

UNCONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2008

	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
ASSETS			
Cash and balances with treasury banks	6	50,069,965	57,526,451
Balances with other banks	7	7,497,174	4,191,128
Lendings to financial institutions	8	22,805,341	24,781,723
Investments	9	116,328,288	115,585,646
Advances			
Performing	10	361,863,689	293,373,007
Non-performing	10	9,275,986	5,981,729
		371,139,675	299,354,736
Operating fixed assets	11	18,021,445	16,943,950
Deferred tax asset - net	18	2,055,609	-
Other assets	12	17,154,985	11,740,697
		605,072,482	530,124,331
LIABILITIES			
Bills payable	14	5,194,449	6,079,341
Borrowings	15	44,195,886	59,103,350
Deposits and other accounts	16	483,560,062	400,974,539
Sub-ordinated loans	17	11,993,848	5,996,696
Deferred tax liability - net	18	-	2,232,344
Other liabilities	19	16,265,478	13,316,657
		561,209,723	487,702,927
NET ASSETS		43,862,759	42,421,404
REPRESENTED BY:			
Share capital	20	10,117,188	8,093,750
Reserves		15,501,513	10,261,958
Unappropriated profit		16,604,076	15,653,703
		42,222,777	34,009,411
Surplus on revaluation of assets - net of deferred tax	21	1,639,982	8,411,993
		43,862,759	42,421,404
CONTINGENCIES AND COMMITMENTS			
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The annexed notes from 1 to 48 and annexures form an integral part of these unconsolidated financial statements.

The valuation of listed equity securities / mutual funds held under 'available-for-sale' category of investments has been arrived at using the market prices quoted on the stock exchange / net assets value as of December 31, 2008 and a portion of impairment loss arising therefrom has been included in deficit on revaluation of assets – net of deferred tax as allowed by State Bank of Pakistan. Under the regular accounting policy of the bank, the same would have resulted in a charge to profit and loss account of Rs.1,448.311 million (net of tax) and, consequently, the unappropriated profit for the year would have been Rs.15,445.427 million and surplus on revaluation of assets - net of deferred tax would have been lower by Rs.1,448.311 million as given in note 9.5 to these unconsolidated financial statements.

Atif R. Bokhari
President and
Chief Executive Officer

Dr. Ashfaqe Hasan Khan
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, 2008

	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
Mark-up / return / interest earned	24	52,253,361	41,045,543
Mark-up / return / interest expensed	25	24,117,702	16,936,187
Net mark-up / interest income		<u>28,135,659</u>	<u>24,109,356</u>
Provision against loans and advances - net (excluding impact on account of change in Prudential Regulations)	10.5	5,879,185	1,689,467
(Reversal) / additional provisioning arising on account of change in Prudential Regulations	10.5	(1,369,229)	3,803,759
Provision against loans and advances - total		<u>4,509,956</u>	<u>5,493,226</u>
Provision for / (reversal of) diminution in value of investments - net	9.3	2,219,815	(6,303)
Bad debts written off directly	10.7	1,367,514	935,123
		<u>8,097,285</u>	<u>6,422,046</u>
Net mark-up / return / interest income after provisions		<u>20,038,374</u>	<u>17,687,310</u>
Non Mark-up / Interest Income			
Fee, commission and brokerage income		6,304,927	5,165,066
Dividend income		587,989	548,782
Income from dealing in foreign currencies		1,819,250	827,328
Gain on sale of securities	26	254,046	849,367
Unrealized loss on revaluation of investments classified as held for trading	9.4	(19,547)	(15,755)
Other income	27	1,454,729	1,617,564
Total non mark-up / return / interest income		<u>10,401,394</u>	<u>8,992,352</u>
		<u>30,439,768</u>	<u>26,679,662</u>
Non Mark-up / Interest Expenses			
Administrative expenses	28	15,519,634	13,420,977
Other provisions / write offs - net	29	450,390	236,281
Worker welfare fund	31	336,999	-
Other charges	30	258,321	17,430
Total non mark-up / interest expenses		<u>16,565,344</u>	<u>13,674,688</u>
Profit before taxation		<u>13,874,424</u>	<u>13,004,974</u>
Taxation - Current	32	6,090,351	5,075,600
- Prior year	32	435,072	442,066
- Deferred	32	(984,119)	(915,283)
		<u>5,541,304</u>	<u>4,602,383</u>
Profit after taxation		<u>8,333,120</u>	<u>8,402,591</u>
Unappropriated profit brought forward		15,653,703	12,429,853
		<u>23,986,823</u>	<u>20,832,444</u>
Transfer from surplus on revaluation of fixed assets - net of tax	21.1	253,018	63,028
Profit available for appropriation		<u>24,239,841</u>	<u>20,895,472</u>
		<u>----- (Rupees) -----</u>	
Earnings per share	33	<u>8.24</u>	<u>8.31</u>

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

The valuation of listed equity securities / mutual funds held under 'available-for-sale' category of investments has been arrived at using the market prices quoted on the stock exchange / net assets value as of December 31, 2008 and a portion of impairment loss arising therefrom has been included in surplus on revaluation of assets – net of deferred tax as allowed by State Bank of Pakistan. Under the regular accounting policy of the bank, the same would have resulted in a charge to profit and loss account of Rs.1,882.296 million and, consequently, the profit after tax for the year would have been Rs.6,884.809 million and earnings per share would have been Rs.6.81 as given in note 9.5 to these unconsolidated

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

	Share capital	Capital reserves			Cash flow hedge reserve	Unappropriated profit	Total
		Statutory reserve	Exchange translation reserve	Reserve for issue of bonus shares			
(Rupees in '000)							
Balance as at December 31, 2006	6,475,000	7,029,233	1,269,640	-	-	12,429,853	27,203,726
Final cash dividend for the year ended December 31, 2006 declared subsequent to year end at Rs.3.00 per share	-	-	-	-	-	(1,942,500)	(1,942,500)
Transfer to reserves for issue of bonus shares	-	-	-	1,618,750	-	(1,618,750)	-
Issue of bonus shares	1,618,750	-	-	(1,618,750)	-	-	-
Changes in equity for 2007							
Profit after taxation for the year ended December 31, 2007	-	-	-	-	-	8,402,591	8,402,590
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	63,028	63,028
Exchange differences on translation of net investment in foreign branches	-	-	282,567	-	-	-	282,567
Net income recognised directly in equity	-	-	282,567	-	-	63,028	345,595
Total recognised income and expense for the year	-	-	282,567	-	-	8,465,618	8,748,185
Transfer to statutory reserve	-	1,680,518	-	-	-	(1,680,518)	-
Balance as at December 31, 2007	8,093,750	8,709,751	1,552,207	-	-	15,653,703	34,009,411
Final cash dividend for the year ended December 31, 2007 declared subsequent to year end at Rs.3.00 per share	-	-	-	-	-	(2,428,125)	(2,428,125)
Interim cash dividend for the half year ended June 30, 2008 declared subsequent to the period end at Rs.1.5 per share	-	-	-	-	-	(1,517,578)	(1,517,578)
Transfer to reserves for issue of bonus shares	-	-	-	2,023,438	-	(2,023,438)	-
Issue of bonus shares	2,023,438	-	-	(2,023,438)	-	-	-
Changes in equity for 2008							
Profit after taxation for the year ended December 31, 2008	-	-	-	-	-	8,333,120	8,333,120
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	253,018	253,018
Net loss on cash flow hedges - net of deferred tax	-	-	-	-	(276,633)	-	(276,633)
Exchange differences on translation of net investment in foreign branches	-	-	3,849,564	-	-	-	3,849,564
Net income recognised directly in equity	-	-	3,849,564	-	(276,633)	253,018	3,825,949
Total recognised income and expense for the year	10,117,188	8,709,751	5,401,771	-	(276,633)	18,270,700	42,222,777
Transfer to statutory reserve	-	1,666,624	-	-	-	(1,666,624)	-
Balance as at December 31, 2008	<u>10,117,188</u>	<u>10,376,375</u>	<u>5,401,771</u>	<u>-</u>	<u>(276,633)</u>	<u>16,604,076</u>	<u>42,222,777</u>

Appropriations made by the directors subsequent to the year ended December 31, 2008 are disclosed in note 46 of 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
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Director

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UNCONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 ----- (Rupees in '000) -----	2007
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		13,874,424	13,004,973
Less: Dividend income		587,989	548,782
		13,286,434	12,456,191
Adjustments:			
Depreciation		1,236,031	661,235
Amortization		156,178	89,173
Worker welfare fund		336,999	-
Provision for retirement benefits		19,969	50,543
Provision against loans and advances		4,509,956	5,493,226
Reversal of provision for diminution in value of investments		2,219,815	(6,303)
Provision against off- balance sheet items		42,966	(38,093)
Gain on sale of fixed assets		(14,298)	(34,207)
Bad debts written-off directly		1,367,514	935,123
Unrealized loss on revaluation of investments classified as held for trading		19,547	15,755
Reversal of provision against other assets		196,026	80,707
		10,090,703	7,247,159
		23,377,137	19,703,350
Decrease / (increase) in operating assets			
Lendings to financial institutions		1,976,382	4,790,347
Held-for-trading securities		(4,312,626)	(135,822)
Advances		(77,662,409)	(58,473,192)
Other assets (excluding advance taxation)		(5,612,902)	(2,476,321)
		(85,611,555)	(56,294,988)
(Decrease) / increase in operating liabilities			
Bills payable		(884,892)	1,518,692
Borrowings		(14,907,464)	20,612,764
Deposits and other accounts		82,585,523	66,559,943
Other liabilities (excluding current taxation)		3,188,142	3,451,951
		69,981,309	92,143,350
		7,746,892	55,551,712
Staff retirement benefits paid		(193,417)	230,265
Income taxes paid		(7,165,283)	(5,189,725)
Net cash flow from operating activities		388,192	50,592,252
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in securities		(8,085,605)	(48,720,742)
Dividend income received		584,769	541,863
Investment in operating fixed assets		(3,077,157)	(2,158,763)
Sale proceeds from disposal of property and equipment		138,348	150,234
Net cash flow on investing activities		(10,439,645)	(50,187,408)
CASH FLOW FROM FINANCING ACTIVITIES			
Receipt of sub-ordinated loan		6,000,000	-
Repayments of principal of sub-ordinated loans		(2,848)	(1,648)
Dividends paid		(3,945,703)	(1,942,500)
Net cash flow from / (used in) financing activities		2,051,449	(1,944,148)
Exchange differences on translation of net investment in foreign branches		3,849,564	282,567
Decrease in cash and cash equivalents		(4,150,440)	(1,256,737)
Cash and cash equivalents at beginning of the year as previously reported		61,717,579	62,974,316
Cash and cash equivalents at end of the year	34	57,567,139	61,717,579

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

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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 1,119 (2007: 1,078) branches including 05 (2007: 05) Islamic banking branches, 01 (2007: 01) branch in Karachi Export Processing Zone (KEPZ) and 17 (2007: 17) branches outside Pakistan.

The bank's Ordinary shares are listed on all three stock exchanges in Pakistan where as its Global Depository Receipts (GDRs) are on the list of UK Listing Authority and 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 has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually 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.

The financial results of the Islamic banking branches of the Bank have been consolidated 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.

3. STATEMENT OF COMPLIANCE

- 3.1** These 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 as are notified under the Companies Ordinance, 1984, 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 the requirements of the said directives prevail.
- 3.2** The SBP vide BSD Circular 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 dated April 28, 2008, the 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 SBP.
- 3.3** These unconsolidated financial statements represent the separate stand alone financial statements of the bank. The consolidated financial statements of the bank and its subsidiary companies are presented separately.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
3.4 STANDARD, AMENDMENTS INTERPRETATION NOT YET EFFECTIVE

The following new standards and amendments to approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or amendment:

	Effective date (Accounting periods beginning on or after)
IAS - 1 Presentation of Financial Statements (Revised)	January 01, 2009
IAS - 23 Borrowings Costs (Revised)	January 01, 2009
IAS - 27 Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IFRS 3 Business Combinations (Revised)	July 01, 2009
IFRS 4 Insurance Contracts	January 01, 2009
IFRS 8 Operating segments	January 01, 2009
IFRIC - 13 Customer Loyalty Programs	July 01, 2009
IFRIC - 15 Agreements for the construction of real estate	January 01, 2009
IFRIC - 16 Hedges of a Net Investment in Foreign Operation	October 01, 2008
IFRIC - 17 Distributions of Non - Cash Assets to Owners	July 01, 2009
IFRIC - 18 Transfer of Assets from Customers	July 01, 2009
IFAS 2 Ijarah	January 01, 2009

The bank considers that the above standards and interpretations are either not relevant or will have no material impact on its financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentation and disclosures in the financial statements to the extent that such presentation and disclosure requirements do not conflict with the format of financial statements prescribed by the SBP for banks.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after January 01, 2009. The management is in the process of evaluating the impact of such amendments and improvements on the Bank's financial statements for the ensuing periods.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
3.5 Early adoption of a standard

The State Bank of Pakistan vide its IBD Circular No. 01 of 2009 deferred the implementation of Islamic Financial Accounting Standard (IFAS 2) "Ijarah" issued by the Institute of Chartered Accountants of Pakistan in 2007 for ijarah transactions and it will be applicable for financial statements covering periods beginning on or after January 01, 2009. However the bank during last year has early adopted IFAS 2 and has applied the accounting principles stated therein in the preparation of these financial statements. The disclosures required under IFAS 2 are set out in note 11.8 to these unconsolidated financial statements. The related accounting policy is disclosed in note 5.5.2.

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, certain investments have been stated at fair value and derivative financial instruments are measured 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 effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement 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 judgements were made by the management in the application of accounting policies are as follows:

- i) classification of investments (notes 5.3 and 9)
- ii) provision against investments (notes 5.3 and 9.3) and advances (notes 5.4 and 10.5)
- iii) income taxes (notes 5.7, 19.2 and 32)
- iv) staff retirement benefits (note 5.9 and 36)
- v) fair value of derivatives (note 5.14 and 19.4)
- vi) operating fixed assets, depreciation and amortization (note 5.5 and 11)
- vii) impairment (note 5.6)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these unconsolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Cash and cash equivalents

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

5.2 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:

5.2.1 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.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008****5.2.2 Purchase under resale agreements**

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

Securities borrowed are not recognized in the 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.

5.3 Investments

The Bank classifies its investments as follows:

5.3.1 Held for trading

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

5.3.2 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.

5.3.3 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.

Investments other than those categorized as held for trading are initially recognized at fair value which includes transaction costs associated with the investment. Investments classified as held for trading are initially recognized at fair value, and transaction costs are expensed in the profit and loss account.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognized at the trade date. Trade date is the date on which the bank commits to purchase or sell the investment.

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard - 28), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account.

Unquoted equity securities excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost. Investments in subsidiaries and associates (which qualify for accounting under International Accounting Standard - 28) are carried at cost net of impairment (if any).

Provision for diminution in the values of securities (except debentures, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in value of debentures, participation term certificates and term finance certificates is made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Profit and loss on sale of investments is included in income currently.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008****5.4 Advances**

Advances are stated net of specific and general provisions. Specific provision against domestic advances is determined on the basis of Prudential Regulations and other directives issued by the State Bank of Pakistan and 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 State Bank of Pakistan. General and specific provisions pertaining to overseas advances are made in accordance with the requirements of monetary agencies and regulatory authorities of the respective countries. Advances are written off when there is no realistic prospect of recovery.

5.5 Operating fixed assets and depreciation**5.5.1 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. 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 balance sheet 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 the net carrying amount 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.

5.5.2 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 lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

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

5.5.3 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 from the month, when these assets are available for use, using the straight line method, 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 value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for impairment in the value of assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account.

5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet 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 that asset.

The '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. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational / financial cash flows.

5.7 Taxation
5.7.1 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 the current tax is calculated using prevailing tax rates or tax rates expected to apply to the profits for the year at enacted rates. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments made during the year.

5.7.2 Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the bank also records 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 by the balance sheet 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 deferred tax asset is reviewed at each balance sheet 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 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 dealing with Income Taxes.

5.8 Provisions

Provisions are recognized when the bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.9 Staff retirement and other benefits
5.9.1 Staff retirement benefit schemes

The bank operates the following staff retirement schemes for its employees

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

- a) For employees who have not opted for the new scheme introduced in 1991
 - approved funded pension scheme, introduced in 1986 (defined benefit scheme); and
 - approved non-contributory provident fund in lieu of the contributory provident fund.
- b) For new employees and for those who opted for the new scheme introduced in 1991, the bank operates
 - approved contributory provident fund (defined contribution scheme); and
 - approved gratuity scheme (defined benefit scheme).

In the year 2001, the bank modified the pension scheme and introduced a conversion option for employees covered under option (a) above to option (b). 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 employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction on the future payments is available.

5.9.2 Other benefits
a) Employees' compensated absences

The Bank makes provisions for compensated vested and non-vested absences accumulated by its 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 benefit 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 to reward, motivate and retain its high performing executives and officers. The liability of the bank is fixed and determined each year based on the performance of the bank.

5.9.3 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.

5.10 Sub-ordinated Debts

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

5.11 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposits costs are recognized as an expense in the period in which these are incurred using effective mark-up / interest rate method.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
5.12 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.

5.12.1 Advances and investments

Mark-up / return on performing advances and investments is recognized on a time proportion basis over the term of loans and advances. Where debt securities are purchased at premium or discount, those premiums / discounts are 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 State Bank of Pakistan or overseas regulatory authorities of countries where the branches operate, except where in the opinion of the management, it would not be prudent to do so.

5.12.2 Dividend income

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

5.12.3 Fee, brokerage and commission

Fee, brokerage and commission on letters of credit / guarantee and others are recognized on an accrual basis.

5.13 Foreign currencies
5.13.1 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.

5.13.2 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 balance sheet date except that certain deposits, which are covered by forward foreign exchange contracts, are translated at contracted rates. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

5.13.3 Foreign operations

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

5.13.4 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).

5.13.5 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the 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 transaction.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008****5.14 Financial instruments****5.14.1 Financial assets and liabilities**

Financial instruments carried on the balance sheet include cash and bank balances, lendings to institutions, investments, advances, certain receivables, bills payables, borrowings from financial institutions, deposits, subordinated loan 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.

5.14.2 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 fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.14.3 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 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 that 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 in other income. Meanwhile, 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 in 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 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 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.

