

United Bank Limited

UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

**FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2011
(UNAUDITED)**



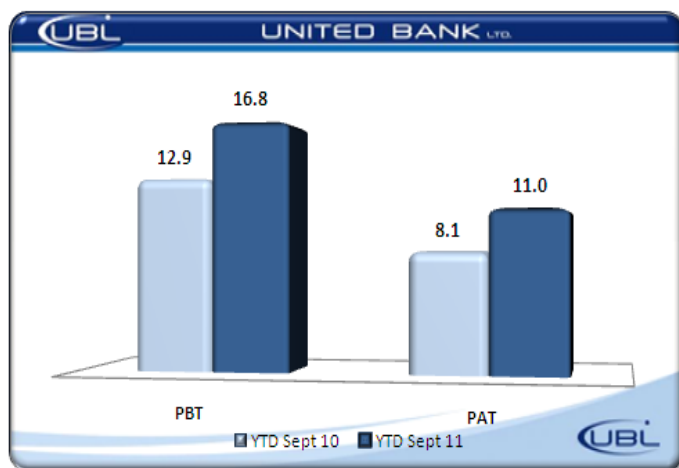
DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present to you the financial statements of UBL for the nine months ended September 30, 2011.

Performance Highlights

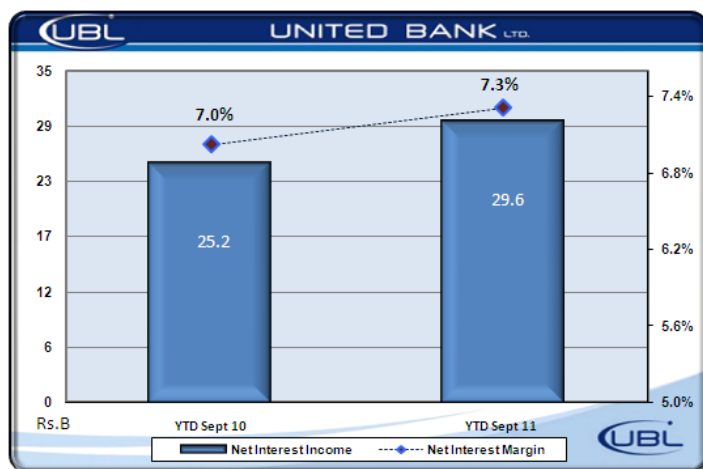
- Unconsolidated PAT for the nine months ended 30 Sep 2011 was Rs 11.0 billion, reflecting a growth of 36% over the same period last year.
- Net Interest Margin remained strong and improved to 7.3 % (Sep 2010: 7.0%).
- The cost/income ratio improved to 38.3% (YTD Sep 2010: 40.0%)

Strong and consistent financial performance



For the nine months ending September 30, 2011, UBL has achieved a profit after tax of Rs 11.0 billion. This is 36% higher than the corresponding period last year and translates into earnings per share of Rs. 8.95 (Sep 2010: Rs. 6.58).

For the same period, UBL's profit before tax is Rs 16.8 billion, 30% higher than the same period last year. This has been achieved through growth in the balance sheet and continued improvement in operating efficiency and margins. On a consolidated basis, UBL achieved a profit after tax of Rs 10.6 billion, an increase of 34% over the nine months ended 30 Sep 2010.



Continued revenue growth

Net interest income before provisions increased to Rs 29.6 billion, 18% higher than the same period last year, driven largely by a 15% growth in the balance sheet. Spreads also improved as the yield on earning assets increased by 72 bps, while the growth in cost of funds was contained to 43 bps. As a result, net interest margin increased from 7.0% in Sep 2010 to 7.3% in Sep 2011. Provisions for the nine months increased by Rs 0.4 billion compared to the corresponding figure last year, however, this was mainly due to the aging of already classified accounts and has resulted in a improvement in the bank's

coverage ratio from 72% in Sep 2010 to 75% in Sep 2011. Nonetheless, with balance sheet growth and improved margins, net interest income after provisions increased by 22% to Rs 23.1 billion.

Non-interest income increased by 23% over the corresponding nine months of 2010, to Rs 8.9 billion. This was driven by an increase of 87% in income from treasury related activities. Core banking fees and commissions continued to increase steadily to Rs. 5.0 billion.

Cost management

The Bank has managed to keep its administrative expenses flat to the prior quarter due to tight cost controls. For the nine months, administrative expenses grew by 14% despite significant inflation, escalating utilities costs and the Bank's significant investments in network expansion and technology. The cost/income ratio, which has been continuously reducing since 2010, improved by a further 1.1% over the previous quarter.

Balance Sheet

Gross advances have reduced marginally as a result of continued restrained lending in the current economic environment. Deposits reduced subsequent to the seasonal peak in June, however, they are higher than December 2010 levels, and the domestic CASA deposit ratio has been maintained at 79%.

The return on average assets improved from 1.7% for the year 2010 to 2.1% for the nine months ended September 30, 2011, and return on equity increased from 19.8% for 2010 to 23.3% for the nine months of 2011.

Improved Capital Ratios

The capital adequacy ratio (CAR) of the bank improved to 15.2% in Sep 2011 (Sep 2010: 14.4%). The Tier-1 CAR of the bank has also improved from 10.0% in Sep 2010 to 11.0% in Sep 2011.

The Board of Directors of UBL declared an interim dividend of 15% in their meeting in London dated 28 July 2011 along with the results for the half year ended 30 June 2011. This dividend was subsequently paid in September 2011.

Key Developments

Macroeconomic performance

The macroeconomic landscape in Pakistan is beginning to show signs of improvement as inflation numbers eased and stability prevailed on the external account. Revision of the base year and the inflation basket along with the high prior year base effect has led to YoY inflation for September 2011 declining to 10.46%.

The external account had shown continuous improvement but has recently come under pressure as a 24% growth in imports outpaced export growth of 17%. Despite a 25% growth in remittances, which increased to \$ 3.3 Billion for the first quarter of the current fiscal year, the Current Account deficit for Q1 FY 12 was nearly double that of the prior year, as a result of the deteriorating trade balance. Additionally, pressures on the fiscal front remain, both in terms of revenue collection and with increased expenditures on flood relief and security. The fiscal deficit for FY11 was 6.6% of GDP, crossing the PKR 1.0 trillion mark and initial estimates indicate that the target for FY 12 is unlikely to be achieved.

Subsiding inflationary pressure along with stability in the external account had led the SBP to cut the discount rate by 50 bps to 13.5% in July 2011. The lower revised inflation numbers resulted in the SBP further reducing the discount rate by 150 bps in October 2011 in order to stimulate private sector lending and growth.

The prevailing power and gas shortages continue to severely hamper all sectors of the economy and is an issue that needs to be resolved on priority. The stock market has shown mixed trends in 2011, however, it has recently rallied following the SBP's reduction in the discount rate.

