21,925,669	195,205	364,608	749,032	769,222	2,285,090	907,601	1,613,853	2,622,572	12,418,486
Deferred tax asset	608,876	-	-	-	273,994	334,882	-	-	-	-
Other assets	16,905,004	1,246,295	1,781,912	9,618,760	2,133,949	1,740,158	-	383,929	-	-
	619,716,433	194,028,420	69,319,035	68,348,422	60,341,096	35,950,964	16,101,888	60,645,965	77,968,723	37,011,920
Liabilities										
Bills payable	5,147,259	4,953,418	193,841	-	-	-	-	-	-	-
Borrowings	35,144,823	9,707,789	6,701,606	14,366,171	405,496	526,093	283,755	137,058	2,928,274	88,581
Deposits and other accounts	492,036,103	419,323,521	39,126,304	7,717,590	9,433,776	6,712,383	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	-
Other liabilities	14,461,725	30,545,771	(26,713,934)	1,729,996	7,113,960	(126,524)	-	-	1,912,455	-
	558,779,710	464,530,499	19,309,841	23,813,758	16,955,257	7,780,619	2,983,880	4,534,301	18,782,975	88,581
Net assets	60,936,723	(270,502,079)	50,009,194	44,534,664	43,385,839	28,170,345	13,118,008	56,111,665	59,185,748	36,923,339

Represented by:

Share capital	11,128,907
Reserves	18,959,537
Unappropriated profit	22,187,802
Surplus on revaluation of assets	8,660,477
	60,936,723

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

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 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	67,461,668	32,424,575	5,961,763	4,315,224	4,895,167	5,617,703	226,485	184,107	13,836,644	-
Balances with other banks	18,192,142	16,387,752	1,804,390	-	-	-	-	-	-	-
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	224,578,556	12,307,779	40,816,574	64,100,679	26,996,398	7,830,314	14,295,267	28,384,640	27,742,531	2,104,374
Advances - Performing	318,673,884	95,348,986	98,192,050	25,932,792	24,742,350	5,178,136	12,017,576	20,777,863	27,702,735	8,781,396
- Non-performing	15,058,288	-	-	-	-	-	-	-	15,058,288	-
Other assets	18,713,188	576,525	1,484,016	11,867,123	3,850,892	297,012	-	9,504	628,116	-
Operating fixed assets	22,424,072	-	-	-	-	-	-	-	22,424,072	-
Deferred tax assets	1,298,403	-	-	-	584,281	714,122	-	-	-	-
	698,784,979	162,142,497	151,838,464	107,113,140	62,139,546	21,026,009	26,684,386	49,562,781	107,392,386	10,885,770
Liabilities										
Bills payable	5,045,815	4,039,238	1,006,577	-	-	-	-	-	-	-
Borrowings	45,104,849	28,819,625	10,041,662	5,326,026	-	-	-	917,536	-	-
Deposits and other accounts	550,645,767	114,986,109	87,333,984	60,045,885	57,431,382	63,119,549	4,073,702	4,003,813	159,651,343	-
Subordinated loan	11,985,748	-	2,028	-	666,640	1,997,816	2,667,136	670,128	5,982,000	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	17,587,735	(6,462,963)	1,272,008	(561,825)	5,154,457	2,711,842	494,053	10,040,293	2,841,692	2,098,178
	630,369,914	141,382,009	99,656,259	64,810,086	63,252,479	67,829,207	7,234,891	15,631,770	168,475,035	2,098,178
Net assets	68,415,065	20,760,488	52,182,205	42,303,054	(1,112,933)	(46,803,198)	19,449,495	33,931,011	(61,082,649)	8,787,592

Represented by:

Share capital	12,241,798
Reserves	21,688,637
Unappropriated profit	26,250,489
Surplus on revaluation of assets	8,234,141
	68,415,065

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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 year 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	61,470,047	30,325,615	5,744,339	3,821,791	4,031,174	5,046,748	107,770	294,807	12,097,803	-
Balances with other banks	5,407,470	5,207,470	-	-	-	-	-	-	200,000	-
Lendings to financial institutions	23,162,130	20,623,296	2,159,149	169,075	-	210,610	-	-	-	-
Investments	136,145,524	16,822,851	19,079,744	18,917,627	15,623,377	4,625,770	3,044,623	29,472,280	24,641,335	3,917,917
Advances - Performing	342,663,339	112,349,635	53,294,291	33,947,309	30,505,405	24,355,413	8,133,613	25,331,327	46,632,514	8,113,832
- Non-performing	11,428,374	-	-	-	-	-	-	-	11,428,374	-
Other assets	16,905,004	2,622,082	1,019,732	12,540,173	62,799	-	-	-	660,218	-
Operating fixed assets	21,925,669	-	-	-	-	-	-	-	21,925,669	-
Deferred tax assets	608,876	-	-	-	273,994	334,882	-	-	-	-
	619,716,433	187,950,949	81,297,255	69,395,975	50,496,749	34,573,423	11,286,006	55,098,414	117,585,913	12,031,749
Liabilities										
Bills payable	5,147,259	3,964,437	1,182,822	-	-	-	-	-	-	-
Borrowings	35,144,823	13,459,781	13,572,786	6,848,198	-	-	-	1,264,058	-	-
Deposits and other accounts	492,036,103	92,137,743	98,482,287	48,499,198	53,489,947	59,949,910	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	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	14,461,725	309,369	12,053,942	-	-	-	-	-	2,098,414	-
	558,779,710	109,871,330	125,293,861	55,347,396	53,491,971	60,618,577	3,824,798	9,192,378	141,139,399	-
Net assets	60,936,723	78,079,619	(43,996,606)	14,048,579	(2,995,222)	(26,045,154)	7,461,208	45,906,036	(23,553,486)	12,031,749

Represented by:

Share capital	11,128,907
Reserves	18,959,537
Unappropriated profit	22,187,802
Surplus on revaluation of assets	8,660,477
	60,936,723

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 Bank'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 Bank 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 Bank 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 Bank. A methodology for Risk and Control Self Assessment has been implemented at all core units of the Bank.

45. ISLAMIC BANKING BUSINESS

The Bank operates 6 (2009: 5) Islamic banking branches and 17 (2009: 15) Islamic banking windows. The statement of financial position of the Bank'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 Ijarah	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 Bank'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 investments	(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 February 21, 2011 has proposed a cash dividend in respect of 2010 of Rs. 4 per share (2009: cash dividend Rs.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 unconsolidated financial statements for the year ended December 31, 2010 do not include the effect of these appropriations which will be accounted for in the unconsolidated financial statements for the year ending December 31, 2011.

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

47. DATE OF AUTHORIZATION

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

48. GENERAL

48.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these unconsolidated 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 and	Director	Deputy Chairman	Chairman
Chief Executive Officer			