5.14.4 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the 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.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
5.15 Segment reporting

A segment is a distinguishable component of the bank that is engaged either in providing product 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.

5.15.1 Business segments
(a) Corporate finance

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

(b) Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

(c) Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

(d) Commercial banking

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

5.15.2 Geographical segments

The Bank operates in three geographical regions being:

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

5.16 Dividend and appropriation to reserves

Dividend and appropriation to reserves, except appropriation which are required by the law after the balance sheet date, are recognized as liability in the banks' unconsolidated financial statements in the year in which these are approved.

5.17 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 period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2008.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		9,859,986	9,720,212
Foreign currency		4,951,053	1,941,211
		14,811,039	11,661,423
With State Bank of Pakistan in			
Local currency current account	6.1	14,324,727	22,350,805
Local currency deposit account		3,864	3,864
Foreign currency current account	6.2	2,656	18,611
Foreign currency deposit account	6.3	4,730,090	1,889,388
		19,061,337	24,262,668
With other central banks in foreign currency current account	6.4	8,006,779	15,685,359
With other central banks in foreign currency deposit account		-	362,757
With National Bank of Pakistan in local currency current account		8,153,544	5,496,747
National Prize Bonds		37,266	57,497
		<u>50,069,965</u>	<u>57,526,451</u>

6.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.

6.2 This represents US Dollar Settlement Account maintained with SBP.

6.3 The foreign currency cash reserve comprises of an amount equivalent to at least 5% of the bank's foreign currency deposits which is kept in a non-remunerative account. It also includes foreign currency cash reserve maintained with SBP equivalent to at least 15% of the bank's foreign currency deposits, the return on this account is declared by SBP on a monthly basis as at December 31, 2008 and carries mark-up at the rate of 0.90% (2007: 4.24%).

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	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		-	9,162
In deposit accounts	7.1	380,669	-
		380,669	9,162
Outside Pakistan			
In current accounts		4,441,155	1,598,275
In deposit accounts	7.1	2,675,350	2,583,691
		7,116,505	4,181,966
		<u>7,497,174</u>	<u>4,191,128</u>

7.1 These carry mark-up at rates ranging from 3.25% to 13.00% (2007: 4.25% to 5.5%) per annum.

	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	2,800,780	2,777,757
Repurchase agreement lendings	8.3	15,639,163	13,809,706
Lendings to banks / financial institutions	8.4	4,365,398	8,194,260
		<u>22,805,341</u>	<u>24,781,723</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
8.1 Particulars of lendings to financial institutions

In local currency	18,618,677	19,171,866
In foreign currencies	4,186,664	5,609,857
	<u>22,805,341</u>	<u>24,781,723</u>

8.2 These are unsecured lendings carrying mark-up at rates ranging from 9.50% to 15.65% per annum (2007: 9.50% to 11.00% per annum) and are due to mature latest by February 2009.

8.3 Securities held as collateral against repurchase agreement lendings

	2008			2007		
	Held by Bank	Further given as collateral / sold	Total	Held by Bank	Further given as collateral / sold	Total
----- (Rupees in '000) -----						
Market Treasury Bills	12,596,455	-	12,596,455	6,944,762	2,887,635	9,832,397
Pakistan Investment Bonds	2,192,708	850,000	3,042,708	3,259,115	718,194	3,977,309
	<u>14,789,163</u>	<u>850,000</u>	<u>15,639,163</u>	<u>10,203,877</u>	<u>3,605,829</u>	<u>13,809,706</u>

These carry mark-up at rates ranging from 6.00% to 16.00% per annum (2007: 9.20% to 9.90% per annum) and are due to mature latest by January 2009.

8.4 These carry mark-up at rates ranging from 15.53% to 17.77% per annum (2007: 5.45% to 12.63 % per annum) and are due to mature latest by April 2011, Where as lending pertaining to overseas operation carry mark-up at rates ranging from 1.19% to 6.02% per annum (2007: 5.23% to 8.15% per annum) and are due to mature latest by June 2010.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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9. INVESTMENTS

9.1 Investments by types	Note	2008			2007		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)							
Held for trading securities							
Market Treasury Bills		4,202,368	-	4,202,368	-	-	
Ordinary shares of listed companies	9.11	348,506	-	348,506	269,932	269,932	
Pakistan Investment Bonds		15,929	-	15,929	-	-	
		4,566,803	-	4,566,803	269,932	269,932	
Available for sale securities							
Market Treasury Bills		33,775,219	13,841,226	47,616,445	19,510,171	27,889,798	
Pakistan Investment Bonds		16,777,690	428,230	17,205,920	15,337,793	1,536,588	
Foreign currency bonds		15,235,129	-	15,235,129	3,475,078	-	
Ordinary shares of listed companies		5,880,749	-	5,880,749	3,180,028	-	
Euro Bonds		4,341,320	-	4,341,320	2,170,415	-	
Government of Pakistan Islamic Bonds		2,493,607	-	2,493,607	1,123,894	-	
Term Finance Certificates		2,172,435	-	2,172,435	644,122	-	
Ordinary shares of unlisted companies	9.8	441,465	-	441,465	441,106	441,106	
Sukuk Bonds		455,276	-	455,276	-	-	
Units of mutual funds		211,583	-	211,583	262,201	262,201	
		81,784,473	14,269,456	96,053,929	46,144,808	29,426,386	
Held to maturity securities							
Term Finance Certificates	9.10	4,915,803	-	4,915,803	6,341,257	6,341,257	
Pakistan Investment Bonds		4,339,104	-	4,339,104	4,521,049	4,521,049	
Certificates of Deposit		4,091,750	-	4,091,750	853,146	853,146	
CIRC Bonds		2,900,000	-	2,900,000	2,900,000	2,900,000	
Foreign securities		1,911,320	-	1,911,320	1,498,797	1,498,797	
Government of Pakistan - Guaranteed Bonds		1,485,444	-	1,485,444	1,433,444	1,433,444	
Market Treasury Bills		1,263,178	-	1,263,178	12,883,608	12,883,608	
Sukuk Bonds		1,094,372	-	1,094,372	685,000	685,000	
Foreign currency bonds		897,982	-	897,982	1,055,801	1,055,801	
Participation Term Certificates		38,205	-	38,205	46,920	46,920	
Debentures		6,676	-	6,676	8,300	8,300	
CDC SAARC Fund		395	-	395	310	310	
		22,944,229	-	22,944,229	32,227,632	32,227,632	
Associates							
United Money Market Fund		1,254,559	-	1,254,559	3,150,646	3,150,646	
United Composite Islamic Fund		523,048	-	523,048	550,000	550,000	
United Growth and Income Fund		250,000	-	250,000	1,750,000	1,750,000	
United Islamic Income Fund		250,000	-	250,000	250,000	250,000	
United Stock Advantage Fund		250,000	-	250,000	250,000	250,000	
UBL Participation Protected Plan		200,000	-	200,000	-	-	
UBL Insurers Limited		90,000	-	90,000	90,000	90,000	
United Capital Protected Fund - I		75,075	-	75,075	-	-	
Oman United Exchange Company, Muscat		6,981	-	6,981	6,981	6,981	
		2,899,663	-	2,899,663	6,047,627	6,047,627	
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	
		114,397,116	14,269,456	128,666,572	86,891,947	29,426,386	
Provision for diminution in value of investments	9.3	(2,536,770)	-	(2,536,770)	(351,191)	(351,191)	
Investments (net of provisions)		111,860,346	14,269,456	126,129,802	86,540,756	29,426,386	
Deficit on revaluation of available for sale securities	21.2	(9,672,239)	(109,728)	(9,781,967)	(324,632)	(41,109)	
Deficit on revaluation of held for trading securities	9.4	(19,547)	-	(19,547)	(15,755)	(15,755)	
Total investments		102,168,560	14,159,728	116,328,288	86,200,369	29,385,277	

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
9.2 Investments by segments			
Federal Government Securities			
Market Treasury Bills		53,081,991	60,283,577
Pakistan Investment Bonds		21,560,953	21,395,430
Foreign currency bonds		897,982	1,055,801
Government of Pakistan Islamic Bonds		2,493,607	1,123,894
Government of Pakistan - Euro Bonds		4,341,320	2,170,415
		82,375,853	86,029,117
Other Bonds and Securities Guaranteed by Federal Government		4,385,444	4,333,444
Overseas Securities			
Government securities		3,671,287	2,851,113
CDC SAARC Fund		395	310
Other securities		17,566,912	2,975,907
		21,238,594	5,827,330
Fully Paid-up Ordinary Shares			
Listed companies		6,229,255	3,449,960
Unlisted companies	9.8	441,465	441,106
		6,670,720	3,891,066
Units of Mutual Funds		211,583	262,201
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Term Finance Certificates			
Unlisted		5,778,897	6,000,195
Listed	9.10	1,309,341	985,184
		7,088,238	6,985,379
Bonds		1,549,648	685,000
Debentures		6,676	8,300
Participation Term Certificates		38,205	46,920
		8,682,767	7,725,599
Investments in subsidiaries and associates		5,101,611	8,249,575
Total investments at cost		128,666,572	116,318,332
Provision for diminution in value of investments	9.3	(2,536,770)	(351,191)
Investments (net of provisions)		126,129,802	115,967,141
Deficit on revaluation of available for sale securities	21.2	(9,781,967)	(365,741)
Deficit on revaluation of held for trading securities	9.4	(19,547)	(15,755)
Total investments		<u>116,328,288</u>	<u>115,585,645</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008	2007
	----- (Rupees in '000) -----	
9.3 Particulars of provision for diminution in value of investments:		
9.3.1 Opening balance	351,191	400,639
Charged during the year	2,240,588	49,124
Reversed during the year	(20,773)	(55,427)
	2,219,815	(6,303)
Transfers	-	15,000
Written off during the year	(34,236)	(58,145)
Closing balance	2,536,770	351,191
9.3.2 Particulars of provision for diminution in value of investments by type		
Available for sale securities		
Ordinary shares of listed companies	1,882,296	2,708
Ordinary shares of unlisted companies	150,275	142,104
	2,032,571	144,812
Held to maturity securities		
Term Finance Certificates	109,989	151,159
Debentures	6,676	8,300
Participation Term Certificates	38,205	46,920
	154,870	206,379
Associates	349,329	-
	2,536,770	351,191
9.3.3 Particulars of provision for diminution in value of investments by segment		
Fully Paid-up Ordinary Shares		
Listed companies	1,882,296	2,708
Unlisted companies	150,275	142,104
	2,032,571	144,812
Term Finance Certificates, Debentures and Participation Term Certificates		
Term Finance Certificates	109,989	151,159
Debentures	6,676	8,300
Participation Term Certificates	38,205	46,920
	154,870	206,379
Associates	349,329	-
	2,536,770	351,191
9.4 Unrealized gain / (loss) on revaluation of held for trading securities		
Market Treasury Bills	1,968	-
Pakistan Investment Bonds	(1,154)	-
Ordinary shares of listed companies	(20,361)	(15,755)
	(19,547)	(15,755)

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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9.5 During the year, the stock exchange introduced 'floor mechanism' in respect of prices of equity securities based on the closing prices as prevailing on August 27, 2008. Under the "floor mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period, trading of securities effectively remained suspended on the stock exchanges. The trading resumed on December 15, 2008, however, the trading volumes upto December 31, 2008 were significantly lower as compared to the volumes before the institution of floor mechanism. However, pursuant to the BSD Circular Letter No. 2 dated January 27, 2009 issued by the SBP, the equity securities held by the bank have been valued at the prices quoted on the stock exchanges as of December 31, 2008.

Furthermore, pursuant to the BSD Circular No. 4 dated February 13, 2009 of the SBP, a portion of impairment loss, amounting to Rs.1,882.296 million, resulting from the valuation of listed equity securities held under 'Available-for-sale' category of investments as of December 31, 2008 has not been recognised in the profit and loss account and has been taken to 'Deficit on revaluation of assets' account as shown on the balance sheet. The said impairment loss is required to be taken to the profit and loss account in the year 2009 on a quarterly basis after adjustment for the effects of price movements in that year. However, for the purposes of distribution of dividend, the impairment loss as referred above shall be treated as a charge to the profit and loss account.

The recognition of remaining impairment loss based on the market values as at December 31, 2008 would have had the following effect on these unconsolidated financial statements:

	2008 (Rupees in '000)
Increase in provision of diminution in the value of investments	1,882,296
Decrease in tax charge for the year	433,985
Profit after tax would have been	6,884,809
Decrease in surplus on revaluation of assets - net of deferred tax	1,448,311
Unappropriated profit would have been	15,445,427
	(Rupees)
Earning per share would have been	6.81

9.6 Investments include certain approved / government securities which are held by the bank to comply with the Statutory Liquidity Requirement determined on the basis of the bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.7 Investments include Rs.282 million (2007: 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 (2007: Rs.5 million) held by the Controller of Military Accounts (CMA) under Regimental Fund Arrangements.

9.8 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs.200 million (2007: Rs.200 million). Pursuant to Section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the bank cannot 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 SBP. In addition, profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the Khushhali Bank Ordinance, 2000.

However, SBP prepared a conversion structure for the Khushhali Bank Limited to operate as Micro Finance Bank under Micro Finance Institution Ordinance, 2001 which was approved by the Ministry of Finance. Moreover, the scheme of conversion was also approved by the shareholders of the Khushhali Bank Limited in 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 the Khushhali Bank Limited under Micro Finance Institution Ordinance, 2001 and issued Certificate of Incorporation on February 28, 2008 under section 32 of Companies Ordinance, 1984.

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- 9.9** 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'. Details in respect of quality of available for sale securities are also disclosed in Annexure 'A' to these unconsolidated financial statements.
- 9.10** This includes advance paid for subscription of privately placed Term Finance Certificates of Allied Bank Limited, amounting to Rs.446.8 million, having a tenor of 8 years from the date of issue, with principal repayments in semi annual instalments carrying mark-up at the rate of 6 months KIBOR offer rate plus 1.9%.
- 9.11** These shares / mutual fund units given by National Clearing Company of Pakistan Limited (NCCPL) under the CFS MK-II square-up programme as agreed among the Financers, Karachi Stock Exchange and NCCPL on December 26, 2008.

10. ADVANCES	Note	Performing		Non-performing	
		2008	2007	2008	2007
----- (Rupees in '000) -----					
Loans, cash credits, running finances, etc.					
In Pakistan	10.2	254,525,402	222,660,938	23,988,307	17,759,670
Outside Pakistan		92,869,805	60,310,465	2,132,279	3,011,935
		347,395,207	282,971,403	26,120,586	20,771,605
Bills discounted and purchased (excluding government treasury bills)					
Payable in Pakistan		11,104,578	5,301,652	1,297,385	745,115
Payable outside Pakistan		4,241,493	3,820,841	421,349	495,691
		15,346,071	9,122,493	1,718,734	1,240,806
		362,741,278	292,093,896	27,839,320	22,012,411
Financing in respect of continuous funding system (CFS)		322,180	2,631,139	-	-
Advances - gross		363,063,458	294,725,035	27,839,320	22,012,411
Provision against advances	10.5	-	-	(18,563,334)	(16,030,682)
- Specific		(1,199,769)	(1,352,028)	-	-
- General		(1,199,769)	(1,352,028)	(18,563,334)	(16,030,682)
Advances - net of provision		361,863,689	293,373,007	9,275,986	5,981,729
----- (Rupees in '000) -----					
		Performing		Non-performing	
		2008	2007	2008	2007

10.1 Particulars of advances - gross

10.1.1 In local currency	257,379,877	227,669,639	25,285,692	18,504,785
In foreign currencies	105,683,581	67,055,396	2,553,628	3,507,626
	363,063,458	294,725,035	27,839,320	22,012,411
10.1.2 Short term	253,342,253	210,172,350	-	-
Long term	109,721,205	84,552,685	27,839,320	22,012,411
	363,063,458	294,725,035	27,839,320	22,012,411

- 10.2** This includes performing advances given under various Islamic financing modes amounting to Rs.469.910 million (2007: Rs.339.477 million).

- 10.3** Non-performing advances include advances having gross book value of Rs.936.792 million (2007: Rs.1,043.568 million) and net book value of Rs.339.689 million (2007: Rs.166.605 million) though restructured and performing have been placed under non-performing status as required by the revised Prudential Regulations issued by the State Bank of Pakistan, which requires monitoring for at least one year before any up gradation is considered.

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10.4 Advances include Rs.27,839 million (2007: Rs.22,012 million) which have been placed under non-performing status as detailed below:

Category of Classification	2008								
	Classified advances			Provision Required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Other Assets Especially Mentioned *	562,548	-	562,548	-	-	-	-	-	-
Substandard	4,857,390	83,689	4,941,079	905,120	20,922	926,042	905,120	20,922	926,042
Doubtful	6,308,575	308,796	6,617,371	2,214,783	154,726	2,369,509	2,214,783	154,726	2,369,509
Loss	13,557,179	2,161,143	15,718,322	13,106,640	2,161,143	15,267,783	13,106,640	2,161,143	15,267,783
	<u>25,285,692</u>	<u>2,553,628</u>	<u>27,839,320</u>	<u>16,226,543</u>	<u>2,336,791</u>	<u>18,563,334</u>	<u>16,226,543</u>	<u>2,336,791</u>	<u>18,563,334</u>

Category of Classification	2007								
	Classified advances			Provision Required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Other Assets Especially Mentioned *	631,953	-	631,953	-	-	-	-	-	-
Substandard	4,670,464	301,045	4,971,509	1,061,583	75,262	1,136,845	1,061,583	75,262	1,136,845
Doubtful	2,756,266	3,866	2,760,132	1,335,909	1,934	1,337,843	1,335,909	1,934	1,337,843
Loss	10,446,102	3,202,715	13,648,817	10,353,279	3,202,715	13,555,994	10,353,279	3,202,715	13,555,994
	<u>18,504,785</u>	<u>3,507,626</u>	<u>22,012,411</u>	<u>12,750,771</u>	<u>3,279,911</u>	<u>16,030,682</u>	<u>12,750,771</u>	<u>3,279,911</u>	<u>16,030,682</u>

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

10.5 Particulars of provision against advances

	Note	2008			2007		
		Specific	General	Total	Specific	General	Total
		----- (Rupees in '000) -----					
Opening balance		16,030,682	1,352,028	17,382,710	12,183,335	1,416,249	13,599,584
Exchange adjustments		724,699	12,738	737,437	47,091	9,000	56,091
Charge / (Reversals)							
Charge for the year (excluding impact due to change in Prudential Regulations)		6,889,976	(214,675)	6,675,301	1,997,341	133,839	2,131,180
Reversals		(796,116)	-	(796,116)	(441,713)	-	(441,713)
		6,093,860	(214,675)	5,879,185	1,555,628	133,839	1,689,467
(Reversal) / additional provision due to change in Prudential Regulations	10.6	(1,369,229)	-	(1,369,229)	3,803,759	-	3,803,759
		4,724,631	(214,675)	4,509,956	5,359,387	133,839	5,493,226
Transfers		(49,678)	49,678	-	225,162	(207,060)	18,102
Amounts written off	10.7	(2,867,000)	-	(2,867,000)	(1,784,293)	-	(1,784,293)
Closing balance		<u>18,563,334</u>	<u>1,199,769</u>	<u>19,763,103</u>	<u>16,030,682</u>	<u>1,352,028</u>	<u>17,382,710</u>

10.5.1 General provision represents provision amounting to Rs.1,082.499 million (2007: Rs.1,296.496 million) against consumer finance portfolio as required by the Prudential Regulations issued by State Bank of Pakistan and Rs.117.270 million (2007: Rs.55.532 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.