Deposits for the banking sector have grown by 5.7% over the nine months, although they are 3.2 % below June 11 levels. With subdued economic activity across the country, the banking sector remains cautious, as evidenced by a 2.3% decline in advances during the nine months with the additional liquidity fuelling a 32% rise in investments. NPL formation appears to be easing as NPLs increased by less than 1% during Q2 2011, compared to a growth of 3.9% in Q1.

Consistent International Growth

The GCC economies remained relatively unscathed from the financial turmoil in the Western markets during the last quarter. So far the stimulatory macroeconomic policies followed by oil exporting countries, have ensured reasonable growth levels. However with the dip in oil prices, and social unrest in some countries within the region, future growth could turn sluggish with the possibility of major projects being put on hold. The Banking sector remains well capitalized with adequate liquidity levels.

Qatar's significant surpluses generated by export of oil and gas could lead to the government embarking upon large infrastructure and other investments. This in turn could result in good potential for soliciting trading and contracting business for UBL. In UAE, positive moves by the government have led to a perceptible improvement in the outlook of the real estate sector. Economic diversification is also being promoted through emphasis on developing non-oil related sectors.

UBL's strategy of broadening the scope and breadth of the Financial Institutions business has started yielding positive results with a good mix of fee based and interest income. After initially dealing in the secondary markets, the Bank has now progressed to the initiation and distribution of transactions. UBL successfully closed its first ever International FI syndicated financing deal as co-mandatee for one of the top commercial banks in Sri Lanka. The original mandate was for US\$ 100 million, with a green shoe option. The transaction was closed at US\$ 175 million.

Home remittances to Pakistan have witnessed a significant growth in the region and various initiatives are being taken to target an increase in our market share in each presence country. TezRaftaar Account Services, a product for NRPs to open accounts with UBL Pakistan was launched during the quarter, and has taken off positively.

Omni

UBL Omni continues to make significant headway in enhancing the reach and usage of Branchless Banking services in Pakistan. Omni now has over 6,000 Dukaan outlets in over 600 cities and towns across Pakistan. Usage of the platform continues to increase rapidly as transaction volumes and value increased by 27% and 50% respectively, compared to the previous quarter.

UBL Omni has maintained its strong leadership in Government to Person (G2P) payments and has been allocated the majority of countrywide districts for the Benazir Income Support Program and flood/disaster relief programs. These large scale G2P programs provide a cost effective platform to the Bank for efficient expansion of the Agent network and also provide exposure to Branchless Banking services to the unbanked, further spurring financial inclusion.

Project Genesis (new core banking software implementation)

Another 42 branches in Karachi, Islamabad, Lahore and Multan were migrated to the new core banking system (CBS) during the quarter ended 30 September 2011 taking the total number of branches on CBS to 115. In addition to the branch migrations, all consumer loans are now originated from the unified loan origination (LO) module. The LO module has also been launched for the corporate and retail portfolio in Karachi.

Corporate Social Responsibility

In Q3 2011, UBL in line with its CSR policy has continued to provide assistance to various educational

institutions such as IBA, FESF, LUMS, The Book Group and SOS Childrens Village schools.

As a responsible corporate citizen, UBL has actively participated in rehabilitation of flood affectees across Pakistan. Further, in collaboration with Hisaar Foundation, UBL is spending Rs 23 million towards installing community water filtration plants in all flood affected districts of Pakistan.

Looking ahead

The macroeconomic outlook is dependent on the ability of the GoP to improve revenue collection and control inflation, energy shortages and the law and order situation across the country. UBL's focus will be on expanding its network, growing its balance sheet through acquisition of low cost deposits, selectively enhancing its lending portfolio and continuing to focus on asset quality and strengthening the capital base. The Bank will continue to invest in brand building activities and in technology, especially in the area of non-traditional banking channels, to implement cost effective and innovative customer solutions.

Acknowledgements

We would like to express our sincere thanks and gratitude to our customers for their patronage and to the State Bank of Pakistan and the Government of Pakistan for their continued support. We also take the opportunity to thank the shareholders for their continued trust and the staff for their dedication and commitment.

For and on behalf of the Board,

Nahayan Mabarak Al Nahayan
Chairman

Abu Dhabi
October 25, 2011

**UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2011**

	Note	(Un-audited) September 30, 2011	(Audited) December 31, 2010
------(Rupees in '000)-----			
ASSETS			
Cash and balances with treasury banks		62,233,368	67,461,668
Balances with other banks		11,243,332	18,642,142
Lendings to financial institutions	6	15,489,254	11,934,778
Investments	7	267,350,281	224,578,556
Advances	8	325,742,831	333,732,172
Operating fixed assets	9	22,638,339	22,424,072
Deferred tax asset - net		1,769,378	1,298,403
Other assets		20,370,038	18,713,188
		726,836,821	698,784,979
LIABILITIES			
Bills payable		6,138,031	5,045,815
Borrowings	10	61,677,523	45,104,849
Deposits and other accounts	11	557,210,336	550,645,767
Sub-ordinated loans		11,317,080	11,985,748
Other liabilities		16,131,591	17,587,735
		652,474,561	630,369,914
NET ASSETS		74,362,260	68,415,065
REPRESENTED BY			
Share capital	12	12,241,798	12,241,798
Reserves		23,477,896	21,688,637
Unappropriated profit		29,565,293	26,250,489
		65,284,987	60,180,924
Surplus on revaluation of assets - net of deferred tax	13	9,077,273	8,234,141
		74,362,260	68,415,065
CONTINGENCIES AND COMMITMENTS	14		

The annexed notes from 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

Atif R. Bokhari
President &
Chief Executive Officer

Muhammad Sami Saeed
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

**UNCONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	Note	Jul-Sep 2011	Jul-Sep 2010	Jan-Sep 2011	Jan-Sep 2010
------(Rupees in '000)-----					
Mark-up / return / interest earned	15	18,473,595	14,777,764	52,532,004	43,237,719
Mark-up / return / interest expensed	16	(8,152,142)	(6,169,039)	(22,898,926)	(18,025,424)
Net mark-up / return / interest income		10,321,453	8,608,725	29,633,078	25,212,295
Provision against loans and advances - net		(1,437,810)	(1,861,529)	(5,830,654)	(5,254,930)
Provision against lendings to financial institutions		-	-	(91,354)	-
Provision for diminution in value of investments - net		(46,468)	(77,667)	(251,983)	(142,136)
Bad debts written off directly		(103,324)	(217,134)	(336,440)	(853,043)
		(1,587,602)	(2,156,330)	(6,510,431)	(6,250,109)
Net mark-up / return / interest income after provisions		8,733,851	6,452,395	23,122,647	18,962,186
Non mark-up / return / interest income					
Fee, commission and brokerage income		1,711,515	1,602,632	4,991,508	4,710,386
Dividend income		107,757	169,715	429,750	447,342
Income from dealing in foreign currencies		441,235	505,441	1,516,804	1,197,474
Gain on sale of securities		49,209	8,701	245,115	149,032
Unrealised gain / (loss) on revaluation of investments classified as held for trading		106,216	(2,179)	54,847	(24,567)
Other income		622,395	280,917	1,698,893	813,888
Total non mark-up / return / interest income		3,038,327	2,565,227	8,936,917	7,293,555
		11,772,178	9,017,622	32,059,564	26,255,741
Non mark-up / interest expenses					
Administrative expenses	17	(5,016,266)	(4,474,994)	(14,758,344)	(12,990,733)
Other provisions / write offs / reversals - net		(14,724)	14,084	(1,020)	130,641
Workers' welfare fund		(151,111)	(122,246)	(369,820)	(300,613)
Other charges		(67,661)	(74,991)	(178,622)	(170,052)
Total non mark-up / interest expenses		(5,249,762)	(4,658,147)	(15,307,806)	(13,330,757)
Profit before taxation		6,522,416	4,359,475	16,751,758	12,924,984
Taxation	18				
- Current		(2,670,332)	(2,132,147)	(6,485,379)	(5,230,611)
- Prior		(370,165)	(1,693)	(362,636)	(396,443)
- Deferred		765,990	633,926	1,048,707	762,343
		(2,274,507)	(1,499,914)	(5,799,308)	(4,864,711)
Profit after taxation		4,247,909	2,859,561	10,952,450	8,060,273
------(Rupees)-----					
Basic and diluted earnings per share		<u>3.47</u>	<u>2.34</u>	<u>8.95</u>	<u>6.58</u>