10.5.2 Particulars of provision against advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	16,226,543	1,082,499	17,309,042	12,750,771	1,296,496	14,047,267
In foreign currencies	2,336,791	117,270	2,454,061	3,279,911	55,532	3,335,443
	<u>18,563,334</u>	<u>1,199,769</u>	<u>19,763,103</u>	<u>16,030,682</u>	<u>1,352,028</u>	<u>17,382,710</u>

10.6 Amendments in Prudential Regulations in respect of provisioning against non-performing loans

State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009 allowed the banks to avail the benefit of 30 percent of forced sales value (FSV) of pledged stock and mortgaged commercial and residential properties held as collateral by the banks against their non-performing (excluding consumer housing finance portfolio) for three years from the date of classification for the purpose determining the provisioning requirement with effect from December 31, 2008. In case of advances given under consumer housing finance portfolio the benefit of FSV would be 50 percent for the first and second year where as 30 percent allowable for the third year from the date of classification. Benefit of FSV shall not be available after three years from the date of classification.

The Bank accordingly, decided to avail the aforesaid benefit. Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2008 would have been lower by approximately Rs.1,369.230 million. Increase in profit would not be available for the distribution of cash and stock dividend to share holders.

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10.7 Particulars of write-offs	Note	2008	2007
		----- (Rupees in '000) -----	
10.7.1 Against provisions	10.5	2,867,000	1,784,293
Directly charged to profit and loss account		1,367,514	935,123
		<u>4,234,514</u>	<u>2,719,416</u>
10.7.2 Write-offs of Rs.500,000 and above	10.8	2,982,367	2,000,062
Write-offs of below Rs.500,000		1,252,147	719,354
		<u>4,234,514</u>	<u>2,719,416</u>
10.8 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, 2008 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.

10.9 Particulars of loans and advances to executives, directors, associated companies etc.	Note	2008	2007
		----- (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 beginning of year		946,044	709,838
Loans granted during the year		425,554	395,563
Repayments		(390,279)	(159,357)
Balance at end of year		<u>981,319</u>	<u>946,044</u>
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		-	1,000,565
Loans granted during the year		-	-
Repayments		-	(1,000,565)
Balance at end of year		<u>-</u>	<u>-</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	1,004,542	1,067,379
Property and equipment	11.2	16,614,563	15,548,034
Intangible assets	11.3	402,340	328,537
		<u>18,021,445</u>	<u>16,943,950</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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11.1 Capital work-in-progress

Capital work-in-progress essentially comprises civil works and advances to suppliers and contractors.

11.2 Property and equipment

	2008										Annual rate of deprec- iation %
	COST/ REVALUATION					ACCUMULATED DEPRECIATION				Net book value at December 31, 2008	
	At January 01, 2008	Additions / (deletions)	Surplus on revaluation	Adjustments At December 31, 2008	At December 31, 2008	At January 01, 2008	Charge for the year / (deprec- iation on deletions)	Adjustments At December 31, 2008	At December 31, 2008		
(Rupees in '000)											
Owned											
Freehold land	866,013	636,733	-	-	1,502,746	-	-	-	-	1,502,746	-
Leasehold land	10,333,042	253	-	-	10,092,131	700	305,272	1,475	307,447	9,784,684	1 - 3.33
					(241,164)						
Buildings on freehold land	76,584	4,437	-	-	81,021	-	3,702	124	3,826	77,195	5
Buildings on leasehold land	1,889,369	28,875	-	5,487	1,904,654	27,508	98,915	2,346	128,769	1,775,885	5
					(19,077)						
Leasehold Improvement	766,665	406,642	-	-	1,169,850	132,364	104,137	22,369	255,761	914,089	10
							(3,109)				
Furniture and fixtures	663,292	181,772	-	-	801,949	367,356	63,306	-	418,311	383,638	10
							(1,478)	(10,873)			
Electrical, office and computer equipment	2,441,214	816,711	-	-	3,137,525	1,403,465	469,394	30,605	1,833,212	1,304,313	20-25
					(50,140)		(70,252)				
Vehicles	298,914	98,179	-	-	272,066	148,195	48,925	-	141,973	130,093	20
					(19,201)		(50,546)	(4,601)			
Assets held under operating lease											
Ijarah assets - note 11.8	307,473	659,038	-	-	895,217	14,944	142,380	-	153,297	741,920	20 - 33.33
							(4,027)				
2008	17,642,566	2,832,640	-	5,487	19,857,159	2,094,532	1,236,031	56,919	3,242,596	16,614,563	
		(252,612)	-	(370,922)			(129,412)	(15,474)			

	2007										Annual rate of deprec- iation %
	COST/ REVALUATION					ACCUMULATED DEPRECIATION				Net book value at December 31, 2007	
	At January 1, 2007	Additions/ (deletions)	Surplus on revaluation	Reversal of accumulated depreciation / other adjustments	At December 31, 2007	At January 1, 2007	Charge for the year / (deprec- iation on deletions)	Reversal due to revaluation / other adjust- ments*	At December 31, 2007		
(Rupees in '000)											
Owned											
Freehold land	425,714	-	440,299	-	866,013	-	-	-	-	866,013	-
Leasehold land	2,349,180	-	8,349,972	(364,332)	10,333,042	272,928	91,563	(364,332)	700	10,332,342	1 - 3.33
					(1,778)			541			
Buildings on freehold land	66,937	3,834	19,621	(13,208)	76,584	9,339	3,461	(13,208)	-	76,584	5
					(600)			408			
Buildings on leasehold land	382,802	1,418	1,581,560	(71,586)	1,889,369	78,710	46,493	(92,011)	27,508	1,861,861	5
					(567)			(5,684)			
Leasehold Improvement	403,308	382,714	-	4,532	766,665	81,847	27,949	24,957	132,364	634,301	10
								(2,389)			
Furniture and fixtures	622,967	129,672	-	-	663,292	402,087	45,513	-	367,356	295,936	10
							(3,138)	(77,106)			
Electrical, office and computer equipment	2,133,980	433,241	-	-	2,441,214	1,213,009	375,061	-	1,403,465	1,037,749	20-25
					(121,249)		(4,364)	(180,241)			
Vehicles	530,759	36,339	-	-	298,914	208,548	56,194	-	148,195	150,719	20
					(111,265)		(69,787)	(46,760)			
Assets held under operating lease											
Ijarah assets - note 11.8	-	307,473	-	-	307,473	-	15,001	-	14,944	292,529	20 - 33.33
								(57)			
2007	6,915,647	1,294,691	10,391,452	(444,594)	17,642,566	2,266,468	661,235	(444,594)	2,094,532	15,548,034	
		(193,316)	-	(321,314)			(77,289)	(311,288)			

* This represents write-off / reclassification of fixed assets based on an exercise being carried out by the management to reconcile their subsidiary records of fixed assets with the ledger balances. This exercise has been completed in respect of properties and is expected to be completed shortly in respect of furniture & fixture, electrical office and computer equipment and vehicles.

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11.3 Intangible assets

	2008									
	Cost				Accumulated Amortization				Net book value at December 31, 2008	Annual rate of amortisation %
	At January 01, 2008	Additions / (deletions)	Other adjustments	At December 31, 2008	At January 01, 2008	Charge for the year / (amortisation on deletion)	Other adjustments	At December 31, 2008		
	----- (Rupees in '000) -----									
Software	541,918	244,517 (9,408)	-	777,027	213,381	156,178 (8,558)	13,686	374,687	402,340	25

	2007									
	Cost				Accumulated Amortization				Net book value at December 31, 2007	Annual rate of amortisation %
	At January 01, 2007	Additions / (deletions)	Other adjustments	At December 31, 2007	At January 01, 2007	Charge for the year / (amortisation on deletion)	Other adjustments	At December 31, 2007		
	----- (Rupees in '000) -----									
Software	261,521	280,397	-	541,918	84,854	89,173	39,354	213,381	328,537	25

11.4 Revaluation of properties

The properties of the bank were last revalued by independent professional valuers as at December 31, 2007. The revaluation was carried out by M/s. Pirsons Chemical Engineering (Private) Limited, M/s. Sadruddin Associates, M/s. Indus Surveyors (Private) Limited and M/s. Consultancy Support & Services on the basis of professional assessment of present market values and resulted in a surplus of Rs.10,391.452 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2008 would have been as follows:

	(Rupees in '000)
Freehold land	425,715
Leasehold land	1,893,557
Buildings on freehold land	54,434
Buildings on leasehold land	262,474
11.5 Carrying amount of temporarily idle property	113,111
11.6 The gross carrying amount of fully depreciated assets that are still in use	
Furniture and fixtures	232,078
Electrical, office and computer equipment	159,348
Vehicles	48,531
IT Hardware	692,804

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 significant Ijarah transactions have been entered 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:

	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
Not later than one year	266,347	71,073
Later than one year but not later than five years	672,047	225,956
Later than five years	20,875	21,602
	<u>959,269</u>	<u>318,631</u>

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	Note	2008 ----- (Rupees in '000) -----	2007
12. OTHER ASSETS			
Income / mark-up accrued in local currency		10,711,450	7,730,092
Income / mark-up accrued in foreign currency		992,171	1,304,342
		11,703,621	9,034,434
Suspense accounts		440,808	478,975
Hajj refund		-	471,640
Stationery and stamps on hand		115,265	96,927
Advances, deposits, advance rent and other prepayments		835,049	1,219,792
Receivable from staff retirement funds		798,514	804,322
Due from other banks against telegraphic transfers and demand drafts		1,799,920	708,818
Unrealized loss on forward foreign exchange contracts		483,745	(10,444)
Receivable from SBP on account of encashment of savings certificates		775,289	561,493
Due from National Clearing Company of Pakistan Limited		1,086,879	372,533
Receivable in respect of encashment of dividend warrants on behalf of a customer		8,637	248,885
Receivable in respect of derivative transactions		416,075	68,387
Others		1,164,958	952,184
		<u>19,628,760</u>	<u>15,007,946</u>
Provision held against other assets	12.1	(1,209,096)	(1,319,997)
Unrealized mark-up held in suspense account		(1,264,679)	(1,947,252)
Other assets (net of provisions)		<u>17,154,985</u>	<u>11,740,697</u>
12.1 Provision against other assets			
Opening balance		1,319,997	1,794,691
Exchange adjustments		6,809	(1,612)
		<u>1,326,806</u>	<u>1,793,079</u>
Charge for the year		209,325	255,394
Reversals		(13,299)	(174,687)
	29	196,026	80,707
Transfers		-	9,088
Amounts written off		(313,736)	(562,877)
Closing balance		<u>1,209,096</u>	<u>1,319,997</u>
13. CONTINGENT ASSETS			
There were no contingent assets as at the balance sheet date.			

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	2008	2007
	----- (Rupees in '000) -----	
14. BILLS PAYABLE		
In Pakistan	4,690,304	5,777,626
Outside Pakistan	504,145	301,715
	<u>5,194,449</u>	<u>6,079,341</u>
15. BORROWINGS		
In Pakistan	38,967,725	53,795,007
Outside Pakistan	5,228,161	5,308,343
	<u>44,195,886</u>	<u>59,103,350</u>
15.1 Particulars of borrowings with respect to currencies		
In local currency	38,967,725	53,325,834
In foreign currencies	5,228,161	5,777,516
	<u>44,195,886</u>	<u>59,103,350</u>
15.2 Details of borrowings from financial institutions		
Secured		
Borrowings from the State Bank of Pakistan under		
- Export refinance scheme	15.3 12,804,867	6,708,853
- Long-term financing under export oriented projects	15.4 4,280,169	4,945,514
- Locally manufactured machinery refinance scheme	15.5 544	1,620
	17,085,580	11,655,987
Repurchase agreement borrowings	15.6 14,284,138	32,269,543
	<u>31,369,718</u>	<u>43,925,530</u>
Unsecured		
Call borrowings	15.7 10,200,693	13,607,326
Overdrawn nostro accounts	2,027,468	912,190
Trading liabilities	598,007	658,304
	<u>12,826,168</u>	<u>15,177,820</u>
	<u>44,195,886</u>	<u>59,103,350</u>

15.3 The bank has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP. These borrowings are repayable within six months latest by June 2009.

15.4 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

15.5 According to agreements with SBP, these loans were obtained for providing finance to customers against locally manufactured machinery.

15.6 These repurchase agreement borrowings are secured against market treasury bills and Pakistan Investment Bonds and carry mark-up at rates ranging from 9.00% to 15.00% per annum (2007: 8.90% to 10.00% per annum). These borrowings are repayable latest by January 2009. The carrying value of securities given as collateral is given in note 9.1.

15.7 These are unsecured borrowings and carry mark-up at rates ranging from 10.50% to 17.00% per annum (2007: 9.3% to 12.00% per annum) and are repayable latest by March 2009. Where as borrowing pertaining to overseas operation carry mark-up at rates ranging from 1.25% to 5.8% per annum (2007: 5.65% per annum) and are due to mature latest by January 2009.

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		2008	2007
		----- (Rupees in '000) -----	
16. DEPOSITS AND OTHER ACCOUNTS			
	Customers		
	Fixed deposits	186,961,343	127,317,589
	Savings deposits	156,021,485	153,001,867
	Sundry deposits	4,957,358	3,982,596
	Margin deposits	3,977,821	2,746,824
	Current accounts - remunerative	2,064,207	5,641,419
	Current accounts - non-remunerative	128,380,418	108,116,175
		<u>482,362,632</u>	<u>400,806,470</u>
	Financial Institutions		
	Remunerative deposits	1,104,863	143,603
	Non-remunerative deposits	92,567	24,466
		<u>1,197,430</u>	<u>168,069</u>
		<u>483,560,062</u>	<u>400,974,539</u>
16.1 Particulars of deposits and other accounts			
	In local currency	353,210,334	309,871,061
	In foreign currencies	130,349,728	91,103,478
		<u>483,560,062</u>	<u>400,974,539</u>

17. SUB-ORDINATED LOANS - UNSECURED

	Issue Date	Tenor	Rate % per annum	Maturity	Frequency of principal redemption	2008	2007	
							----- (Rupees in '000) -----	
Term Finance Certificates - I	August 2004	8 years	8.45%	August 2012	Semi Annual	1,996,928	1,997,696	
Term Finance Certificates - II	March 2005	8 years	9.49%	March 2013	Semi Annual	1,999,720	1,999,800	
Term Finance Certificates - III	September 2006	8 years	6 months Kibor+1.70%	September 2014	Semi Annual	1,998,400	1,999,200	
Term Finance Certificates - IV	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	5,998,800	-	
						<u>11,993,848</u>	<u>5,996,696</u>	

17.1 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.

17.2 In case of Term Finance Certificate IV the bank has the right to exercise the call option after the period of 5 years from the issue date.

	Note	2008	2007
	----- (Rupees in '000) -----		
18. DEFERRED TAX (ASSET) / LIABILITY - NET			
Deferred tax (asset) / liability - net	18.1	<u>(2,055,609)</u>	<u>2,232,344</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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18.1 Movement in temporary differences during the year

	2008			
	At January 01, 2008	Recognised in profit and loss	Recognised in equity	At December 31, 2008
	----- (Rupees in '000) -----			
Deductible temporary differences on				
- deficit on revaluation of investments	(136,364)	-	(3,064,711)	(3,201,075)
- ijarah financing	(57,605)	(61,048)	-	(118,653)
- Worker welfare fund	-	(117,950)	-	(117,950)
- Derivative transactions	-	-	(148,956)	(148,956)
- provision against off balance sheet item, post retirement medical benefit and consumer financing	(1,785,737)	(872,720)	-	(2,658,457)
	(1,979,706)	(1,051,718)	(3,213,667)	(6,245,091)
Taxable temporary differences on				
- surplus on revaluation of fixed assets	4,199,162	(136,240)	(90,167)	3,972,755
- accelerated tax depreciation	12,888	203,839	-	216,727
	4,212,050	67,599	(90,167)	4,189,482
	<u>2,232,344</u>	<u>(984,119)</u>	<u>(3,303,834)</u>	<u>(2,055,609)</u>
	2007			
	At January 01, 2007	Recognised in profit and loss	Recognised in equity	At December 31, 2007
	----- (Rupees in '000) -----			
Deductible temporary differences on				
- deficit on revaluation of investments	(18,849)	-	(117,515)	(136,364)
- ijarah financing	-	(57,605)	-	(57,605)
- Worker welfare fund	-	-	-	-
- Derivative transactions	-	-	-	-
- provision against off balance sheet item, post retirement medical benefit and consumer financing	(1,028,589)	(757,148)	-	(1,785,737)
	(1,047,438)	(814,753)	(117,515)	(1,979,706)
Taxable temporary differences on				
- surplus on revaluation of fixed assets	60,697	(33,338)	4,171,803	4,199,162
- accelerated tax depreciation	80,080	(67,192)	-	12,888
	140,777	(100,530)	4,171,803	4,212,050
	<u>(906,661)</u>	<u>(915,283)</u>	<u>4,054,288</u>	<u>2,232,344</u>

	Note	2008	2007
		----- (Rupees in '000) -----	
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		6,791,850	3,375,092
Mark-up / return / interest payable in foreign currency		356,961	472,200
Accrued expenses	19.1	1,704,183	1,481,671
Branch adjustment account		495,047	2,942,052
Payable under severance scheme		34,183	34,183
Unearned commission		67,833	289,523
Provision for taxation - net	19.2	713,636	1,353,496
Provision against off - balance sheet obligations	19.3	651,697	608,731
Deferred liabilities	19.4	2,025,625	2,204,881
Unrealized loss on derivative financial instruments - net	19.5	829,008	(159,625)
Workers welfare fund payable		336,987	-
Insurance payable against consumer assets		689,124	663,277
Payable on account of Government transaction		1,506,101	-
Others		63,243	51,176
		<u>16,265,478</u>	<u>13,316,657</u>

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19.1 This includes an accrual of Rs.338.551 million for the year ended December 31, 2008 (2007: Rs.263.181 million) in respect of employee bonus scheme. The object 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 UBL. 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.

19.2 The Income Tax assessments of the bank for domestic branches up to tax year 2008 (financial year ended December 31, 2007) were filed under the provisions of Section 114 of the Income Tax Ordinance, 2001 (Ordinance) and are deemed to be assessed under section 120 of the Ordinance, unless amended by the Commissioner of

For tax years 2004, 2005, 2006 and 2007 (financial year ended December 31, 2003 to December 31, 2006) the taxation authorities, in exercise of their powers u/s. 122 (5A), amended the returns filed under the provisions of Section 114 of the Ordinance and issued amended assessment orders determining additional tax liability of Rs.6,811 million. The bank moved a rectification application u/s. 221 of the Ordinance before the additional commissioner audit on various mistakes apparent from the records. The additional commissioner audit partially accepted the issues raised in the said application and reduced the additional liability to Rs.3,654 million. The bank has filed an appeal before the Commissioner of Income Tax (Appeals) [CIT (A)] against the said additional liability. Although the management is confident that the appeals will be decided in the favour of the bank however, on account of prudence, an additional tax charge of Rs.400 million has been provided in these unconsolidated financial statements.

The return for the tax year 2003 was selected for audit u/s. 177 of the Ordinance and the amended assessment order was passed against which the bank has filed appeal before CIT (A). The appeal against the said order has been heard by the CIT (A) and the order is awaited. Notwithstanding the challenging of the assessment in appeal before the Appellate Commissioner, on the grounds that the additions are arbitrary and uncalled for, the management has, on account of prudence, created the provision against the disallowance in the financial statements for the year ended December 31, 2007.

In respect of Azad Kashmir Branches for the tax years 2005 to 2008 (financial years ended December 31, 2004 to 2007) were filed under the provisions of Section 120(1) read with section 114 of the Ordinance and in compliance with the terms of agreement between the banks and the Azad Kashmir Council in May 2005. The returns so filed qualify the statutory conditions to be termed as deemed assessment orders.

	Note	2008 ----- (Rupees in '000) -----	2007
19.3 Provision against off - balance sheet obligations			
Opening balance		608,731	652,339
Charge / (Reversal) during the year		42,966	(38,093)
Transfers during the year		-	(5,515)
		42,966	(43,608)
		651,697	608,731
19.4 Deferred liabilities			
Provision for post retirement medical benefits	36	1,219,400	1,218,758
Provision for gratuity - overseas		192,623	142,930
Provision for compensated absences	37	613,602	843,193
		2,025,625	2,204,881

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19.5 Unrealized gain / (loss) on derivative financial instruments

	<u>Contract / notional amount</u>		<u>Unrealised gain / (loss)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	----- (Rupees in '000) -----			
Derivatives held for trading				
Interest rate swaps	20,758,372	3,960,485	(320,033)	(59,825)
Forward rate agreements	850,000	-	(1,457)	-
Cross currency swaps	15,948,869	9,948,001	(82,915)	219,450
Forward purchase contracts of government securities	10,065,070	-	5,848	-
Forward sale contracts of government securities	8,611,020	-	(4,864)	-
	<u>56,233,331</u>	<u>13,908,486</u>	<u>(403,421)</u>	<u>159,625</u>
Derivatives held for cash flow hedges				
Interest rate swaps	-	-	(425,587)	-
	<u>56,233,331</u>	<u>13,908,486</u>	<u>(829,008)</u>	<u>159,625</u>

20. SHARE CAPITAL
20.1 Authorized Capital

<u>2008</u>	<u>2007</u>		<u>2008</u>	<u>2007</u>
(Number of shares)				
<u>2,000,000,000</u>	<u>1,030,000,000</u>	Ordinary shares of Rs.10 each	<u>20,000,000</u>	<u>10,300,000</u>

20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs.10 each

<u>2008</u>	<u>2007</u>		<u>2008</u>	<u>2007</u>
(Number of shares)				
518,000,000	518,000,000	Fully paid-up ordinary shares of Rs.10 each		
		Issued for cash	5,180,000	5,180,000
493,718,750	291,375,000	Issued as bonus shares	4,937,188	2,913,750
<u>1,011,718,750</u>	<u>809,375,000</u>		<u>10,117,188</u>	<u>8,093,750</u>

20.3 The bank in its 49th Annual General Meeting resolved to increase its authorized capital from Rs.10.3 billion to Rs.20 billion.

20.4 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, 2008: 143,078,641 (2007: 158,001,416) GDRs were in issue.

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

Name of shareholder	2008	
	Number of shares held	Percentage of shareholding
His Highness Shaikh Nahayan Mabarak Al Nahayan	65,241,408	6.45%
H.E. Dr. Mana'a Saeed Al Otaiba	55,778,837	5.51%
Bestway (Holdings) Limited	128,989,257	12.75%
Sir Mohammed Anwar Pervez, OBE, HPk	51,597,656	5.10%
Bestway Cement Limited	77,396,483	7.65%
Government of Pakistan	199,936,901	19.76%

As at December 31, 2008 Abu Dhabi Group held 30.30% shareholding (including GDRs) and Bestway Group held 31.07% shareholding (including GDRs) of the bank.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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No.	2008	2007
	(Rupees in '000)	
21. SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX		
Surplus arising on revaluation of assets - net of tax :		
Fixed assets	8,220,874	8,641,370
Securities	<u>(6,580,892)</u>	<u>(229,377)</u>
	<u>1,639,982</u>	<u>8,411,993</u>
21.1 Surplus on revaluation of fixed assets		
Surplus on revaluation of fixed assets at January 01	12,840,532	2,545,446
Revaluation of fixed assets during the year the year / adjustments	(167,478)	10,391,452
Transferred to unappropriated profit in respect of incremental depreciation charged during the year	(253,018)	(63,028)
Related deferred tax liability of incremental depreciation charged during the year	(136,240)	(33,338)
Related deferred tax liability of transfer of property during the year	(90,167)	-
	12,193,629	12,840,532
Less: Related deferred tax liability on:		
Revaluation as on January 01	4,199,162	60,697
Revaluation of fixed assets during the year	-	4,171,803
Incremental depreciation charged on related assets	(136,240)	(33,338)
Reversal in respect of transfer of a property	(90,167)	-
	<u>3,972,755</u>	<u>4,199,162</u>
	<u>8,220,874</u>	<u>8,641,370</u>
21.2 (Deficit) / surplus on revaluation available-for-sale securities		
Market Treasury Bills	(16,685)	(70,202)
Pakistan Investment Bonds	(3,293,999)	(105,316)
Quoted shares	(1,892,828)	(29,776)
Mutual fund units	(9,837)	11,086
Term Finance Certificates, Sukuk, other Bonds etc.	(53,850)	30,528
Overseas securities	(4,514,768)	(202,061)
	(9,781,967)	(365,741)
Related deferred tax asset	3,201,075	136,364
	<u>(6,580,892)</u>	<u>(229,377)</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Contingent liabilities in respect of guarantees given favouring		
Government	12,725,414	5,509,109
Banking companies and other financial institutions	4,865,333	3,939,226
Others	8,642,081	5,687,068
	<u>26,232,828</u>	<u>15,135,403</u>
22.2 Transaction-related contingent liabilities		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
Government	60,706,466	43,946,035
Banking companies and other financial institutions	4,115,594	3,031,393
Others	17,061,793	13,992,900
	<u>81,883,853</u>	<u>60,970,328</u>

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	2008	2007
	----- (Rupees in '000) -----	
22.3 Trade-related contingent liabilities		
Contingent liabilities in respect of letters of credit opened favouring		
Government	68,756,444	60,431,464
Others	71,862,882	88,054,726
	<u>140,619,326</u>	<u>148,486,190</u>
22.4 Other contingencies		
Claims against the bank not acknowledged as debts	<u>17,230,124</u>	<u>17,733,578</u>

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.

	2008	2007
	----- (Rupees in '000) -----	
22.6 Commitments in respect of forward foreign exchange contracts		
Sale	<u>55,225,610</u>	<u>85,401,033</u>
Purchase	<u>79,548,383</u>	<u>80,877,278</u>
22.7 Other commitments		
Forward purchase contracts of government securities	<u>10,065,070</u>	<u>-</u>
Forward sale contracts of government securities	<u>8,611,020</u>	<u>-</u>
Interest rate swaps	<u>20,758,372</u>	<u>3,960,485</u>
Equity indices	<u>355,943</u>	<u>-</u>
Cross currency swaps	<u>15,948,869</u>	<u>9,948,001</u>
Forward rate agreements	<u>850,000</u>	<u>-</u>
FX options	<u>25,460,283</u>	<u>5,976,360</u>
Commodity options	<u>39,545</u>	<u>-</u>
Commitments in respect of capital expenditure	<u>1,182,316</u>	<u>128,328</u>

23. DERIVATIVE INSTRUMENTS

“Derivative” means 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. Derivative also includes 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 derivatives' market of Pakistan. Though the ADD license covers the below mentioned transactions only (permitted under Financial Derivatives Business Regulations issued by SBP), but the bank offers a wide variety of derivative products to satisfy customers' needs (specific approval for which is sought from SBP on transaction basis):

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

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

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The authority for approving policies lie with the BoD, who has delegated its powers to Market Risk Committee (MRC), which runs the affairs in line with policies approved by the BoD.

With regard to derivatives, the Market Risk Committee (MRC) is authorized to:

- Review 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 Treasury and Capital Markets (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 Treasury and Market Risk (TMR). Treasury Operations (TROPS) records derivative activity in the bank's books, and handles its reporting to SBP.

Derivative Risk Management

There are a number of risks undertaken by the bank, which need to be monitored and assessed. The "risk continuum" includes:

Credit Risk

This refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in a negative impact on the bank's equity. There are two types of credit risk (Settlement and Pre-Settlement risk) that are associated with derivatives transactions and monitored on a regular basis. To mitigate the settlement risk, settlement is carried out by netting the amounts receivable and payable, i.e., net amount is either received or paid. Further, for Pre-Settlement Risk, the bank has constituted Treasury Product Credit Committee (TPCC) that is authorized to approve credit limits (based on internal obligor risk rating) for all derivative counterparties. Credit exposure for each counterparty is calculated and monitored by an independent risk monitoring and control department i.e. Treasury Middle Office.

Market Risk

Market risk exposure limits have been assigned in accordance with the risk appetite of the bank and are being monitored on a daily basis, which include sensitivity limits, tenor limits, and notional limits. An exercise is under way to model VaR structure, which will then help in deriving VaR limits.

Liquidity Risk

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

The other aspect of liquidity refers to the availability of certain instruments or hedge in the market, which is very much true in the local market, as interest rate derivatives have a unidirectional 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 it is running a short position in fixed income securities to partially cover the unfavourable movement in interest rates.

Operational Risk

The human resources involved in the process of trading, settlement and risk management of derivatives are carefully selected and subsequently trained to deal with the delicacies involved in the process. A state-of-the-art system has been put in place which handles the derivative transactions. As each and every product / transaction is processed in accordance with the product program or transaction memo, which contains in detail the accounting and operational aspects of the transaction, it further mitigates the operational risk. In addition, Treasury Middle Office (TMO) and Compliance and Control Department (CCD) are assigned with the responsibility of monitoring any deviation from the policies and procedures. Bank's Audit and Inspection wing also reviews this function, which covers regular review of systems, transactional processes, accounting practices, end-user roles and

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The bank has installed a state-of-the-art derivatives system (PRINCIPIA), which provides an end-to-end solution. Other than supporting the routine transactional process it also provides analytical tools to measure various risk exposures and stress / sensitivity analysis.

Treasury Middle Office produces various reports for higher management (BoD, MRC etc.) on daily, monthly and ad-hoc basis. These reports provide a quick look on derivatives business profile and various risk exposures.

Derivatives market in Pakistan, except for currency options, has a unidirectional demand, therefore the portfolio structure, as regards interest rate derivatives, is liability dominant.

23.1 Product Analysis

		2008							
		Interest rate swaps		Forward rate agreements		FX options		Cross currency swaps	
		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)
With Banks for									
Hedging		9	7,987,105	1	250,000	45	16,091,828	8	11,217,419
Market Making		10	7,678,036	1	250,000	2	445,862	1	1,958,250
With other entities									
Hedging		-	-	-	-	-	-	-	-
Market Making		21	5,093,231	2	350,000	42	8,922,593	6	2,773,200
Total									
Hedging		9	7,987,105	1	250,000	45	16,091,828	8	11,217,419
Market Making		31	12,771,267	3	600,000	44	9,368,455	7	4,731,450
		2007							
		Interest rate swaps		Forward rate agreements		FX options		Cross currency swaps	
		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)
With Banks for									
Hedging		2	597,960	-	-	17	3,033,180	7	7,670,018
Market Making		-	-	-	-	-	-	-	-
With other entities									
Hedging		-	-	-	-	-	-	-	-
Market Making		17	3,362,525	-	-	17	2,943,180	11	2,277,983
Total									
Hedging		2	597,960	-	-	17	3,033,180	7	7,670,018
Market Making		17	3,362,525	-	-	17	2,943,180	11	2,277,983

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23.2 Maturity Analysis
**Interest Rate Swaps, Forward Rate Agreements and Cross Currency Swaps
2008**

Remaining Maturity	No. of contracts	Notional principal	Mark to market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	4	850,000	1,935	478	(1,457)
1 to 3 Month	1	150,000	3,666	-	(3,666)
3 to 6 Month	1	43,333	900	-	(900)
6 Month to 1 Year	5	259,444	13,051	-	(13,051)
1 to 2 Year	17	3,811,299	45,382	13,941	(31,441)
2 to 3 Year	6	2,570,454	101,975	17,169	(84,806)
3 to 5 Year	20	21,887,726	579,607	351,021	(228,586)
5 to 10 Year	5	7,984,985	550,336	84,250	(466,086)
Above 10 Year	-	-	-	-	-
	59	37,557,241	1,296,852	466,859	(829,993)

Remaining Maturity	No. of contracts	Notional principal	Mark to market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	1	200,000	1,014	-	(1,014)
1 to 3 Month	-	-	-	-	-
3 to 6 Month	-	-	-	-	-
6 Month to 1 Year	5	1,382,857	5,054	5,765	711
1 to 2 Year	10	1,322,222	24,044	-	(24,044)
2 to 3 Year	13	2,466,546	24,843	1,207	(23,636)
3 to 5 Year	5	5,192,861	5,519	149,257	143,738
5 to 10 Year	3	3,344,000	-	63,870	63,870
Above 10 Year	-	-	-	-	-
	37	13,908,486	60,474	220,099	159,625

	2008	2007
	----- (Rupees in '000) -----	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	40,346,972	29,662,904
- Financial institutions	709,286	821,999
	41,056,258	30,484,903
On investments in		
- Available for sale securities	8,545,478	8,001,566
- Held to maturity securities	939,763	261,197
- Associates and subsidiaries	2,091	16,892
	9,487,332	8,279,655
On deposits with financial institutions	273,039	1,110,265
On securities purchased under resale agreements	1,413,574	1,151,537
Discount income	23,158	19,183
	52,253,361	41,045,543
25. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	18,598,162	13,281,249
On securities sold under repurchase agreements	2,214,520	1,687,771
On other short - term borrowings	1,659,990	1,285,400
On long - term borrowings	1,348,166	596,625
Discount expense	296,864	85,142
	24,117,702	16,936,187

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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	Note	2008	2007
		----- (Rupees in '000) -----	
26. GAIN / (LOSS) ON SALE OF SECURITIES			
Federal Government Securities			
Market Treasury Bills		(10,229)	(5,234)
Pakistan Investment Bonds		(77,680)	(13,781)
		<u>(87,909)</u>	<u>(19,015)</u>
Fully paid-up ordinary shares			
Listed companies		325,856	386,641
Unlisted companies		-	-
		325,856	386,641
Other securities		16,099	481,741
		<u>254,046</u>	<u>849,367</u>
27. OTHER INCOME			
Charges recovered from customers		926,051	1,164,502
Rent on properties		136,766	119,950
Income from dealing in derivatives		163,576	280,754
Others		228,336	52,358
		<u>1,454,729</u>	<u>1,617,564</u>
28. ADMINISTRATIVE EXPENSES			
Personnel Cost			
Salaries, allowances etc.	28.1	6,686,184	6,180,511
Charge for compensated absences	36.6	140,358	125,876
Medical expenses		331,099	312,123
Contribution to defined contribution plan		122,417	118,897
Reversal in respect of defined benefit obligations		(242,806)	(194,230)
		7,037,252	6,543,177
Premises Cost			
Rent, taxes, insurance, electricity etc.		1,643,862	1,221,249
Depreciation	11.2	512,026	169,466
Repairs and maintenance		83,258	114,970
		2,239,146	1,505,685
Other Operating Cost			
Outsourced service charges including sales commission		1,785,256	1,388,021
Advertisement and publicity		319,139	590,263
Communications		667,238	547,836
Depreciation	11.2	724,005	491,769
Legal and professional charges		299,672	440,168
Banking service charge		436,236	355,333
Stationery and printing		288,788	286,329
Travelling		181,619	164,185
Cash transportation charges		228,378	154,280
Repairs and maintenance		172,028	119,838
Insurance expense		116,839	115,595
Vehicle expenses		115,593	89,988
Amortization	11.3	156,178	89,173
Training and seminar		66,174	83,005
Office running expenses		115,366	80,932
Entertainment		87,522	67,182
Cartage, freight and conveyance		71,742	60,122
Auditors' remuneration	28.3	28,666	24,348
Subscriptions		29,942	22,452
Brokerage expenses		24,614	20,096
Sub-ordinated debt related costs		26,254	19,836
Donations	28.2	11,893	13,840
Non-executive directors' fee and allowances		14,912	119
Miscellaneous expenses		275,182	147,405
		<u>6,243,236</u>	<u>5,372,115</u>
		<u>15,519,634</u>	<u>13,420,977</u>

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28.1 The bank operates a short term employee benefit scheme which includes cash awards / bonus. Under the scheme, the cash awards to all executives including the Chief Executive Officer is determined on the basis of employees' evaluation and bank's performance during the year. The aggregate amounts determined in respect of all executives amounted to Rs.168.884 million (2007: Rs.153.619 million).