The annexed notes from 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

Atif R. Bokhari
President &
Chief Executive Officer

Muhammad Sami Saeed
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman



**UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	Jul- Sep 2011	Jul-Sep 2010	Jan-Sep 2011	Jan-Sep 2010
------(Rupees in '000)-----				
Profit after taxation	4,247,909	2,859,561	10,952,450	8,060,273
Other comprehensive income:				
Exchange differences on translation of net investment in foreign branches	523,698	448,630	642,379	618,704
Gain on cash flow hedges	24,301	32,061	79,439	84,364
Related deferred tax liability on gain on cash flow hedges	(8,506)	(11,221)	(27,804)	(29,527)
	15,795	20,840	51,635	54,837
Comprehensive income transferred to equity - net of tax	<u>539,493</u>	<u>469,470</u>	<u>694,014</u>	<u>673,541</u>
	<u>4,787,402</u>	<u>3,329,031</u>	<u>11,646,464</u>	<u>8,733,814</u>

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 22 form an integral part of these unconsolidated condensed interim financial statements.

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President &
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Muhammad Sami Saeed
Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

**UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	September 30, 2011 ----- (Rupees in '000) -----	September 30, 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	16,751,758	12,924,984
Less: dividend income	<u>(429,750)</u>	<u>(447,342)</u>
	16,322,008	12,477,642
Adjustments:		
Depreciation	1,341,815	1,263,547
Workers' welfare fund	369,820	300,613
Provision for retirement benefits and compensated absences	280,595	5,562
Provision against loans and advances	5,830,654	5,254,930
Provision against lendings to financial institutions	91,354	-
Provision for diminution in value of investments	251,983	142,136
Gain / (loss) on sale of fixed assets	(12,832)	1,458
Reversal of provision against other assets	1,020	(130,641)
Amortization of cash flow hedge reserve	79,439	84,364
Unrealized (gain) / loss on revaluation of investments classified as held for trading	(54,847)	24,567
Bad debts written-off	336,440	853,043
	<u>8,515,441</u>	<u>7,799,579</u>
	24,837,449	20,277,221
(Increase) / decrease in operating assets		
Lendings to financial institutions	(3,645,830)	6,814,028
Held for trading investments	(8,215,758)	(2,602,348)
Advances	1,822,247	13,151,089
Other assets - (excluding advance taxation)	(2,427,569)	(2,129,462)
	<u>(12,466,910)</u>	<u>15,233,307</u>
Increase / (decrease) in operating liabilities		
Bills payable	1,092,216	(542,704)
Borrowings	16,572,674	(1,858,601)
Deposits and other accounts	6,564,569	(786,652)
Other liabilities	(1,991,713)	336,322
	<u>22,237,746</u>	<u>(2,851,635)</u>
	34,608,285	32,658,893
(Payment to) / receipt from staff retirement benefit funds	(69,758)	341,213
Income tax paid	<u>(6,068,850)</u>	<u>(6,807,980)</u>
Net cash inflow from operating activities	28,469,677	26,192,126
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in securities	(33,162,957)	(21,701,501)
Dividend income received	360,981	434,636
Investment in operating fixed assets	(1,608,434)	(1,633,757)
Sale proceeds from disposal of operating fixed assets	72,901	65,962
Net cash outflow from investing activities	<u>(34,337,509)</u>	<u>(22,834,660)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of principal of sub-ordinated loans	(668,668)	(4,052)
Dividend paid	(6,732,989)	(4,006,407)
Net cash outflow from financing activities	<u>(7,401,657)</u>	<u>(4,010,459)</u>
	(13,269,489)	(652,993)
Exchange difference on translation of net investment in foreign branches	642,379	618,704
Decrease in cash and cash equivalents during the period	<u>(12,627,110)</u>	<u>(34,289)</u>
Cash and cash equivalents at beginning of the period	<u>86,103,810</u>	<u>66,568,148</u>
Cash and cash equivalents at end of the period	<u>73,476,700</u>	<u>66,533,859</u>

The annexed notes from 1 to 22 form an integral part of these unconsolidated condensed interim financial statements.

**UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	Capital Reserves			Cash flow Hedge Reserve	Unappropriated Profit	Total	
	Share Capital	Statutory Reserve	Exchange Translation Reserve				Reserve for Issue of Bonus Shares
	(Rupees in '000)						
Balance as at January 1, 2010 (Audited)	11,128,907	12,214,912	6,951,040	-	(206,415)	22,187,802	52,276,246
Transactions with owners recorded directly in equity							
Final cash dividend for the year ended December 31, 2009 declared subsequent to year end at Rs. 2.5 per share	-	-	-	-	-	(2,782,227)	(2,782,227)
Transfer to reserve for issue of bonus shares	-	-	-	1,112,891	-	(1,112,891)	-
Issue of bonus shares	1,112,891	-	-	(1,112,891)	-	-	-
Interim cash dividend for the half year ended June 30, 2010 declared at Re.1.0 per share	-	-	-	-	-	(1,224,180)	(1,224,180)
	1,112,891	-	-	-	-	(5,119,298)	(4,006,407)
Total comprehensive income for the nine months ended September 30, 2010							
Profit after taxation for the nine months ended September 30, 2010	-	-	-	-	-	8,060,273	8,060,273
Other comprehensive income - net of tax	-	-	618,704	-	54,837	-	673,541
Total comprehensive income	-	-	618,704	-	54,837	8,060,273	8,733,814
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	189,806	189,806
Transfer to statutory reserve	-	1,612,055	-	-	-	(1,612,055)	-
Balance as at September 30, 2010 (Un-audited)	12,241,798	13,826,967	7,569,744	-	(151,578)	23,706,528	57,193,459
Total comprehensive income for the three months ended December 31, 2010							
Profit after taxation for the three months ended December 31, 2010	-	-	-	-	-	3,099,657	3,099,657
Other comprehensive income - net of tax	-	-	(198,853)	-	22,426	-	(176,427)
Total comprehensive income	-	-	(198,853)	-	22,426	3,099,657	2,923,230
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	64,235	64,235
Transfer to statutory reserve	-	619,931	-	-	-	(619,931)	-
Balance as at December 31, 2010 (Audited)	12,241,798	14,446,898	7,370,891	-	(129,152)	26,250,489	60,180,924
Transactions with owners recorded directly in equity							
Final cash dividend for the year ended December 31, 2010 declared subsequent to year end at Rs. 4.0 per share	-	-	-	-	-	(4,896,719)	(4,896,719)
Interim cash dividend for the half year ended June 30, 2011 declared at Rs. 1.5 per share	-	-	-	-	-	(1,836,270)	(1,836,270)
	-	-	-	-	-	(6,732,989)	(6,732,989)
Total comprehensive income for the nine months ended September 30, 2011							
Profit after taxation for the nine months ended September 30, 2011	-	-	-	-	-	10,952,450	10,952,450
Other comprehensive income - net of tax	-	-	642,379	-	51,635	-	694,014
Total comprehensive income	-	-	642,379	-	51,635	10,952,450	11,646,464
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	190,588	190,588
Transfer to statutory reserve	-	1,095,245	-	-	-	(1,095,245)	-
Balance as at September 30, 2011 (Un-audited)	12,241,798	15,542,143	8,013,270	-	(77,517)	29,565,293	65,284,987