	2008	2007
	----- (Rupees in '000) -----	
28.2 Donations exceeding Rs.0.1 million		
Karachi Education Initiative	3,000	-
Citizen Foundation	2,200	1,500
Book Group	1,548	-
Burns Center	1,440	600
Agha Khan University and Medical Foundation	1,000	1,000
Marie Adelaide Leprosy Center	850	850
Jinnah Foundation Memorial Trust	500	450
Family Education Services Foundation	480	-
Lahore University of Management Sciences	315	315
Umeed-e-Noor	300	-
C.P.L.C.	150	-
Pakistan Centre for Philanthropy	-	708
Sindh Institute of Urology and Transplantation	-	3,000
Institute of Business Administration	-	210
Shalamar Hospital	-	300
Children Villages of Sindh	-	953
Shoukat Khanam Memorial Trust	-	3,000
Sahara Life for Trust	-	500
	<u>11,783</u>	<u>13,386</u>

None of the directors, executives or their spouses had an interest in the donee.

28.3 Auditors' remuneration

	2008		
	Ford Rhodes Sidat Hyder & Co.	KPMG Taseer Hadi & Co.	Total
	----- (Rupees in '000) -----		
Audit fee	5,100	5,100	10,200
Fee for audit of EPZ branch	150	-	150
Fee for audit of overseas branches	-	-	16,606
Out of pocket expenses	848	862	1,710
	<u>6,098</u>	<u>5,962</u>	<u>28,666</u>
	2007		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	----- (Rupees in '000) -----		
Audit fee	5,100	5,100	10,200
Fee for audit of EPZ branch	56	-	56
Fee for audit of overseas branches	-	-	11,131
Out of pocket expenses	1,486	1,475	2,961
	<u>6,642</u>	<u>6,575</u>	<u>24,348</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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	Note	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
29. OTHER PROVISIONS / WRITE OFFS - NET			
Provision against other assets - net	12.1	196,026	80,707
Provision against off - balance sheet obligations	19.3	42,966	(38,093)
Other provisions / write offs		211,398	193,667
		<u>450,390</u>	<u>236,281</u>
30. OTHER CHARGES			
Penalties of State Bank of Pakistan		<u>258,321</u>	<u>17,430</u>

31. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, which ever is higher.

	2008			
	Overseas	Azad Kashmir	Domestic	Total
	----- (Rupees in '000) -----			
32. TAXATION				
Current tax	903,917	200,500	4,985,934	6,090,351
Prior year tax	35,072	-	400,000	435,072
Deferred taxation	21,606	2,029	(1,007,754)	(984,119)
	<u>960,595</u>	<u>202,529</u>	<u>4,378,180</u>	<u>5,541,304</u>
	2007			
	Overseas	Azad Kashmir	Domestic	Total
	----- (Rupees in '000) -----			
Current tax	618,489	251,563	4,205,548	5,075,600
Prior year tax	21,961	-	420,105	442,066
Deferred taxation	(7,934)	(969)	(906,380)	(915,283)
	<u>632,516</u>	<u>250,594</u>	<u>3,719,273</u>	<u>4,602,383</u>

	2008 ----- (Rupees in '000) -----	2007 ----- (Rupees in '000) -----
32.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	<u>13,874,424</u>	<u>13,004,973</u>
Tax on income @ 35% (2007: 35%)	4,856,048	4,551,741
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates / permanent difference	177,217	(305,557)
Prior year tax charge	435,072	442,066
Others	72,968	(85,867)
Tax charge	<u>5,541,305</u>	<u>4,602,383</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
33. EARNINGS PER SHARE

	2008	2007
	----- (Rupees in '000) -----	
Profit after taxation for the year	<u>8,333,120</u>	<u>8,402,590</u>
	----- (Number of shares) -----	
Weighted average number of ordinary shares	<u>1,011,718,750</u>	<u>1,011,718,750</u>
	----- (Rupees) -----	
Earnings per share	<u>8.24</u>	<u>8.31</u>

33.1 A diluted earnings per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2008 and 2007 which would have any effect on the earnings per share if the option to convert is exercised.

34. CASH AND CASH EQUIVALENTS

	Note	2008	2007
		----- (Rupees in '000) -----	
Cash and balances with treasury banks	6	50,069,965	57,526,451
Balances with other banks	7	<u>7,497,174</u>	<u>4,191,128</u>
		<u>57,567,139</u>	<u>61,717,579</u>

35. STAFF STRENGTH

	----- (Number) -----	
Permanent	8,838	9,373
Contractual basis	<u>13</u>	<u>9</u>
Bank's own staff strength at the end of the year	8,851	9,382
Outsourced	<u>6,192</u>	<u>5,522</u>
Total number of employees at the end of the year	<u>15,043</u>	<u>14,904</u>

36. DEFINED BENEFIT PLAN
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. Further, the bank also operates a contributory benevolent fund scheme and provides post retirement medical to eligible retired employees. The benevolent fund plan and post retirement medical plan cover all the regular employees of the bank. The bank is also maintaining 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 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, 2008.

36.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2008. Projected unit credit actuarial cost method, using following significant assumptions was used for the valuation of the defined benefit plans:

	2008	2007
Discount rate	14.0%	10.0%
Expected rate of return on plan assets	14.0%	10.0%
Expected rate of salary increase	11.5%	8.0%
Expected rate of pension increase	5.0%	5.0%

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
36.3 Reconciliation of (receivable from) / payable to defined benefit plans

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	----- (Rupees in '000) -----									
Present value of funded obligations	3,625,280	384,786	529,647	-	-	4,343,529	399,289	564,591	-	-
Fair value of plan assets	(6,526,828)	(291,292)	(739,180)	-	-	(7,260,256)	(356,676)	(914,356)	-	-
	(2,901,548)	93,494	(209,533)	-	-	(2,916,727)	42,613	(349,765)	-	-
Present value of unfunded obligation	-	-	-	875,509	613,602	-	-	-	1,202,462	843,193
Net actuarial gains or (losses) not recognized	2,486,765	(133,812)	120,356	343,891	-	2,247,418	(44,499)	324,249	16,296	-
(Receivable) / payable	(414,783)	(40,318)	(89,177)	1,219,400	613,602	(669,309)	(1,886)	(25,516)	1,218,758	843,193

36.4 Movement in defined benefit obligation

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	----- (Rupees in '000) -----									
Obligation at the beginning of the year	4,343,529	399,289	564,591	1,202,462	843,193	4,433,583	437,373	670,979	1,298,048	1,074,258
Current service cost	16,408	46,748	10,597	11,693	25,562	19,507	55,913	17,190	14,694	32,032
Interest cost	160,501	38,557	54,239	120,831	85,597	399,022	39,364	60,388	116,824	96,683
Benefits paid by the bank	(848,135)	(138,852)	(141,047)	(131,882)	(369,949)	(542,560)	(54,026)	(36,952)	(88,996)	(182,568)
Early retirement liability	-	-	-	-	-	(59,539)	(48,918)	(28,628)	(49,425)	(78,425)
Actuarial (gain) / loss on obligation	(47,023)	39,044	41,267	(327,595)	29,199	93,516	(30,417)	(118,386)	(88,683)	(98,787)
Obligation at the end of the year	3,625,280	384,786	529,647	875,509	613,602	4,343,529	399,289	564,591	1,202,462	843,193

36.5 Movement in fair value of plan assets

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	----- (Rupees in '000) -----									
Fair value at the beginning of the year	7,260,256	356,676	914,356	-	-	7,116,577	335,449	917,522	-	-
Expected return on plan assets	511,411	34,520	84,307	-	-	640,492	30,190	82,577	-	-
Contribution by the bank	-	88,419	6,622	-	-	-	80,928	7,618	-	-
Contribution by the employees	-	-	6,622	-	-	-	-	7,618	-	-
Amount paid by the fund to the bank	(1,600,934)	(137,722)	(136,307)	-	-	(915,911)	(109,388)	(147,535)	-	-
Payment received on behalf of the fund	-	-	-	-	-	-	2,611	1,809	-	-
Actuarial gain / (loss) on plan assets	356,095	(50,601)	(136,420)	-	-	419,098	16,886	44,747	-	-
Fair value at the end of the year	6,526,828	291,292	739,180	-	-	7,260,256	356,676	914,356	-	-

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

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Employee compensated absences
	----- (Rupees in '000) -----									
Opening balance	(669,309)	(1,886)	(25,516)	1,218,758	843,193	(507,671)	(2,020)	(58,287)	1,226,331	1,074,258
Mark-up receivable on bank's balance	5,273	(125)	(338)	-	-	(10,351)	-	(9)	-	-
Charge / (reversal) for the year	(503,546)	51,242	(51,961)	132,524	140,358	(403,532)	79,092	(1,308)	133,976	125,876
Contribution by the bank	-	(88,419)	(6,622)	-	-	-	(80,928)	(7,618)	-	-
Amount paid by the Fund to the bank	1,600,934	137,722	136,307	-	-	915,911	109,388	147,535	-	-
Payment received on behalf of the bank	-	-	-	-	-	-	(2,611)	(1,809)	-	-
Benefits paid by the bank	(848,135)	(138,852)	(141,047)	(131,882)	(369,949)	(663,666)	(104,807)	(104,020)	(141,549)	(356,941)
Closing balance	(414,783)	(40,318)	(89,177)	1,219,400	613,602	(669,309)	(1,886)	(25,516)	1,218,758	843,193

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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36.7 Charge for defined benefit plans

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	----- (Rupees in '000) -----									
Current service cost	16,408	46,748	10,597	11,693	25,562	19,507	55,913	17,190	14,694	32,032
Interest cost	160,501	38,557	54,239	120,831	85,597	399,022	39,364	60,388	116,824	96,683
Expected return on plan assets	(511,411)	(34,520)	(84,307)	-	-	(640,492)	(30,190)	(82,577)	-	-
Actuarial (gains) and losses	(169,044)	457	(25,868)	-	29,199	(162,630)	6,690	(10,690)	-	(90,381)
Employees' contribution	-	-	(6,622)	-	-	-	-	(7,618)	-	-
Settlement loss / gains	-	-	-	-	-	(18,939)	7,315	21,999	2,458	87,542
	(503,546)	51,242	(51,961)	132,524	140,358	(403,532)	79,092	(1,308)	133,976	125,876

36.8 Actual return on plan assets

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

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	----- (Rupees in '000) -----									
Expected return on plan assets	511,411	34,520	84,307	-	-	640,492	30,190	82,577	-	-
Actuarial gain / (loss) on plan assets	356,095	(50,601)	(136,420)	-	-	419,098	16,886	44,747	-	-
	867,506	(16,081)	(52,113)	-	-	1,059,590	47,076	127,324	-	-

36.9 Five year data on surplus/ deficit of the plans and experience adjustments

	Pension Fund				
	2008	2007	2006	2005	2004
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(3,625,280)	(4,343,529)	(4,433,583)	(4,184,487)	(4,027,184)
Fair value of plan assets	6,526,828	7,260,256	7,116,577	6,349,249	6,541,166
Surplus / (deficit)	2,901,548	2,916,727	2,682,994	2,164,762	2,513,982
Experience adjustments on plan liabilities [loss / (gain)]	(87,141)	126,265	238,500	251,108	292,061
Experience adjustments on plan assets [loss / (gain)]	(1,195)	(11,848)	(411,713)	(438,971)	(534,091)
	Gratuity Fund				
	2008	2007	2006	2005	2004
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(384,786)	(399,289)	(437,373)	(381,983)	(292,738)
Fair value of plan assets	291,292	356,676	335,449	345,484	324,220
Surplus / (deficit)	(93,494)	(42,613)	(101,924)	(36,499)	31,482
Experience adjustments on plan liabilities [loss / (gain)]	43,905	27,782	33,547	50,697	1,029
Experience adjustments on plan assets [loss / (gain)]	55,290	(5,179)	10,979	757	(1,023)
	Benevolent Fund				
	2008	2007	2006	2005	2004
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(529,647)	(564,591)	(670,979)	(665,686)	(719,317)
Fair value of plan assets	739,180	914,356	917,522	773,365	694,182
Surplus / (deficit)	209,533	349,765	246,543	107,679	(25,135)
Experience adjustments on plan liabilities [loss / (gain)]	138,712	(90,203)	(11,064)	33,543	286,097
Experience adjustments on plan assets [loss / (gain)]	144,550	(45,638)	(64,187)	(59,679)	(60,667)
	Post retirement medical benefit				
	2008	2007	2006	2005	2004
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(875,509)	(1,202,462)	(1,298,048)	(1,263,750)	(1,256,633)
Experience adjustments on plan liabilities [loss / (gain)]	761	(67,904)	(37,633)	(12,195)	36,389
	Employee compensated absences				
	2008	2007	2006	2005	2004
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	613,602	843,193	1,074,258	1,037,500	1,036,000
Experience adjustments on plan liabilities [loss / (gain)]	-	-	-	-	-

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36.10 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 obligation.

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

	2008					2007				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	----- (Rupees in '000) -----									
Government securities	35.54%	39.39%	43.39%	-	-	99.97%	32.20%	46.88%	-	-
Units of mutual funds	22.03%	29.38%	31.11%	-	-	-	21.62%	51.05%	-	-
Ordinary shares of listed companies	0.33%	-	3.20%	-	-	-	-	2.07%	-	-
Term finance certificates	7.86%	31.07%	-	-	-	-	41.44%	-	-	-
Others (including bank balances)	34.24%	0.16%	22.30%	-	-	0.03%	4.74%	-	-	-
	100.00%	100.00%	100.00%	-	-	100.00%	100.00%	100.00%	-	-

As per the actuarial recommendations the expected return on plan assets was taken as 12% per annum on Pension Fund Assets, 10% per annum on Gratuity Fund Assets and 10% per annum on 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.

36.12 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, 2008 would be as follows:

	2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	----- (Rupees in '000) -----				
Expected charge for the year	(583,852)	67,762	(23,719)	96,857	138,933

37. OTHER EMPLOYEE BENEFITS
37.1 Defined contribution plan

The bank operates a contributory provident fund scheme for 5,383 (2007: 6,053) employees who are not in the pension scheme. The employer and employee both contribute 8.33% of the basic salaries 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 UBL. 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. For further details refer note 19.1.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
38. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
----- (Rupees in '000) -----						
Fees	-	-	14,912	119	-	-
Managerial remuneration	76,158	73,849	-	-	1,970,612	1,641,929
Charge for defined benefit plans	991	776	-	-	26,698	14,816
Charge for defined contribution plan	1,880	1,680	-	-	44,113	33,874
Rent and house maintenance	2,592	1,850	-	-	229,554	172,992
Utilities	182	143	-	-	50,917	38,443
Medical	170	36	-	-	51,127	38,443
Conveyance	-	-	-	-	220,042	161,626
Reimbursement of children's education fees	2,219	1,837	-	-	-	-
Others	1,558	158	-	-	30,915	18,105
	<u>85,750</u>	<u>80,329</u>	<u>14,912</u>	<u>119</u>	<u>2,623,978</u>	<u>2,120,228</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>3</u>	<u>872</u>	<u>723</u>

The bank's President / Chief Executive Officer and Executives are provided with free use of bank maintained cars and club memberships in accordance with their entitlement.

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 19.1 and 28.1 to these unconsolidated 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 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 5.3.3 and 5.6 to these unconsolidated financial statements respectively.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of 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 5.6 to these unconsolidated financial statements.

The repricing profile, effective rates and maturity 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 assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES
For the year ended December 31, 2008

	Corporate finance	Trading & sales	Retail banking	Commercial banking
----- (Rupees in '000) -----				
Total income	1,137,609	13,031,270	22,336,357	26,149,519
Total expenses	(467,510)	(13,532,697)	(17,543,347)	(17,236,777)
Net income / (loss)	670,099	(501,427)	4,793,010	8,912,742
Segment return on assets (ROA) (%)	11.2%	7.5%	15.7%	16.1%
Segment cost of funds (%)	11.0%	7.8%	12.6%	10.7%

For the year ended December 31, 2007

	Corporate finance	Trading & sales	Retail banking	Commercial banking
----- (Rupees in '000) -----				
Total income	882,384	8,547,960	26,856,861	13,750,689
Total expenses	(94,393)	(6,465,887)	(21,753,491)	(8,719,150)
Net income / (loss)	787,991	2,082,073	5,103,370	5,031,539
Segment return on assets (ROA) (%)	10.0%	8.0%	13.0%	9.0%
Segment cost of funds (%)	11.0%	7.0%	9.0%	7.0%

As at December 31, 2008

	Corporate finance	Trading & sales	Retail banking	Commercial banking
----- (Rupees in '000) -----				
Segment assets (gross of NPL provisions)	9,294,445	174,810,322	190,730,419	248,800,630
Segment non performing loans (NPL)	-	-	15,765,831	12,073,489
Segment provision required against NPL	-	-	11,529,038	7,034,296
Segment liabilities	9,602,972	166,115,798	180,440,130	205,050,822

As at December 31, 2007

	Corporate finance	Trading & sales	Retail banking	Commercial banking
----- (Rupees in '000) -----				
Segment assets (gross of NPL provisions)	5,720,519	172,758,380	163,667,962	204,008,152
Segment non performing loans (NPL)	-	-	18,483,044	3,529,367
Segment provision required against NPL	-	-	14,368,974	1,661,708
Segment liabilities	4,097,169	169,590,306	141,404,919	172,610,533

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 relationship with its associates, subsidiary companies (refer note 9), employee benefit plans (refer note 36) and its directors and executive officers (including their associates).