The annexed notes from 1 to 22 form an integral part of these unconsolidated condensed interim financial statements

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011****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 1,167 (December 31, 2010: 1,123) branches inside Pakistan including 7 (December 31, 2010: 6) Islamic Banking branches and 1 (December 31, 2010: 1) branch in Karachi Export Processing Zone. The Bank also operates 17 (December 31, 2010: 17) branches outside Pakistan as at September 30, 2011.

The Bank's ordinary shares are listed on all three stock exchanges in Pakistan. 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

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 condensed interim financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon. 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.

The financial results of the Islamic Banking branches of the Bank have been included in these unconsolidated condensed interim financial statements for reporting purposes, after eliminating intra branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in note 21 to these unconsolidated condensed interim financial statements.

3. STATEMENT OF COMPLIANCE

3.1 These unconsolidated condensed interim financial statements of the Bank have been prepared in accordance with the requirements of International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. In case requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.

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 the SECP issued vide SRO 411(I)/2008 dated April 28, 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable to banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

3.3 The disclosures made in these unconsolidated condensed interim financial statements have been limited based on a format prescribed by the SBP vide BSD Circular Letter No. 2 dated May 12, 2004 and International Accounting Standard 34, Interim Financial Reporting. They do not include all the disclosures required for annual financial statements, and these unconsolidated condensed interim financial statements should be read in conjunction with the unconsolidated annual financial statements of the Bank for the year ended December 31, 2010.

3.4 On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ("the Scheme") for employees of certain State Owned Enterprises (SOEs) and non-SOEs.

The Scheme, needs to be accounted for by the covered entities, including the Bank, under the provisions of amended International Financial Reporting Standard-2: Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted, the staff costs of the Bank for the period would have been higher by Rs. 413 million (September 30, 2010: 413 million), profit before taxation would have been lower by Rs. 413 million (September 30, 2010: 413 million), unappropriated profit would have been lower by Rs. 1,169 million (September 30, 2010: 619 million) and reserves would have been higher by Rs. 1,169 million (September 30, 2010: 619 million), hence, there would have been no impact on net equity. Further, earnings per share would have been lower by Rs. 0.33 per share (September 30, 2010: Rs 0.33).

3.5 These unconsolidated condensed interim financial statements represent the separate standalone condensed interim financial statements of the Bank. The consolidated condensed interim financial statements of the Bank and its subsidiary companies are presented separately.

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
4. SIGNIFICANT ACCOUNTING POLICIES AND FINANCIAL RISK MANAGEMENT

4.1 The accounting policies adopted in the preparation of these unconsolidated condensed interim financial statements are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010 other than as disclosed in note 4.3 below.

4.2 The financial risk management objectives and policies are consistent with those disclosed in the annual financial statements of the Bank for the year ended December 31, 2010.

4.3 New standards, interpretations and amendments thereof, adopted by the Bank

During the period, the following new / revised standards, amendments and interpretations to accounting standards became effective

Standard or Interpretation	Effective date (annual periods beginning on or after)
IAS 24 Related Party Transactions (Amendment)	January 01, 2011
IAS 32 Financial Instruments: Presentation (Amendment)	January 01, 2011
IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)	January 01, 2011

Adoption of the above standards, amendments and interpretations did not have any material effect on the unconsolidated condensed interim financial statements in the period of initial application.

4.4 Improvements to IFRSs

In addition to the above, amendments to various accounting standards have also been issued by the International Accounting Standard Board (IASB). Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The adoption of these improvements to IFRSs did not have any material impact on the Bank's unconsolidated condensed interim financial statements in the period of initial application.

5. BASIS OF MEASUREMENT

5.1 These unconsolidated condensed interim financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts and certain investments, commitments in respect of certain forward foreign exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.

5.2 The preparation of unconsolidated condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial statements of the Bank for the year ended December 31, 2010.

(Un-audited) September 30, 2011	(Audited) December 31, 2010
----- (Rupees in '000) -----	

6. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	130,000	-
Repurchase agreement lendings	4,744,407	4,431,877
Other lendings to financial institutions	10,706,201	7,502,901
	<u>15,580,608</u>	<u>11,934,778</u>
Provisions against lendings to financial institutions	(91,354)	-
	<u>15,489,254</u>	<u>11,934,778</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
7. INVESTMENTS