Details of loans and advances to the key management personnel, the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members are given in note 10.9 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). Remuneration to the executives, disclosed in note 38 to these unconsolidated financial statements, is determined in accordance with the terms of their appointment.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

	2008				2007			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Advances								
At January 01	80,592	-	-	-	93,648	-	565	1,000,000
Given during the year	135,743	-	-	-	46,002	978,224	-	-
Repaid during the year	(67,460)	-	-	-	(59,058)	(978,224)	(565)	(1,000,000)
At December 31, 2008	148,875	-	-	-	80,592	-	-	-

	2008				2007			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
Deposits								
At January 01	14,252	4,049	231,886	5,865,116	13,249	5,659	11,226	6,160,983
Received during the year	543,947	230,977,388	44,273,279	2,034,774	294,791	301,007,108	48,419,004	2,432,626
Withdrawn during the year	(538,050)	(230,945,602)	(44,357,464)	(7,591,543)	(293,788)	(301,008,718)	(48,198,344)	(2,728,493)
At December 31, 2008	20,149	35,835	147,701	308,347	14,252	4,049	231,886	5,865,116

Balances with other banks	-	2,555,801	-	-	-	101,038	-	-
Outstanding placement at the end of the year	-	406,999	-	-	-	319,019	-	-
Outstanding borrowing at the end of the year	-	-	850,000	-	-	-	-	-
Payable in respect of acquisition of investment in equity shares	-	30,000	-	-	-	30,000	-	-
Distribution commission receivable	-	6,589	-	-	-	7,136	-	-
Other receivable	-	-	37,954	4,458	-	122	37,954	3,343
Other payable	-	-	164,932	-	-	-	579	-
Unearned income	-	435	-	-	-	-	-	-
Employee Motivation and Retention Scheme	-	-	-	338,552	-	-	-	263,181
Term Finance Certificate purchased	-	-	1,898,783	-	-	-	-	-

	2008				2007			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Mark-up / return / interest earned	5,855	12,653	499	-	3,294	27,828	1,988	19,222
Mark-up / return / interest expensed	122	1,246	91,185	387	56	3,635	2,246	128,096
Reimbursement of liaison office expenses paid to Bestway Group and Abu Dhabi Group	-	-	-	42,448	-	-	-	36,444
Dividend income received	-	91,642	317,202	-	-	196,888	1,021	-
Other expenses paid	-	-	-	-	-	-	81,882	-
Other income	-	1,501	114,643	-	-	2,586	63,121	-
Insurance premium paid	-	-	42,125	-	-	-	57,314	-
Remuneration paid	277,185	-	-	-	254,385	-	-	-
Post employment benefits	10,487	-	-	-	14,727	-	-	-
Contribution to defined contribution plan	-	-	-	122,417	-	-	-	118,897
Contribution to defined benefit plan	-	-	-	95,041	-	-	-	88,456
Employee Motivation and Retention Scheme	-	-	-	230,005	-	-	-	480,000
Distribution commission income	-	2,746	-	-	-	2,251	-	-
Placements made during the year	-	869,092	-	-	-	9,883,253	-	-
Placements settled during the year	-	892,378	-	-	-	10,129,218	-	-
Maximum amount of a placement made during the year	-	708,136	-	-	-	1,646,553	-	-
Borrowing made during the year	-	1,259,753	8,100,000	-	-	-	-	-
Borrowing settled during the year	-	1,259,753	7,250,000	-	-	-	-	-
Maximum amount of a placement made during the year	-	346,800	800,000	-	-	-	-	-
Investment made during the year	-	-	5,579,970	-	-	543,600	17,134,635	18,743
Redemption made during the period	-	-	8,702,834	-	-	-	12,875,596	-
Bonus units received	-	-	127,175	-	-	-	436,904	-

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
43. CAPITAL ADEQUACY

43.1 The Basel II Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries) and also on a stand alone basis.

Risk is an inherent part of every bank's business activities, which are managed through risk management framework and governance structures at UBL.

The major risks types are:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Legal risk
- Reputational risk

UBL's capital adequacy is being managed, maintained and reported using various measures including the rules and ratios provided by the State Bank of Pakistan.

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).

UBL identifies measures, monitors / controls and reports risk through various control mechanisms, including dynamically assessing the potential impact of internal and external factors on transactions and positions, developing risk mitigation strategies, and establishing risk management policies. UBL will continue to maintain the capital adequacy requirement either through its stringent risk management strategies or by increasing the capital requirements in line with business and capital needs.

As per Basel II and SBP requirements, UBL must have an internal capital adequacy assessment process (ICAAP) that enables it to ensure that it has adequate overall capital in relation to its risk profile and it also informs the Board of the ongoing assessment of the UBL's risks and how to mitigate those risks. It must also include a brief stress testing analysis on certain risk assumptions and growth perspectives.

UBL is in the process of developing an internal economic capital model, where each business unit will be allocated capital according to the risks generated including incorporating the diversification concept of each risk type.

43.2 Capital Management

The objective of managing capital is to safeguard the bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. 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.

Goals of managing capital

The goals of managing capital of the bank are as follows:

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to actively manage the supply of capital costs and increase capital velocity;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the bank's assets to allow for an optimal deployment of the bank's resources;
- to protect the bank against unexpected events and maintain strong ratings;
- to safeguard the bank's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the bank to expand;
- to achieve low overall cost of capital with appropriate mix of capital elements.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 19 dated September 05, 2008 has prescribed the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs.23 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.5 billion paid up capital (net of losses) by the end of the financial year 2008.

Minimum paid-up capital (net of losses) deadline by which to be increased is as follows:

Rs.5 billion	December 31, 2008
Rs.6 billion	December 31, 2009
Rs.10 billion	December 31, 2010
Rs.15 billion	December 31, 2011
Rs.19 billion	December 31, 2012
Rs.23 billion	December 31, 2013

The paid-up capital of the bank for the year ended December 31, 2008 stood at Rs.10.117 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 9% of the risk weighted exposure of the bank. United Bank Limited's CAR as at December 31, 2008 was 9.96% of its risk weighted exposure.

Bank's regulatory capital is analyzed into three tiers

Tier 1 capital, which includes fully paid-up capital (including the bonus shares), 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 other deductions calculated as per the guidelines laid under the Basel II framework.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25% risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50% the balance in the related revaluation reserves), foreign exchange translation reserves and subordinated debts (upto maximum of 50% of total eligible tier 1 capital) after deduction of 50% of other deductions calculated 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.

The capital of the bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 6 dated October 28, 2006. The adequacy of the capital is tested with reference to the risk-weighted assets of the bank.

The required capital adequacy ratio (9% of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization and aggregate the risks so as to take an integrated approach / view.

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimization of the return achieved on the capital allocated. Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, etc. and the fit of the activity with the bank's long term strategic objectives. The bank has complied with all externally imposed capital requirements through out the period. Further, there has been no material change in the bank's management of capital during the year.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
43.3 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	2008		2007		
	----- (Rupees in '000) -----				
Regulatory capital base					
Tier 1 Capital					
- Fully paid-up capital			10,117,188	8,093,750	
- Statutory reserves as disclosed on the balance sheet			10,376,375	8,709,751	
- Un-appropriated profit			16,604,076	15,653,703	
			37,097,639	32,457,204	
Deductions:					
- Book value of Goodwill and intangibles			402,340	328,537	
- Deficit on account of revaluation of investments held in AFS category			7,889,139	335,965	
- Other deductions (50% of the amount) investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet			1,127,051	1,168,172	
			9,418,530	1,832,674	
Total eligible Tier 1 Capital			27,679,109	30,624,530	
Supplementary Capital					
Tier 2 Capital					
- General provisions or general reserves for loan losses-up to maximum of 1.25% of risk weighted assets			1,082,498	1,296,496	
- Revaluation reserves up to 45%			4,635,360	5,764,840	
- Foreign exchange translation reserves			5,401,771	1,552,207	
- Subordinated debt - upto maximum of 50% of total eligible Tier 1 capital			10,254,006	5,327,148	
- Cash flow hedge reserve			(425,589)	-	
Total Tier 2 Capital			20,948,046	13,940,691	
Deductions:					
- Other deductions (50% of the amount as calculated on CAP 2) Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet			(1,127,051)	(1,168,172)	
			(1,127,051)	(1,168,172)	
Total eligible Tier 2 Capital			19,820,995	12,772,519	
Tier 3 Capital			-	-	
Eligible Tier 3 Capital			-	-	
Total eligible Capital (1+2+3)			47,500,104	43,397,049	
Risk weighted exposures					
	Note	Capital requirements		Risk weighted assets	
		2008	2007	2008	2007
		----- (Rupees in '000) -----			
Credit risk					
Claims on:					
Other sovereigns, GoP, PG, SBP other than PKR		1,403,928	918,723	15,599,200	11,484,036
PSE's		1,733,264	518,712	19,258,490	6,483,900
Banks		1,019,846	939,329	11,331,622	11,741,614
Corporate		24,507,394	18,486,783	272,304,381	231,084,791
Retail portfolio		4,289,403	5,602,596	47,660,035	70,032,444
Secured by residential property		682,428	283,979	7,582,529	3,549,741
Past due loans		1,001,887	545,304	11,132,081	6,816,303
Listed equity investments		419,807	517,527	4,664,521	6,469,090
Unlisted equity investments		39,821	35,880	442,452	448,503
Investments in fixed assets		1,585,719	1,327,225	17,619,104	16,590,307
Other assets		637,865	296,096	7,087,389	3,701,203
		37,321,362	29,472,154	414,681,804	368,401,932
Market risk					
Interest rate risk		408,957	780,828	4,543,963	9,760,344
Equity exposure risk		58,946	461,862	654,960	5,773,280
Foreign exchange risk		60,786	64,527	675,397	806,582
Position in options		670,032	-	7,444,796	-
		1,198,721	1,307,217	13,319,116	16,340,206
Operational risk		4,417,210	2,858,614	49,080,114	35,732,675
		42,937,293	33,637,985	477,081,034	420,474,813
Capital adequacy ratio					
Total eligible regulatory capital held		47,500,104	43,397,049		
Total risk weighted assets		477,081,034	420,474,813		
Capital adequacy ratio		9.96%	10.32%		

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008****44. RISK MANAGEMENT**

This section presents information about UBL'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 exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that UBL 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

Representations of risk are for a given period and UBL's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the bank including IT projects for replacing the core Banking system, business process re-engineering and inventorying the risks and controls within the bank's existing business and process units. All of these initiatives, as they partially or completely roll out, will have a direct impact on the risk management function within the bank.

44.1 Credit risk

Credit risk is the risk of loss to UBL as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend and contingent liabilities, such as letters of credit – and in traded products – derivative contracts such as forwards, swaps and options, repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions.

The Risk and Credit Policy Group, has the Credit Administration, Market and Treasury Risk, Commercial and FIRMU Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to the Risk and Credit Policy Group Executive. There are senior managers heading each risk category, managing a team solely dedicated to risk management and to maintain a sound and effective risk management culture. The role of the Risk and Credit Policy Group particularly includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the bank's overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the bank's risk taking capacity.
- Developing and maintaining Credit Approval Authority structure.
- Approving major 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.

44.1.1 Credit Risk - General Disclosures

The bank is following standardized approach for all its Credit Risk Exposures.

Credit Risk: Disclosures for portfolio subject to Standardized Approach and supervisory risk weights in IRB approach Basel II specific

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

The standardised approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

Selection of ECAIs

The bank selects particular ECAI(s) for each type of claim. Amongst the ECAIs that have been recognised as eligible by SBP, the following are being used against each respective claim type.

Sovereigns Exposures: For foreign currency claims on sovereigns, the bank uses country risk scores of Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits" available on OECD's website.

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Exposures to Multilateral Development Banks (MDBs): For exposures on MDBs not eligible for a 0% risk weight, ratings of Moody's, S&P and Fitch are being used to calculate risk-weighted assets.

Exposures to Public Sector Entities (PSEs): For PSE exposures, ratings of PACRA and JCR-VIS are used to arrive at risk weights.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch is being used to arrive at risk weights. However, for local banks (i.e., incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

Corporate Exposures: Ratings assigned by PACRA and JCR-VIS are used for claims on Corporates (excluding equity exposures).

Use of ECAI Ratings

The bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

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	
2	AA-	Aa3	AA-	AA-	AA-	
	A+	A1	A+	A+	A+	2
	A	A2	A	A	A	
3	A-	A3	A-	A-	A-	
	BBB+	Baa1	BBB+	BBB+	BBB+	3
	BBB	Baa2	BBB	BBB	BBB	
4	BBB-	Baa3	BBB-	BBB-	BBB-	
	BB+	Ba1	BB+	BB+	BB+	4
	BB	Ba2	BB	BB	BB	
5	BB-	Ba3	BB-	BB-	BB-	
	B+	B1	B+	B+	B+	5
	B	B2	B	B	B	6
6	B-	B3	B-	B-	B-	
				CCC	CCC	7
	CCC+ and below	Caa1 and below	CCC+ and below	CC C	CC C D	

Short – Term Rating Grades Mapping

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

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Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA	FITCH	Standard & Poors	ECA scores
	Corporate	✓	✓	-	-
Banks	✓	✓	✓	✓	-
Sovereigns	-	-	-	-	✓
PSE	✓	✓	-	-	-

Credit exposures subject to Standardized Approach

Exposures	Rating category	2008		
		Amount outstanding	Deduction CRM*	Net amount
Corporate	0	2,173,996	-	2,173,996
	1	14,328,851	62,769	14,266,082
	2	3,122,562	130,669	2,991,893
	3,4	3,010,976	-	3,010,976
	5,6	-	-	-
Banks	0	-	-	-
	1	54,804,111	17,797,822	37,006,289
	2,3	7,254,869	2,528,842	4,726,027
	4,5	3,064,947	-	3,064,947
	6	-	-	-
Claims on banks with maturity less than 3 months and denominated in foreign currency	1,2,3	2,996,416	-	2,996,416
	4,5	2,747,459	-	2,747,459
	6	-	-	-
Public sector	0	9,335	-	9,335
	1	17,101,320	3,396,643	13,704,677
	2,3	-	-	-
	4,5	-	-	-
	6	-	-	-
Retail	75%	66,088,078	1,052,777	65,035,301
	35%	21,664,368	-	21,664,368
Sovereigns	1	200,218,357	12,155,890	188,062,467
	2	14,227,637	-	14,227,637
	3	-	-	-
	4,5	6,459,449	-	6,459,449
	6	4,121,052	-	4,121,052
Unrated		383,787,822	5,679,598	378,108,224
Others		46,574,401	-	46,574,401
Total		853,756,006	42,805,010	810,950,996

* CRM excludes provision

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. Since the trading book of the bank only comprises equity investments; therefore 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. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The bank accepts cash, lien on deposits, government securities and eligible guarantees etc. under the comprehensive approach of Credit Risk Mitigation. The bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty ratings are obtained through the two local SBP authorized External Credit Rating Agencies; JCR VIS and PACRA and other international sources such as Standard and Poor's, Fitch and Moody's. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

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The wholesale portfolio, which includes corporate, commercial and agricultural loans are ideally collateralized by cash equivalents, fixed and current assets including property plant and equipment and land. Loans to individuals are typically secured by autos for car loans and private or income producing real estate is secured by a mortgage over the relevant property.

UBL manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and to industries and countries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic 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. UBL sets limits on its credit exposure to counterparty groups, by industry, product, counterparty and geographical location, in line with SBP standards. Limits are also applied in a variety of forms to portfolios or sectors where UBL considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

UBL classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including interest payments, principal repayments or other payments due) after realization of any available collateral. Loans carried at amortized cost are classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days. Allowances or provisions are determined such that the carrying values of impaired claims are consistent with the requirements of SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Finance Division and is according to SBP regulations. Details are given in note 10 to these financial statements.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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44.1.2 Segmental information
44.1.2.1 Segments by class of business

	2008					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	4,969,946	1.27%	3,346,418	0.69%	6,493,951	1.34%
Agri business	28,392,337	7.26%	23,389,224	4.84%	45,358	0.01%
Textile spinning	22,498,135	5.76%	743,221	0.15%	2,167,314	0.45%
Textile weaving	8,405,185	2.15%	283,074	0.06%	1,724,231	0.36%
Textile composite	21,799,000	5.58%	784,763	0.16%	581,207	0.12%
Textile others	13,001,174	3.33%	1,507,401	0.31%	7,523,260	1.56%
Cement	5,748,245	1.47%	1,095,680	0.23%	15,777,626	3.27%
Sugar	7,125,739	1.82%	2,328,901	0.48%	108,543	0.02%
Shoes and leather garments	3,083,922	0.79%	2,113,705	0.44%	273,673	0.06%
Automobile and transportation equipment	9,315,382	2.38%	3,599,117	0.74%	3,077,958	0.64%
Financial	6,817,131	1.74%	10,172,773	2.10%	262,041,940	54.27%
Insurance	-	-	13,203,155	2.73%	71,278	0.01%
Electronics and electrical appliances	2,543,023	0.65%	3,511,067	0.73%	1,971,279	0.41%
Production and transmission of energy	39,135,346	10.01%	23,219,533	4.80%	28,780,455	5.96%
Paper and allied	1,987,626	0.51%	783,732	0.16%	227,899	0.05%
Surgical and metal	928,548	0.24%	1,404,496	0.29%	108,109	0.02%
Contractors	2,353,124	0.60%	16,324,227	3.38%	2,355,113	0.49%
Wholesale traders	13,194,631	3.38%	24,015,387	4.97%	1,425,866	0.30%
Fertilizer dealers	5,396,543	1.38%	9,433,187	1.95%	1,957,674	0.41%
Sports goods	563,160	0.14%	530,438	0.11%	22,652	0.00%
Food industries	7,420,915	1.90%	4,915,549	1.02%	2,587,635	0.54%
Airlines	7,953,299	2.03%	1,737,760	0.36%	21,269	0.00%
Cables	365,900	0.09%	81,578	0.02%	651,244	0.13%
Construction	21,888,695	5.60%	10,010,616	2.07%	33,764,171	6.99%
Containers and ports	192,406	0.05%	2,023,997	0.42%	895	0.00%
Engineering	2,175,931	0.56%	2,593,967	0.54%	610,024	0.13%
Glass and allied	607,918	0.16%	599,924	0.12%	129,092	0.03%
Hotels	3,199,213	0.82%	806,097	0.17%	25,366	0.01%
Infrastructure	3,113,952	0.80%	1,842,238	0.38%	5,491	0.00%
Media	493,290	0.13%	457,455	0.09%	93,620	0.02%
Polyester and fibre	1,739,026	0.44%	229,345	0.05%	51,127	0.01%
Telecommunication	8,297,343	2.12%	1,510,486	0.31%	7,354,556	1.52%
Individuals	90,397,923	23.13%	253,908,301	52.51%	17,018,655	3.52%
Others	45,798,770	11.72%	61,053,250	12.63%	83,780,695	17.35%
	<u>390,902,778</u>	<u>100.00%</u>	<u>483,560,062</u>	<u>100.00%</u>	<u>482,829,226</u>	<u>100.00%</u>

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	2007					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
	----- (Rupees in '000) -----					
Chemical and pharmaceuticals	4,362,845	1.38%	3,349,125	0.83%	5,942,216	1.40%
Agri business	14,368,394	4.54%	20,956,613	5.22%	133,550	0.03%
Textile spinning	21,731,262	6.86%	1,242,134	0.31%	1,874,086	0.44%
Textile weaving	10,759,934	3.40%	967,113	0.24%	1,784,845	0.42%
Textile composite	15,758,008	4.98%	474,008	0.12%	1,520,177	0.36%
Textile others	14,816,782	4.68%	1,224,871	0.30%	1,944,311	0.46%
Cement	8,279,376	2.61%	880,941	0.22%	4,787,875	1.13%
Sugar	8,114,092	2.56%	1,303,078	0.32%	196,899	0.05%
Shoes and leather garments	2,755,487	0.87%	1,426,002	0.36%	195,568	0.05%
Automobile and transportation equipment	6,213,147	1.96%	2,591,894	0.65%	1,829,951	0.43%
Financial	4,874,814	1.54%	13,470,247	3.35%	217,916,944	51.50%
Insurance	-	-	8,558,352	2.13%	1,709	0.00%
Electronics and electrical appliances	2,432,333	0.77%	2,565,999	0.64%	1,466,097	0.35%
Production and transmission of energy	30,269,568	9.56%	20,911,496	5.21%	13,377,087	3.16%
Paper and allied	1,916,486	0.61%	570,453	0.14%	337,966	0.08%
Surgical and metal	5,636,289	1.78%	1,539,183	0.38%	110,761	0.03%
Contractors	3,826,108	1.21%	12,652,147	3.15%	676,007	0.16%
Wholesale traders	15,063,818	4.76%	24,613,638	6.13%	14,119,633	3.34%
Fertilizer dealers	4,997,043	1.58%	6,248,706	1.56%	898,260	0.21%
Sports goods	721,832	0.23%	317,714	0.08%	321	0.00%
Food industries	4,827,518	1.52%	1,504,779	0.37%	2,075,413	0.49%
Airlines	4,252,767	1.34%	2,025,897	0.50%	187,574	0.04%
Cables	182,300	0.06%	55,417	0.01%	704,511	0.17%
Construction	10,107,682	3.19%	6,373,025	1.59%	20,809,622	4.92%
Containers and ports	404,040	0.13%	2,639,257	0.66%	895	0.00%
Engineering	2,127,655	0.67%	4,935,704	1.23%	1,601,328	0.38%
Glass and allied	484,117	0.15%	69,357	0.02%	75,551	0.02%
Hotels	2,714,499	0.86%	311,103	0.08%	9,234	0.00%
Infrastructure	-	-	6,539,304	1.63%	5,613	0.00%
Media	581,197	0.18%	326,873	0.08%	408,349	0.10%
Polyester and fibre	1,519,069	0.48%	189,557	0.05%	714,004	0.17%
Telecommunication	6,353,298	2.01%	702,204	0.17%	6,212,522	1.47%
Individuals	68,664,014	21.68%	205,538,882	51.18%	22,498,303	5.32%
Others	37,621,672	11.88%	44,562,743	11.10%	98,752,340	23.34%
	<u>316,737,446</u>	<u>100.00%</u>	<u>401,637,816</u>	<u>100.00%</u>	<u>423,169,522</u>	<u>100.00%</u>

44.1.2.2 Segment by Sector

	2008					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	44,845,490	11.47%	79,197,323	16.38%	72,427,524	15.00%
Private	346,057,288	88.53%	404,362,739	83.62%	410,401,702	85.00%
	<u>390,902,778</u>	<u>100.00%</u>	<u>483,560,062</u>	<u>100.00%</u>	<u>482,829,226</u>	<u>100.00%</u>

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	36,558,750	11.54%	77,690,020	19.34%	83,952,624	19.84%
Private	280,178,696	88.46%	323,947,796	80.66%	339,216,898	80.16%
	<u>316,737,446</u>	<u>100.00%</u>	<u>401,637,816</u>	<u>100.00%</u>	<u>423,169,522</u>	<u>100.00%</u>

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

	2008		2007	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Chemical and pharmaceuticals	165,190	130,312	779,887	760,287
Agri business	1,625,152	604,915	1,356,148	540,449
Textile spinning	2,420,187	2,013,992	1,584,127	1,496,813
Textile weaving	242,469	235,243	314,127	273,068
Textile composite	724,001	570,310	712,364	689,360
Textile others	2,767,639	2,489,931	2,928,663	2,452,500
Cement	31,598	29,483	19,567	19,567
Sugar	34,782	34,782	34,782	34,782
Shoes and leather garments	97,319	78,005	7,608	5,459
Automobile and transportation equipment	783,119	656,798	150,224	149,966
Financial	20,333	20,333	133,448	66,782
Insurance	-	-	-	-
Electronics and electrical appliances	240,344	66,513	150,127	118,414
Production and transmission of energy	154,429	154,429	-	-
Paper and allied	39,881	39,881	4,617	4,288
Surgical and metal	44,515	33,423	11,905	11,905
Contractor	6,540	3,501	-	-
Wholesale traders	963,506	690,107	847,628	589,029
Fertilizer dealers	36,549	21,440	71,145	66,215
Sports goods	307,202	300,339	255,855	255,855
Food industries	714,275	670,400	785,819	719,839
Construction	3,059,111	512,722	2,269,807	740,601
Containers and ports	-	-	-	-
Engineering	353,111	341,571	3,014	2,654
Steel	-	-	242,837	242,837
Glass and allied	34,976	17,488	24	24
Hotels	202,338	2,338	126,715	82,117
Infrastructure	-	-	-	-
Media	-	-	82,462	82,462
Polyester and fibre	1,744,057	960,778	150	150
Telecommunication	14,000	2,421	3,000	1,500
Individuals	8,205,968	5,608,049	6,600,738	4,282,719
Others	2,806,729	2,273,829	2,535,623	2,341,040
	<u>27,839,320</u>	<u>18,563,333</u>	<u>22,012,411</u>	<u>16,030,682</u>

44.1.4 Details of non performing advances and specific provision by sector

	2008		2007	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Public / Government	-	-	-	-
Private	27,839,320	18,563,333	22,012,411	16,030,682
	<u>27,839,320</u>	<u>18,563,333</u>	<u>22,012,411</u>	<u>16,030,682</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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44.1.5 Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
----- (Rupees in '000) -----				
Pakistan				
Domestic operations	9,921,921	466,689,692	35,045,121	394,539,543
Asia Pacific (including South Asia)	41,387	1,336,065	207,453	38,862,833
	<u>9,963,308</u>	<u>468,025,757</u>	<u>35,252,574</u>	<u>433,402,376</u>
Overseas				
United States of America	177,668	736,875	932,672	-
Middle East	3,733,447	136,309,850	7,677,513	49,426,850
	<u>3,911,115</u>	<u>137,046,725</u>	<u>8,610,185</u>	<u>49,426,850</u>
	<u><u>13,874,423</u></u>	<u><u>605,072,482</u></u>	<u><u>43,862,759</u></u>	<u><u>482,829,226</u></u>
2007				
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
----- (Rupees in '000) -----				
Pakistan				
Domestic Operations	9,748,915	429,676,757	35,585,095	365,759,239
Asia Pacific (including South Asia)	53,832	1,389,072	162,570	149,581
	<u>9,802,747</u>	<u>431,065,829</u>	<u>35,747,665</u>	<u>365,908,820</u>
Overseas				
United States of America	169,944	953,646	730,915	81,521
Middle East	3,032,282	98,104,856	5,942,823	57,179,181
	<u>3,202,226</u>	<u>99,058,502</u>	<u>6,673,739</u>	<u>57,260,702</u>
	<u><u>13,004,973</u></u>	<u><u>530,124,331</u></u>	<u><u>42,421,404</u></u>	<u><u>423,169,522</u></u>

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

44.2 Market Risk

Market risk is the risk that a bank may experience loss due to unfavourable movements in market prices. It results from changes in the prices of equity instruments, fixed-income securities and currencies. Its major components are, therefore, equity position risk, rate-of-return risk, and currency risk. Each component of risk includes general aspect of market risk and a specific aspect of market risk that originates in the portfolio structure of a bank.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

Trading activities are centered in the Treasury and Capital Market (TCM) and include market making, facilitation of client business and proprietary position taking. UBL is active in the cash and derivative markets for equities, fixed income and interest rate products and foreign exchange.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates ('risk factors'), and on positions in the securities of individual issuers.

Treasury and Market Risk (TMR) division performs all market risk management activities within UBL. The Division is composed of two wings, i.e., Treasury Middle Office and Market Risk Management. The Market Risk Department is responsible for developing and reviewing market risk policies, strategies, processes, conducting market research, and is involved in model construction and testing etc. Middle Office is taking care of the operational side. It has to ensure monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, compilation and MIS reporting, etc.

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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).
- All the market risk policies are approved by the BoD and implementation is done by the senior management through MRC, Treasury and Market Risk division.
- Various limits have been assigned to different businesses on a product-portfolio basis. All the products have been approved through product programs, where all the risks have been identified and limits and parameters to operate have been set.
- Any transaction / product falling beyond the Product Policy Manuals must be approved through separate transaction / product memo.

44.2.1 Foreign Exchange Risk

	2008			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	444,633,414	395,366,022	3,263,227	52,530,619
US Dollar	34,734,066	37,674,735	22,522	(2,918,147)
Pound Sterling	3,715,191	5,191,759	2,952,115	1,475,547
Euro	2,923,889	7,886,291	6,284,847	1,322,445
Japanese Yen	39,607	38,959	26,292	26,940
Other Currencies	119,026,315	115,051,957	(12,549,003)	(8,574,645)
	<u>605,072,482</u>	<u>561,209,723</u>	<u>-</u>	<u>43,862,759</u>
	2007			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	397,169,113	367,543,563	4,829,581	34,455,131
US Dollar	52,806,483	42,784,386	(14,328,354)	(4,306,257)
Pound Sterling	6,441,913	4,348,742	3,279,532	5,372,703
Euro	2,900,883	2,466,273	1,579,240	2,013,850
Japanese Yen	189,441	16,857	(177,829)	(5,245)
Other Currencies	70,786,567	70,713,175	4,817,830	4,891,222
	<u>530,294,400</u>	<u>487,872,996</u>	<u>-</u>	<u>42,421,404</u>

Foreign Exchange Risk is the risk of loss resulting from 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 in the Treasury & Capital Markets. These trading exposures are subject to prescribed stress, sensitivity and concentration limits. Details of foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, are shown in this note.

The bank's reporting currency is the PKR, but its assets, liabilities, income and expense are denominated in many currencies. Reported profits or losses are translated daily into PKR, reducing volatility in UBL's earnings from subsequent changes in exchange rates within the limits regulated by SBP. Treasury also, from time to time, proactively hedges significant expected foreign currency earnings / costs (mainly USD, EUR and GBP) within a time horizon up to one year, in accordance with the instructions of the SBP and subject to pre-defined limits.

NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS**44.2.2 Equity position risk in the banking book – Basel II specific**

Equity risk is the risk of loss resulting from changes in the levels of equity indices and values of individual stocks. Equity investments in banking book are normally taken on by the Investment Banking Group (IBG) and Treasury and Capital Markets. The positions held for capital gains are classified in Held for Trading (HfT) and Available for Sale (AfS) portfolios, whereas a separate strategic portfolio is maintained for position held for relationship or strategic purposes.

Product programs have been developed to discuss in detail the objectives / policies for equity investments and accounting / valuation procedures.

Currently, UBL is following Average Costing (AVCO) policy for accounting of equity investment / trading portfolios. Revaluation (MTM) of portfolio is done on a daily basis and separate profit and loss / balance sheet accounts are maintained for different portfolios.

UBL's equity investments portfolio includes Listed company shares, Mutual Funds, Unlisted companies and other illiquid investments (non-tradable due to de-listing, etc.). Treasury Capital Market's investments generally constitute of highly liquid listed shares (highly publicly traded) and are classified in HFT and AFS portfolios. IBG's investments are held with medium to long term gains with some part in listed shares and mutual funds while the rest are included in strategic investment.

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. UBL's equity trading book comprises of Treasury Capital Market's Held-for-Trading (HfT) & Available-for-Sale (AfS) portfolios and Investment Banking Group's AFS portfolio. Objective of Treasury Capital Market's HfT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. IBG maintained its AfS portfolio with a medium-long term view of capital gains and higher dividend yields. Separate product program manuals have been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for equity trading portfolios of TCM and IBG.

44.2.3 Yield / Interest Rate Risk in the Banking Book (IRRBB)

The increase (decline) in earnings or economic value (or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and then translated into rupees).

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. It is controlled primarily through a limit structure. Exposure to interest rate movements can be expressed for all interest rate sensitive positions as the impact on their fair values of a one basis point (0.01%) change in interest rates.

Interest rate risk is inherent in many of UBL's businesses and arises from factors such as mismatches between contractual maturities or re-pricing of on and off balance sheet assets & liabilities Interest rate risk arises from the banking book mainly through its advances and deposits portfolio, particularly the Corporate, Commercial and Consumer business's books.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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44.2.4 Mismatch of interest rate sensitive assets and liabilities

	Effective yield / interest rate	Total	2008								Non-interest bearing financial instruments	
			Exposed to yield / interest risk									
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years	
On-balance sheet financial instruments			(Rupees in '000)									
Assets												
Cash and balances with treasury banks	0.40%	50,069,965	11,549,841	-	-	-	-	-	-	-	-	38,520,124
Balances with other banks	5.20%	7,497,174	2,268,351	787,037	-	-	-	-	-	-	-	4,441,786
Lendings to financial institutions	9.10%	22,805,341	21,735,819	449,824	208,372	65,492	179,167	166,667	-	-	-	-
Investments	8.50%	116,328,288	9,430,743	57,448,182	15,755,328	423,188	340,069	2,336,465	6,013,882	11,537,163	3,550,847	9,492,421
Advances	12.10%											
Performing		361,863,689	77,884,835	146,493,683	55,632,025	55,632,025	11,126,405	7,417,603	7,677,113	-	-	-
Non-performing		9,275,986	-	-	-	-	-	-	-	-	-	9,275,986
Operating fixed assets - Ijara assets	10% - 25%	741,919	-	42,369	127,108	572,442	-	-	-	-	-	-
Other assets	0%	14,068,635	-	-	-	-	-	-	-	-	-	14,068,635
		582,650,997	122,869,589	205,221,095	71,722,833	56,693,147	11,645,641	9,920,735	13,690,995	11,537,163	3,550,847	75,798,952
Liabilities												
Bills payable	0%	5,194,449	-	-	-	-	-	-	-	-	-	5,194,449
Borrowings	8.80%	44,195,886	42,645,886	1,550,000	-	-	-	-	-	-	-	-
Deposits and other accounts	1.9-20.2%	483,560,062	111,353,394	126,593,747	44,869,348	48,957,665	7,124,393	3,855,926	3,855,926	4,591,424	-	132,358,239
Subordinated loans	12.60%	11,993,848	-	7,997,624	-	424	848	665,467	3,329,485	-	-	-
Other liabilities	0%	14,096,711	-	-	-	-	-	-	-	-	-	14,096,711
		559,040,956	153,999,280	136,141,371	44,869,348	48,958,089	7,125,241	4,521,393	7,185,411	4,591,424	-	151,649,399
On-balance sheet gap		23,610,041	(31,129,691)	69,079,724	26,853,485	7,735,058	4,520,400	5,399,342	6,505,584	6,945,739	3,550,847	(75,850,447)
Non financial net assets		20,252,718										
Total net assets		43,862,759										
Off-balance sheet financial instruments												
Foreign currency forward purchases		79,548,383	37,830,600	20,619,302	18,564,127	2,353,462	180,892	-	-	-	-	-
Foreign currency forward sales		(55,225,610)	(17,247,940)	(16,497,240)	(18,303,946)	(3,001,953)	(174,531)	-	-	-	-	-
Interest Rate Derivatives - Long position		20,758,372	4,465,985	4,279,925	43,332	259,444	3,142,105	1,170,455	6,397,126	1,000,000	-	-
Interest Rate Derivatives - Short position		(20,758,372)	(2,873,552)	(5,299,108)	(4,339,802)	-	-	(1,000,000)	(6,454,925)	(790,985)	-	-
Forward Purchase of Govt. Securities		10,065,070	-	9,597,520	-	467,550	-	-	-	-	-	-
Forward Sale of Govt. Securities		(8,611,020)	-	(8,143,470)	-	(467,550)	-	-	-	-	-	-
Forward Rate Agreements-Short position		(850,000)	(850,000)	-	-	-	-	-	-	-	-	-
Forward Rate Agreements-Long position		850,000	850,000	-	-	-	-	-	-	-	-	-
Sale of Govt. Securities not yet purchased		-	-	-	-	-	-	-	-	-	-	-
FX Options - Long position		891,725	891,725	-	-	-	-	-	-	-	-	-
FX Options - Short position		(6,723,373)	(6,723,373)	-	-	-	-	-	-	-	-	-
Equity Indices - Long position		355,943	355,943	-	-	-	-	-	-	-	-	-
Equity Indices - Short position		-	-	-	-	-	-	-	-	-	-	-
Commodity Indices - Long position		39,545	39,545	-	-	-	-	-	-	-	-	-
Commodity Indices - Short position		-	-	-	-	-	-	-	-	-	-	-
Cross Currency Swap - Long position		15,948,869	-	11,249,669	4,449,200	-	-	250,000	-	-	-	-
Cross Currency Swap - Short Position		(15,948,869)	-	(11,249,669)	(4,449,200)	-	-	(250,000)	-	-	-	-
Off-balance sheet gap		20,340,663	16,738,933	4,556,929	(4,036,289)	(389,047)	3,148,466	170,455	(57,799)	209,015	-	-
Total Yield/Interest Risk Sensitivity Gap			(14,390,758)	73,636,653	22,817,196	7,346,011	7,668,866	5,569,797	6,447,785	7,154,754	3,550,847	(75,850,447)
Cumulative Yield/Interest Risk Sensitivity Gap			(14,390,758)	59,245,895	82,063,091	89,409,102	97,077,968	102,647,765	109,095,550	116,250,304	119,801,151	43,950,704