	(Un-audited) September 30, 2011			(Audited) December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
7.1 Investments by types	(Rupees in '000)					
7.1.1 Held-for-trading securities						
Market Treasury Bills	24,235,755	-	24,235,755	12,984,400	1,189,144	14,173,544
Pakistan Investment Bonds	288	-	288	805,257	-	805,257
Ordinary shares of listed companies	226,484	-	226,484	8,928	-	8,928
Foreign securities	-	-	-	1,297,405	-	1,297,405
	24,462,527	-	24,462,527	15,095,990	1,189,144	16,285,134
7.1.2 Available-for-sale securities						
Market Treasury Bills	51,051,755	42,536,677	93,588,432	39,519,598	20,695,498	60,215,096
Pakistan Investment Bonds	22,839,503	70,317	22,909,820	18,988,194	536,428	19,524,622
Government of Pakistan - Sukuk	4,953,256	-	4,953,256	4,122,000	-	4,122,000
Government of Pakistan Eurobonds	7,147,376	-	7,147,376	3,938,516	-	3,938,516
Ordinary shares of listed companies	5,153,905	-	5,153,905	3,629,299	-	3,629,299
Preference shares	469,888	-	469,888	463,977	-	463,977
Ordinary shares of unlisted companies	445,421	-	445,421	445,382	-	445,382
Term Finance Certificates	2,152,866	-	2,152,866	2,163,810	-	2,163,810
Units of mutual funds	114,075	-	114,075	164,662	-	164,662
Foreign securities	14,759,631	-	14,759,631	14,878,099	-	14,878,099
	109,087,676	42,606,994	151,694,670	88,313,537	21,231,926	109,545,463
7.1.3 Held-to-maturity securities						
Market Treasury Bills	45,921,546	-	45,921,546	58,843,648	-	58,843,648
Pakistan Investment Bonds	7,862,901	-	7,862,901	4,392,225	-	4,392,225
Government of Pakistan - Sukuk	300,000	-	300,000	30,000	-	30,000
Government of Pakistan - Guaranteed Bonds	53,797	-	53,797	51,399	-	51,399
Term Finance Certificates	26,923,669	-	26,923,669	27,106,749	-	27,106,749
Sukuk Bonds	2,337,595	-	2,337,595	2,548,739	-	2,548,739
Participation Term Certificates	15,354	-	15,354	19,202	-	19,202
Debentures	4,392	-	4,392	4,392	-	4,392
Foreign securities	2,224,445	-	2,224,445	2,184,264	-	2,184,264
CDC SAARC Fund	438	-	438	428	-	428
	85,644,137	-	85,644,137	95,181,046	-	95,181,046
7.1.4 Associates						
United Growth and Income Fund	3,030,136	-	3,030,136	3,030,136	-	3,030,136
UBL Liquidity Plus Fund	2,100,000	-	2,100,000	2,600,000	-	2,600,000
United Composite Islamic Fund	250,000	-	250,000	250,000	-	250,000
United Islamic Income Fund	200,000	-	200,000	200,000	-	200,000
United Stock Advantage Fund	250,000	-	250,000	250,000	-	250,000
UBL Capital Protected Fund - II	100,000	-	100,000	100,000	-	100,000
UBL Savings Income Fund	600,000	-	600,000	100,000	-	100,000
UBL Islamic Savings Fund	600,000	-	600,000	150,000	-	150,000
UBL Islamic Retirement Savings Fund	90,000	-	90,000	90,000	-	90,000
UBL Retirement Savings Fund	90,000	-	90,000	90,000	-	90,000
UBL Government Securities Fund	100,000	-	100,000	-	-	-
UBL Capital Protected Fund - I	-	-	-	75,075	-	75,075
UBL Participation Protected Plan	-	-	-	200,000	-	200,000
UBL Insurers Limited	240,000	-	240,000	240,000	-	240,000
Oman United Exchange Company, Muscat	6,981	-	6,981	6,981	-	6,981
	7,657,117	-	7,657,117	7,382,192	-	7,382,192
7.1.5 Subsidiaries						
United National Bank Limited, 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
	229,053,405	42,606,994	271,660,399	208,174,713	22,421,070	230,595,783
Provision for diminution in value of investments	(2,634,249)	-	(2,634,249)	(2,658,000)	-	(2,658,000)
Investments (net of provisions)	226,419,156	42,606,994	269,026,150	205,516,713	22,421,070	227,937,783
(Deficit) / surplus on revaluation of available-for-sale securities	(1,742,133)	11,417	(1,730,716)	(3,309,144)	(11,718)	(3,320,862)
Surplus / (deficit) on revaluation of held-for-trading securities	54,847	-	54,847	(38,201)	(164)	(38,365)
Total Investments	<u>224,731,870</u>	<u>42,618,411</u>	<u>267,350,281</u>	<u>202,169,368</u>	<u>22,409,188</u>	<u>224,578,556</u>

7.2 This includes investment in the seed capital aggregating to Rs.530 million (2010: Rs.630 million) which is required to be kept for a period of two years.

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011)

	Note	(Un-audited) September 30, 2011	(Audited) December 31, 2010
----- (Rupees in '000) -----			
8. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		257,093,754	268,760,548
Outside Pakistan		79,399,997	80,428,953
		<u>336,493,751</u>	<u>349,189,501</u>
Bills discounted and purchased			
Payable in Pakistan		19,136,407	14,665,532
Payable outside Pakistan		10,802,816	4,836,907
		<u>29,939,223</u>	<u>19,502,439</u>
	8.1	<u>366,432,974</u>	<u>368,691,940</u>
Provision against advances			
- Specific	8.2	(39,285,826)	(33,534,272)
- General	8.3	(1,404,317)	(1,425,496)
		<u>325,742,831</u>	<u>333,732,172</u>

8.1 Advances include Rs. 54,541.191 million (December 31, 2010: Rs.48,592.560 million) which have been placed under non-performing status.

8.2 The category wise classification of non performing advances is detailed below:

Category of Classification	September 30, 2011 (Un-audited)				
	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in '000) -----					
Other Assets Especially Mentioned'	657,627	-	657,627	-	-
Substandard	3,549,028	45,505	3,594,533	885,336	885,336
Doubtful	7,337,859	3,032,924	10,370,783	5,161,818	5,161,818
Loss	36,710,324	3,207,924	39,918,248	33,238,672	33,238,672
	<u>48,254,838</u>	<u>6,286,353</u>	<u>54,541,191</u>	<u>39,285,826</u>	<u>39,285,826</u>
----- (Rupees in '000) -----					
Category of Classification	December 31, 2010 (Audited)				
	Domestic	Overseas	Total	Provision Required	Provision Held
Other Assets Especially Mentioned'	336,651	-	336,651	-	-
Substandard	6,320,318	1,037,361	7,357,679	1,673,379	1,673,379
Doubtful	5,716,839	3,005,088	8,721,927	3,032,943	3,032,943
Loss	30,587,904	1,588,399	32,176,303	28,827,950	28,827,950
	<u>42,961,712</u>	<u>5,630,848</u>	<u>48,592,560</u>	<u>33,534,272</u>	<u>33,534,272</u>

* The other assets especially mentioned category pertains to agricultural finance

8.3 General provision represents provision amounting to Rs 312.908 million (December 31, 2010: Rs.375.327 million) against consumer finance portfolio as required by the Prudential Regulations issued by the SBP and Rs. 691.929 million (December 31, 2010: Rs.415.169 million) pertaining to overseas advances in line with 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. 399.480 million (December 31, 2010: 635.000 million) which the Bank carries based on management estimates.

8.4 Consistent with prior years, the Bank has availed the benefit of Forced Sale Value (FSV) of pledged stocks, mortgaged residential and commercial properties (land and building only) held as collateral against non-performing advances as allowed under BSD Circular 2 of 2009. Had the benefit under the said circular not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 3,233 million (December 31, 2010: Rs. 3,068 million). The FSV benefit recognized will not be available for the distribution of cash and stock dividend to shareholders.

	Note	(Un-audited) September 30, 2011	(Audited) December 31, 2010
----- (Rupees in '000) -----			
9. OPERATING FIXED ASSETS			
Capital work-in-progress		1,858,755	1,334,951
Property and equipment		19,992,512	20,166,071
Intangible assets		787,072	923,050
	9.1	<u>22,638,339</u>	<u>22,424,072</u>

9.1 Additions and disposals during the period amounted to Rs. 1,608.435 million (September 30, 2010:Rs. 1,633.757 million) and Rs. 81.604 million (September 30, 2010:Rs. 135.591 million), respectively.

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011)

	(Un-audited) September 30, 2011	(Audited) December 31, 2010
	----- (Rupees in '000) -----	
10. BORROWINGS		
Secured		
Borrowings from the State Bank of Pakistan		
- Export refinance scheme	11,063,855	14,840,163
- Refinance facility for modernization of SME	23,960	27,500
- Long term fixed finance	3,514,901	2,770,789
- Long term finance under export oriented projects	1,597,907	2,444,872
	16,200,623	20,083,324
Repurchase agreement borrowings	42,605,824	22,412,235
	<u>58,806,447</u>	<u>42,495,559</u>
Unsecured		
Call borrowings	1,543,398	428,195
Overdrawn nostro accounts	577,874	456,617
Trading liabilities	-	806,942
Other borrowings	749,804	917,536
	2,871,076	2,609,290
	<u>61,677,523</u>	<u>45,104,849</u>
11. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	167,618,264	161,587,884
Savings deposits	189,324,846	187,047,804
Sundry deposits	9,483,518	4,767,873
Margin deposits	3,842,652	3,696,330
Current accounts - remunerative	5,082,595	3,412,476
Current accounts - non-remunerative	172,711,690	175,589,304
	548,063,565	536,101,671
Financial Institutions		
Remunerative deposits	6,113,296	9,292,255
Non-remunerative deposits	3,033,475	5,251,841
	9,146,771	14,544,096
	<u>557,210,336</u>	<u>550,645,767</u>

12. SHARE CAPITAL
Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs.10 each

Sep 2011 (Number of shares)	Dec 2010 (Number of shares)			
518,000,000	518,000,000	Fully paid-up ordinary shares of Rs.10 each		
706,179,687	706,179,687	Issued for cash	5,180,000	5,180,000
<u>1,224,179,687</u>	<u>1,224,179,687</u>	Issued as bonus shares	7,061,798	7,061,798
			<u>12,241,798</u>	<u>12,241,798</u>

- 12.1** As disclosed in note 20.4 of the audited financial statements for the year ended December 31, 2010, the Abu Dhabi Group (ADG) and Bestway (Holdings) Limited had entered into a Share Purchase Agreement dated December 28, 2010 for inter se transfer of 20% of the issued and outstanding ordinary shares of the Bank held by ADG to Bestway (Holdings) Limited. The inter se transfer of these shares took place on January 26, 2011.

	Note	(Un-audited) September 30, 2011	(Audited) December 31, 2010
		----- (Rupees in '000) -----	
13. SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX			
Surplus / (deficit) arising on revaluation of assets - net of tax:			
Fixed assets	13.1	10,202,240	10,392,701
Securities	13.2	(1,124,967)	(2,158,560)
		<u>9,077,273</u>	<u>8,234,141</u>
13.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets at January 01		15,534,899	15,916,898
Revaluation of fixed assets during the period / year		-	8,788
Exchange adjustments		196	48
Transferred to unappropriated profit in respect of incremental depreciation charged during the period / year		(190,588)	(254,041)
Related deferred tax charge on incremental depreciation during the period / year		(102,624)	(136,794)
		(293,016)	(381,999)
		15,241,883	15,534,899
Less: related deferred tax liability on:			
Revaluation as on January 01		5,142,198	5,275,900
Revaluation of fixed assets during the period / year		-	3,075
Exchange adjustments		69	17
Incremental depreciation charged on related assets		(102,624)	(136,794)
		5,039,643	5,142,198
		<u>10,202,240</u>	<u>10,392,701</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	(Un-audited) September 30, 2011 ------(Rupees in '000)-----	(Audited) December 31, 2010
13.2 (Deficit) / surplus on revaluation on available-for-sale securities		
Market Treasury Bills	198,184	(55,830)
Pakistan Investment Bonds	(702,260)	(1,937,605)
Listed shares	(99,219)	(34,452)
Mutual fund units	(2,100)	(709)
Term Finance Certificates, Sukuk, other Bonds, etc.	1,228	(27,242)
Overseas securities	(1,126,549)	(1,265,024)
	(1,730,716)	(3,320,862)
Related deferred tax asset	605,749	1,162,302
	<u>(1,124,967)</u>	<u>(2,158,560)</u>
14. CONTINGENCIES AND COMMITMENTS		
14.1 Direct credit substitutes		
Contingent liabilities in respect of guarantees given favouring:		
Government	10,221,597	8,742,208
Banking companies and other financial institutions	4,679,563	5,316,009
Others	6,991,389	6,079,170
	<u>21,892,549</u>	<u>20,137,387</u>
14.2 Transaction-related contingent liabilities		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
Government	73,579,257	82,423,478
Banking companies and other financial institutions	2,313,545	2,470,740
Others	17,107,925	14,018,380
	<u>93,000,727</u>	<u>98,912,598</u>
14.3 Trade-related contingent liabilities		
Contingent liabilities in respect of letters of credit opened favouring:		
Government	44,028,921	52,859,909
Others	100,486,892	74,635,184
	<u>144,515,813</u>	<u>127,495,093</u>
14.4 Other contingencies		
Claims against the Bank not acknowledged as debts	<u>22,201,539</u>	<u>21,991,957</u>
14.5 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.		
	(Un-audited) September 30, 2011 ------(Rupees in '000)-----	(Audited) December 31, 2010
14.6 Commitments in respect of forward foreign exchange contracts		
Sale	<u>81,801,576</u>	<u>85,434,818</u>
Purchase	<u>132,596,714</u>	<u>130,653,749</u>
14.7 Other commitments		
Interest rate swaps	<u>8,581,790</u>	<u>6,985,703</u>
Cross currency swaps	<u>35,338,601</u>	<u>35,570,843</u>
FX options - purchased	<u>-</u>	<u>2,055,442</u>
FX options - sold	<u>-</u>	<u>2,055,442</u>
Forward sale contracts of government securities	<u>614</u>	<u>441,981</u>
Commitments in respect of capital expenditure	<u>782,370</u>	<u>571,403</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	----- (Un-audited) -----	
	Jan-Sep 2011	Jan-Sep 2010
	----- (Rupees in '000) -----	
15. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to customers	29,604,558	29,920,010
On lendings to financial institutions		
- Call money lending	20,324	49,158
- Securities purchased under resale agreements	388,208	729,855
- Advances to financial institutions	261,478	178,265
	670,010	957,278
On investments in		
- Held-for-trading securities	1,183,661	476,718
- Available-for-sale securities	13,919,757	5,757,388
- Held-to-maturity securities	7,068,564	5,907,960
	22,171,982	12,142,066
On deposits with financial institutions	71,686	201,191
Discount income	13,768	17,174
	52,532,004	43,237,719
16. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	17,753,306	13,602,280
On securities sold under repurchase agreements	2,127,823	1,227,289
On other short - term borrowings	1,885,226	2,137,600
On long - term borrowings	1,132,571	1,058,255
	22,898,926	18,025,424
17. ADMINISTRATIVE EXPENSES		
Salaries, allowances etc.	6,040,998	5,607,191
Rent, taxes, insurance, electricity etc.	1,872,406	1,683,979
Depreciation	1,341,815	1,263,547
Outsourced service charges including sales commission	1,178,658	1,074,554
Communications	581,122	529,976
Banking service charges	544,644	424,568
Cash transportation charges	233,931	202,307
Stationery and printing	295,829	300,693
Legal and professional charges	171,899	211,252
Contribution to retirement plan - net	(863)	(98,826)
Advertisement and publicity	408,487	314,598
Repairs and maintenance	178,590	130,332
Maintenance contracts	479,862	364,445
Travelling	177,838	120,140
Office running expenses	204,988	154,825
Charge for compensated absences	281,458	104,388
Vehicle expenses	110,300	85,537
Entertainment	97,092	66,060
Cartage, freight and conveyance	56,953	49,048
Insurance expense	111,330	60,062
Auditors' remuneration	37,995	33,026
Training and seminars	30,419	28,216
Brokerage expenses	24,196	12,478
Subscriptions	32,946	24,731
Subordinated debt related costs	4,799	5,448
Donations	24,559	76,285
Miscellaneous expenses	236,093	161,873
	14,758,344	12,990,733

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
18. TAXATION

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 amended assessments for the tax years 2003 to 2010 (accounting year ended December 31, 2002 to 2009) determining additional tax liability of Rs.7,308 million, which has been fully paid as required under the law. For the tax years 2004 to 2009, appeals have also been decided by the Commissioner of Inland Revenue [CIR(A)], while tax years 2003 and 2010 remain pending before CIR(A). Tax years 2004 to 2007 have been decided by the Appellate Tribunal Inland Revenue (ATIR), while tax years 2008 and 2009 remain pending for decision before ATIR. For tax years 2004 to 2007, the ATIR has allowed relief on certain issues. During the quarter a refund order of Rs 1,340 million has been issued for tax years 2004 to 2007 to give the appeal effect of the order of the ATIR. The Bank has filed a reference application before the Honorable High Court of Sindh for a decision on the remaining issues in tax years 2004 to 2007. The management is confident that the appeals 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 the 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 allows provision for advances and off balance sheet exposures @ 5% of advances to consumer and small and medium enterprises (SMEs), and 1% of other advances. A deferred tax asset of Rs. 3,050 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.4,114 million (December 31, 2010: 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 it would be allowed to the Bank at appellate levels.

19. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the Period Ended September 30, 2011 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment elimination
	(Rupees in '000)					
Total income	347,009	4,736,146	26,088,327	6,617,808	780,705	-
Total expenses	(90,704)	(2,028,575)	(15,345,192)	(3,547,070)	(806,696)	-
Net income before tax	256,305	2,707,571	10,743,135	3,070,738	(25,991)	-
Segment return on assets (ROA) (%)	4.62%	0.79%	1.76%	1.05%	-	-
Segment cost of funds (%)	0.32%	7.87%	4.14%	9.08%	-	-

	For the Period Ended September 30, 2010 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment elimination
	(Rupees in '000)					
Total income	346,240	1,845,181	22,940,260	6,761,778	612,391	-
Total expenses	(116,498)	(408,394)	(15,207,708)	(3,277,093)	(571,173)	-
Net income before tax	229,742	1,436,787	7,732,552	3,484,685	41,218	-
Segment return on assets (ROA) (%)	2.90%	0.58%	1.56%	1.20%	-	-
Segment cost of funds (%)	0.27%	6.87%	4.00%	8.83%	-	-

	As at September 30, 2011 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment elimination
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	5,298,255	279,279,244	576,326,713	298,925,177	112,047,004	(505,753,746)
Segment non performing loans (NPL)	-	2,156,892	24,790,761	27,580,385	13,153	-
Segment provision held against NPLs	-	1,484,802	20,039,081	17,748,790	13,153	-
Segment liabilities	5,071,721	276,876,487	550,973,457	278,144,559	47,162,083	(505,753,746)

	As at December 31, 2010 (Audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment elimination
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	5,003,810	247,898,002	572,011,999	270,480,254	101,541,028	(464,615,841)
Segment non performing loans (NPL)	-	2,002,017	23,896,808	22,680,582	13,153	-
Segment provision held against NPLs	-	10,105	18,347,997	15,163,018	13,153	-
Segment liabilities	4,667,770	248,723,372	548,894,475	250,963,805	41,736,333	(464,615,841)

Segment assets and liabilities include inter segment balances.

Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates.

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
20. RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its associates, subsidiary companies, employee benefit plans and its directors and executive officers (including their associates).

The Bank enters into transactions with related parties in the normal course of business. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

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

	As at September 30, 2011 (Un-audited)					As at December 31, 2010 (Audited)				
	Directors	Key management personnel	Subsidiaries	Associates	Other related parties	Directors	Key management personnel	Subsidiaries	Associates	Other related parties
	------(Rupees in '000)-----									
Balances with banks										
In current accounts	-	-	624,526	-	-	-	-	1,274,033	-	-
In saving accounts	-	-	-	-	6	-	-	-	-	2,773
	-	-	624,526	-	6	-	-	1,274,033	-	2,773
In deposit accounts										
Opening balance	-	-	-	-	350,000	-	-	-	-	-
Placements during the period / year	-	-	7,504,240	-	2,118,363	-	-	4,960,214	-	350,000
Settled during the period / year	-	-	(6,648,616)	-	(1,968,363)	-	-	(4,960,214)	-	-
Closing balance	-	-	855,624	-	500,000	-	-	-	-	350,000
Investments										
Opening balance	-	-	2,201,948	7,382,192	317,176	-	-	2,201,948	6,921,080	317,176
Investment made during the period / year	-	-	-	4,550,000	-	-	-	-	2,620,000	-
Investment redeemed / disposed off during the period / year	-	-	-	(4,275,075)	(49,313)	-	-	-	(2,158,888)	-
Closing balance	-	-	2,201,948	7,657,117	267,863	-	-	2,201,948	7,382,192	317,176
Provision for diminution in value of investments	-	-	-	-	(58,803)	-	-	-	(15,361)	(59,803)
Purchase of investment	-	-	101,127	-	-	-	-	-	-	-
Advances										
Opening balance	969	141,762	-	-	-	2,142	102,750	-	-	-
Addition during the period / year	-	21,281	-	-	-	-	170,447	-	-	-
Repaid during the period / year	(70)	(38,793)	-	-	-	(1,173)	(131,435)	-	-	-
Closing balance	899	124,250	-	-	-	969	141,762	-	-	-
Other Assets										
Interest markup accrued	11	151	75	-	7,769	-	135	-	-	4,656
Receivable from staff retirement funds	-	-	-	-	21,507	-	-	-	-	66,595
Prepaid insurance	-	-	-	113,776	-	-	-	-	1,368	-
Other receivable	-	-	2,514	-	-	-	-	2,369	-	-
Borrowings										
Opening balance	-	-	-	-	-	-	-	-	300,000	100,000
Borrowings during the period / year	-	-	1,583,612	-	874,791	-	-	1,461,661	2,100,000	-
Settled during the period / year	-	-	(1,058,745)	-	(437,396)	-	-	(1,461,661)	(2,400,000)	(100,000)
Closing balance	-	-	524,867	-	437,395	-	-	-	-	-
Overdrawn nostros	-	-	47,583	-	-	-	-	120,552	533	-
Deposits and other accounts										
Opening balance	2,796,798	24,857	146,247	3,824,208	957,640	28,205	19,365	112,363	220,116	888,467
Received during the period / year	14,696,641	1,720,936	82,870,654	22,491,009	58,262,418	9,791,140	444,766	127,723,196	37,943,495	62,734,505
Withdrawn during the period / year	(14,419,734)	(1,708,213)	(82,975,022)	(24,445,708)	(58,611,729)	(7,022,547)	(439,274)	(127,689,312)	(34,339,403)	(62,665,332)
Closing balance	3,073,705	37,580	41,879	1,869,509	608,329	2,796,798	24,857	146,247	3,824,208	957,640
Sub-ordinated loans	-	5	-	5,998	-	-	5	-	5,999	-
Other Liabilities										
Interest / markup payable on deposits	9,238	285	350	28	1,373	9,431	41	50	17,769	1,024
Interest / markup payable on sub-ordinated loans	-	0	-	23	-	-	-	-	167	-
Unrealised loss on derivative transactions	-	-	-	-	1,066,651	-	-	-	-	618,818
Unearned income	-	-	386	-	-	-	-	-	-	-
Others	-	-	10,000	-	-	-	-	10,000	-	-
Contingencies and Commitments										
Letter of guarantee	1,733,611	-	-	73,591	-	1,697,143	-	-	30,031	-
Forward foreign exchange contracts purchase	-	-	1,924,538	-	4,978,350	-	-	-	-	2,602,090
Forward foreign exchange contracts sale	-	-	1,732,808	-	803,730	-	-	-	-	429,850
	For the nine months ended September 30, 2011 (Un-audited)					For the nine months ended September 30, 2010 (Un-audited)				
	Directors	Key management personnel	Subsidiaries	Associates	Other related parties	Directors	Key management personnel	Subsidiaries	Associates	Other related parties
	------(Rupees in '000)-----									
Income										
Mark-up / return / interest earned	93	6,325	1,031	-	18,603	195	5,478	199	-	22,331
Commission / charges recovered	5	10	106	505	3,258	4	5	76	954	6,139
Dividend income	-	-	16,600	281,968	-	-	-	50,000	328,704	2,346
Net gain on sale of investment	-	-	-	20,724	-	-	-	-	2,191	-
Realised gain on derivative transactions	-	-	-	-	584,461	-	-	-	-	1,674,938
Other income	-	2,398	911	90	-	-	528	1,313	614	23
Expenses										
Mark-up / return / interest paid	66,179	2,690	575	97,510	20,298	9,605	491	138	161,154	22,786
Managerial remuneration	-	314,141	-	-	-	-	268,134	-	-	-
Post employment benefits	-	10,620	-	-	-	-	9,450	-	-	-
Non-executive directors' fee and allowances	24,599	-	-	-	-	31,097	-	-	-	-
Net charge for defined contribution plans	-	-	-	-	105,752	-	-	-	-	70,121
Net reversal for defined benefit plans	-	-	-	-	(227,315)	-	-	-	-	(279,191)
Payment for employee motivation and retention scheme	-	-	-	-	230,000	-	-	-	-	210,000
Donation	-	-	-	-	20,000	-	-	-	-	40,000
Insurance premium paid	-	-	-	243,745	-	-	-	-	204,453	-
Insurance claims settled	-	-	-	132,211	-	-	-	-	111,112	-

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
21. ISLAMIC BANKING BUSINESS

21.1 The statement of financial position of the Bank's Islamic Banking branches as at September 30, 2011 is as follows:

	(Un-audited) September 30, 2011 ------(Rupees in '000)-----	(Audited) December 31, 2010
ASSETS		
Cash and balances with treasury banks	474,550	389,582
Balances with other banks	1,714,138	496,654
Investments	4,490,991	2,884,260
Financing and receivables		
- Murabaha	335,716	203,787
- Musharaka	111,111	166,667
- Diminishing Musharaka	74,282	90,888
	521,109	461,342
Operating fixed assets		
- In own use	45,984	54,546
- Given under Ijarah financing	464,733	371,506
	510,717	426,052
Due from head office	767,184	83,725
Other assets	312,470	297,649
Total Assets	8,791,159	5,039,264
LIABILITIES		
Bills payable	970	970
Deposits and other accounts		
- Current accounts	1,141,638	724,750
- Saving accounts	991,350	933,100
- Term deposits	2,392,696	1,456,596
- Deposits from financial institutions - remunerative	3,629,596	1,344,775
	8,155,280	4,459,221
Other liabilities	147,083	101,782
	8,303,333	4,561,973
NET ASSETS	487,826	477,291
REPRESENTED BY		
Islamic Banking Fund	681,000	681,000
Accumulated loss	(191,074)	(203,000)
	489,926	478,000
Deficit on revaluation of assets	(2,100)	(709)
	487,826	477,291

21.2 The profit and loss account of the Bank's Islamic Banking branches for the nine months ended September 30, 2011 is as follows:

	(Un-audited) Jan-Sep 2011 ------(Rupees in '000)-----	(Un-audited) Jan-Sep 2010
Return earned	595,492	439,114
Return expensed	(437,892)	(205,982)
	157,600	233,132
Reversal / (charge) of diminution in value of investment	26,276	(69,092)
Reversal of provision against assets given on Ijara	3,598	4,612
	29,874	(64,480)
Net return after provision	187,474	168,652
OTHER INCOME		
Fee, commission and brokerage income	5,791	4,168
Dividend income	29,586	7,325
Income from dealing in foreign currencies	1,202	736
Loss on sale of securities	-	(4,750)
Other income	4,367	104
Total other income	40,946	7,583
	228,420	176,235
OTHER EXPENSES		
Administrative expenses	(216,494)	(205,466)
Other provisions / write offs	-	(1,721)
Total other expenses	(216,494)	(207,187)
Net profit / (loss) for the period	11,926	(30,952)
Accumulated losses brought forward	(203,000)	(174,404)
Accumulated losses carried forward	(191,074)	(205,356)
Remuneration to Sharia Advisor / Board	1,816	2,039

22. DATE OF AUTHORIZATION

These condensed interim financial statements were authorised for issue on October 25, 2011 by the Board of Directors of the Bank.