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 the market interest rates.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
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	Effective yield / interest rate	Total	2007								Non-interest bearing financial	
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years		Over 10 years
	%		Exposed to yield / interest risk (Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	1.20%	57,526,451	16,992,809	-	-	-	-	-	-	-	-	40,533,642
Balances with other banks	6.80%	4,191,128	2,007,647	-	-	-	-	-	-	-	-	2,183,481
Lendings to financial institutions	8.30%	24,781,723	12,541,487	7,615,087	1,054,116	1,775,935	1,361,050	434,048	-	-	-	-
Investments	8.10%	115,585,646	13,237,068	25,530,562	7,375,999	29,103,072	6,576,128	903,584	7,333,002	11,837,302	1,866,682	11,822,247
Advances												
Performing	11.10%	293,373,007	94,835,934	54,175,801	26,074,836	27,718,499	16,306,632	15,909,099	28,336,798	21,684,521	8,330,887	-
Non performing	-	5,981,729	-	-	-	-	-	-	-	-	-	5,981,729
Other assets	-	10,254,873	-	-	-	-	-	-	-	-	-	10,254,873
		511,694,557	139,614,945	87,321,450	34,504,951	58,597,506	24,243,810	17,246,731	35,669,800	33,521,823	10,197,569	70,775,972
Liabilities												
Bills payable	-	6,079,341	-	-	-	-	-	-	-	-	-	6,079,341
Borrowings	8.20%	59,103,350	40,268,261	14,296,449	4,445,694	92,946	-	-	-	-	-	-
Deposits and other accounts	0.4% - 10.2%	400,974,539	80,699,864	108,575,991	36,365,930	44,043,266	6,288,758	3,131,858	3,131,858	3,203,678	-	115,533,336
Subordinated loans	9.90%	5,996,696	-	424	-	1,999,624	848	852	3,994,948	-	-	-
Other liabilities	-	7,568,027	-	-	-	-	-	-	-	-	-	7,568,027
		479,721,953	120,968,125	122,872,864	40,811,624	46,135,836	6,289,606	3,132,710	7,126,806	3,203,678	-	129,180,704
On-balance sheet gap		31,972,604	18,646,820	(35,551,414)	(6,306,673)	12,461,670	17,954,204	14,114,021	28,542,994	30,318,145	10,197,569	(58,404,732)
Non financial net assets		10,448,800										
Total net assets		42,421,404										
Off-balance sheet financial instruments												
Foreign currency forward purchases		80,877,278	29,557,454	22,355,279	15,467,078	12,507,355	688,350	301,762	-	-	-	-
Foreign currency forward sales		(85,401,033)	(27,881,591)	(29,989,365)	(20,540,860)	(5,500,879)	(682,171)	(806,167)	-	-	-	-
Interest Rate Derivatives - Long position		3,960,485	462,500	662,500	-	500,000	1,098,888	997,961	238,636	-	-	-
Interest Rate Derivatives - Short position		(3,960,485)	(1,161,480)	(1,940,925)	(458,080)	(400,000)	-	-	-	-	-	-
Forward Purchase of Govt Securities		-	-	-	-	-	-	-	-	-	-	-
Forward Sale of Govt. Securities		-	-	-	-	-	-	-	-	-	-	-
Sale of Govt. Securities not yet purchased		(657,226)	-	(657,226)	-	-	-	-	-	-	-	-
Cross Currency Swap - Long position		9,948,001	458,336	6,830,665	2,659,000	-	-	-	-	-	-	-
Cross Currency Swap - Short Position		(9,948,001)	(458,336)	(6,830,665)	(2,659,000)	-	-	-	-	-	-	-
Off-balance sheet gap		(5,180,981)	976,883	(9,569,737)	(5,531,862)	7,106,476	1,105,067	493,556	238,636	-	-	-
Total yield / interest risk sensitivity gap			19,623,703	(45,121,151)	(11,838,535)	19,568,146	19,059,271	14,607,577	28,781,630	30,318,145	10,197,569	(58,404,732)
Cumulative yield / interest risk sensitivity gap			19,623,703	(25,497,448)	(37,335,983)	(17,767,837)	1,291,434	15,899,011	44,680,641	74,998,786	85,196,355	26,791,623

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 the market interest rates.

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44.3 Liquidity risk

UBL'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 high-grade 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 UBL's business.

44.3.1 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 on the basis of contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and saving deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The maturity profile disclosed in note 43.3.2 that includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits reflects a more meaningful analysis the liquidity risk of the bank.

	2008									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	50,069,965	45,336,011	-	-	-	-	-	-	-	4,733,954
Balances with other banks	7,497,174	4,434,062	-	3,063,112	-	-	-	-	-	-
Lendings to financial institutions	22,805,341	21,507,303	678,340	208,372	65,492	179,167	166,667	-	-	-
Investments	116,328,288	7,259,974	53,390,776	8,183,146	1,550,569	2,626,910	4,673,170	22,012,561	13,080,334	3,550,848
Advances	371,139,675	78,215,183	155,732,008	55,618,575	55,618,575	11,123,715	7,415,810	7,415,810	-	-
Operating fixed assets	18,021,445	136,927	273,857	410,785	821,571	1,643,142	942,132	1,521,688	2,816,599	9,454,744
Deferred tax asset	2,055,609	-	-	-	925,024	1,130,585	-	-	-	-
Other assets	17,154,985	5,305,612	721,453	11,127,920	-	-	-	-	(0)	-
	605,072,482	162,195,072	210,796,434	78,611,910	58,981,231	16,703,518	13,197,779	30,950,059	15,896,933	17,739,546
Liabilities										
Bills payable	5,194,449	5,194,449	-	-	-	-	-	-	-	-
Borrowings	44,195,886	42,645,886	1,550,000	-	-	-	-	-	-	-
Deposits and other accounts	483,560,062	240,816,664	128,016,921	45,466,021	49,554,339	7,243,728	3,935,482	3,935,482	4,591,424	-
Subordinated loans	11,993,848	-	2,024	-	2,024	4,052	668,668	4,664,947	6,652,133	-
Other liabilities	16,265,478	-	14,872,952	-	-	-	-	-	1,392,526	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
	561,209,723	288,656,999	144,441,897	45,466,021	49,556,363	7,247,780	4,604,150	8,600,429	12,636,084	-
Net assets	43,862,759	(126,461,928)	66,354,537	33,145,889	9,424,869	9,455,739	8,593,629	22,349,630	3,260,850	17,739,546
Represented by:										
Share capital	10,117,188									
Reserves	15,501,513									
Unappropriated profit	16,604,076									
Surplus on revaluation of assets	1,639,982									
	<u>43,862,759</u>									

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2007

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	57,526,451	55,637,063	-	-	-	-	-	-	-	1,889,388
Balances with other banks	4,191,128	3,872,109	-	-	-	-	-	-	-	319,019
Lendings to financial institutions	24,781,723	11,960,321	6,133,272	2,355,895	3,493,545	542,857	295,833	-	-	-
Investments	115,585,646	12,310,419	20,442,404	11,590,894	26,329,785	5,039,628	3,681,901	19,999,475	10,880,254	5,310,886
Advances	299,354,736	70,672,136	72,777,768	24,450,226	25,416,765	17,586,899	15,546,806	31,260,218	31,704,206	9,939,712
Operating fixed assets	16,943,950	66,634	133,279	399,836	824,777	1,593,098	2,113,933	3,523,221	7,046,441	1,242,731
Other assets	11,740,697	183,064	7,290,955	3,250,183	203,299	406,598	406,598	-	-	-
	530,124,331	154,701,746	106,777,678	42,047,034	56,268,171	25,169,080	22,045,071	54,782,914	49,630,901	18,701,736
Liabilities										
Bills payable	6,079,341	6,079,341	-	-	-	-	-	-	-	-
Borrowings	59,103,350	43,424,744	5,242,064	4,956,842	3,006,943	2,472,757	-	-	-	-
Deposits and other accounts	400,974,539	209,802,263	54,392,841	24,595,559	21,031,522	20,705,804	2,184,647	3,384,269	59,252,910	5,624,724
Subordinated loan	5,996,696	-	824	-	824	1,648	1,652	2,661,676	3,330,072	-
Other liabilities	13,316,657	220,079	10,257,328	8,546	17,092	-	-	608,731	2,204,881	-
Deferred tax liability	2,232,344	50,417	99,636	138,090	310,271	734,179	734,179	1,296,157	(934,433)	(196,152)
	487,702,927	259,576,844	69,992,693	29,699,037	24,366,652	23,914,388	2,920,478	7,950,833	63,853,430	5,428,572
Net assets	42,421,404	(104,875,098)	36,784,985	12,347,997	31,901,519	1,254,692	19,124,593	46,832,081	(14,222,529)	13,273,164

Represented by:

Share capital	8,093,750
Reserves	10,261,958
Unappropriated profit	15,653,703
Surplus on revaluation of assets	8,411,993
	<u>42,421,404</u>

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44.3.2 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.

	2008									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years
	----- (Rupees in '000) -----									
Assets										
Cash and balances with treasury banks	50,069,965	14,310,680	14,456,461	3,797,711	3,377,681	3,927,894	226,159	222,229	9,746,155	4,995
Balances with other banks	7,497,173	7,497,173	-	-	-	-	-	-	-	-
Lendings to financial institutions	22,805,341	19,209,457	200,000	3,395,884	-	-	-	-	-	-
Investments	116,328,288	15,707,191	50,250,184	5,081,295	2,018,143	5,223,203	5,568,718	14,526,423	14,220,683	3,732,448
Advances - Performing	361,863,690	92,353,248	74,918,267	36,097,159	49,973,579	14,130,367	17,484,842	31,037,296	28,750,663	17,118,269
- Non-performing	9,275,986	-	-	-	-	-	-	-	-	9,275,986
Other assets	17,154,985	5,305,613	721,453	11,127,919	-	-	-	-	-	-
Operating fixed assets	18,021,445	-	-	-	-	-	-	-	18,021,445	-
Deferred tax assets	2,055,609	-	-	-	925,024	1,130,585	-	-	-	-
	605,072,482	154,383,362	140,546,365	59,499,968	56,294,427	24,412,049	23,279,719	45,785,948	70,738,946	30,131,698
					45%					
Liabilities										
Bills payable	5,194,449	4,155,559	1,038,890	-	-	-	-	-	-	-
Borrowings	44,195,885	29,852,700	10,078,790	4,264,395	-	-	-	-	-	-
Deposits and other accounts	483,560,062	104,293,240	92,154,397	52,880,290	50,816,507	51,620,620	3,479,791	7,018,943	121,282,039	14,235
Subordinated loan	11,993,848	-	2,024	-	2,024	4,048	668,667	4,664,957	6,652,128	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	16,265,478	-	14,872,952	-	-	-	-	-	1,392,526	-
	561,209,722	138,301,499	118,147,053	57,144,685	50,818,531	51,624,668	4,148,458	11,683,900	129,326,693	14,235
Net assets	43,862,760	16,081,863	22,399,312	2,355,283	5,475,896	(27,212,619)	19,131,261	34,102,048	(58,587,747)	30,117,463
Represented by:										
Share capital	10,117,188									
Reserves	15,501,513									
Unappropriated profit	16,604,076									
Surplus on revaluation of assets	1,639,982									
	<u>43,862,759</u>									

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**
2007

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	57,526,451	15,640,137	9,406,529	5,525,224	4,869,077	6,347,570	157,181	338,057	15,240,624	2,052
Balances with other banks	4,191,128	3,179,435	1,011,693	-	-	-	-	-	-	-
Lendings to financial institutions	24,781,723	9,930,312	10,226,261	1,054,116	1,775,935	1,361,050	434,049	-	-	-
Investments	115,585,646	20,628,425	19,642,086	4,003,534	28,665,138	18,929,107	607,390	3,171,039	19,784,640	154,287
Advances - Performing	293,373,007	73,407,376	70,042,528	24,450,226	25,416,765	17,586,899	15,546,806	31,260,218	25,722,477	9,939,712
- Non-performing	5,981,729	-	-	-	-	-	-	-	5,981,729	-
Other assets	11,740,697	741,631	2,497,387	324,246	6,592,867	358,100	223,813	645,594	357,059	-
Operating fixed assets	16,943,949	-	-	-	1,067,379	-	-	1,809,533	295,936	13,771,101
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
	<u>530,124,331</u>	<u>123,527,316</u>	<u>112,826,484</u>	<u>35,357,346</u>	<u>68,387,161</u>	<u>44,582,726</u>	<u>16,969,239</u>	<u>37,224,441</u>	<u>67,382,465</u>	<u>23,867,153</u>
Liabilities										
Bills payable	6,079,341	4,863,473	1,215,868	-	-	-	-	-	-	-
Borrowings	59,103,350	38,621,267	13,136,086	7,252,997	93,000	-	-	-	-	-
Deposits and other accounts	400,974,539	78,770,583	72,776,945	43,532,542	39,551,624	45,117,122	2,263,292	3,513,348	109,824,359	5,624,724
Subordinated loan	5,996,696	-	824	-	824	1,648	1,648	2,661,688	3,330,064	-
Deferred tax liability	2,232,344	600	-	-	972,602	434,976	412,083	412,083	-	-
Other liabilities	13,316,657	6,760,832	4,350,944	-	-	-	-	2,204,881	-	-
	<u>487,702,927</u>	<u>129,016,755</u>	<u>91,480,667</u>	<u>50,785,539</u>	<u>40,618,050</u>	<u>45,553,746</u>	<u>2,677,023</u>	<u>8,792,000</u>	<u>113,154,423</u>	<u>5,624,724</u>
Net assets	<u>42,421,404</u>	<u>(5,489,439)</u>	<u>21,345,817</u>	<u>(15,428,193)</u>	<u>27,769,111</u>	<u>(971,020)</u>	<u>14,292,216</u>	<u>28,432,441</u>	<u>(45,771,958)</u>	<u>18,242,429</u>
Represented by:										
Share capital	8,093,750									
Reserves	10,261,958									
Unappropriated profit	15,653,703									
Surplus on revaluation of assets	8,411,993									
	<u>42,421,404</u>									

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008****44.4 Operational risk**

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

UBL's Operational Risk Management implementation framework, is based on 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 UBL has undertaken for the effective implementation of Operational Risk Management:

- Recruiting skilled resources for Operational Risk Management.
- Engaging external consultants to assist us in the development of an operational risk management infrastructure.
- In conjunction with the external consultants, 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.
- Analyzing current systems for data collection, migration, validation and retention for current and historical reference and calculation. Data warehousing solutions are being assessed for timely availability and storage of data.

A consolidated Business Continuity Plan is being augmented for UBL 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 inventorying of risks and controls within the bank. A methodology for Risk and Control Self Assessment is ready to be implemented at all core units of UBL.

45. ISLAMIC BANKING BUSINESS

The bank is operating 5 Islamic banking branches and 19 Islamic banking windows at the end of year 2008 as compared to 5 Islamic banking branches and 14 Islamic banking windows at the end of year 2007.

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

The balance sheet of the bank's Islamic Banking Branches at December 31, 2008 is as follows:

	2008	2007
	----- (Rupees in '000) -----	
ASSETS		
Cash and balances with treasury banks	259,264	307,448
Balances with and due from financial institutions	421,325	300,000
Investments	1,295,236	587,206
Financing and receivables		
- Murabaha	92,060	89,477
- Musharaka	250,000	250,000
- Diminishing Musharaka	127,850	-
Operating fixed assets including assets given on Ijara	848,086	401,909
Other assets	148,826	118,323
Total Assets	3,442,647	2,054,363
LIABILITIES		
Bills payable	24,838	17,565
Due to financial institutions	-	-
Deposits and other accounts		
- Current accounts	464,204	307,945
- Saving accounts	270,276	158,458
- Term deposits	413,322	231,882
- Deposits from financial institutions - remunerative	844,455	500,405
Due to head office	1,145,380	492,251
Other liabilities	61,192	29,781
	<u>3,223,667</u>	<u>1,738,287</u>
NET ASSETS	<u>218,980</u>	<u>316,076</u>
REPRESENTED BY		
Islamic Banking Fund	470,000	470,000
Unappropriated / unremitted loss	<u>(237,572)</u>	<u>(156,130)</u>
	232,428	313,870
(Deficit) / surplus on revaluation of assets	<u>(13,448)</u>	<u>2,206</u>
	<u>218,980</u>	<u>316,076</u>

The profit and loss account of the bank's Islamic Banking Branches for the year ended December 31, 2008 is as follows:

	2008	2007
	----- (Rupees in '000) -----	
Profit earned	326,885	80,938
Profit paid	<u>74,733</u>	<u>98,892</u>
	252,152	(17,954)
Provision against assets given on Ijarah	<u>13,482</u>	<u>-</u>
Net Profit	238,670	(17,954)
Other Income		
Fee, commission and brokerage income	1,454	302.00
Dividend income	20,166	-
Income from dealing in foreign currencies	133	-
Other income	5,332	39,191
Total other income	<u>27,085</u>	<u>39,493</u>
	265,755	21,539
Other Expenses		
Administrative expenses	347,197	177,669
Other charges	-	-
Total other expenses	<u>347,197</u>	<u>177,669</u>
Net loss	(81,442)	(156,130)
Unappropriated loss brought forward	(156,130)	-
Unremitted loss	<u>(237,572)</u>	<u>(156,130)</u>

**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008	2007
	----- (Rupees in '000) -----	
Remuneration to shariah Advisor / Board	2,467	500
<u>CHARITY FUND</u>		
Opening balance	-	-
Addition during the period	19,809	-
Payment / utilization during the period	200	-
Closing balance	<u>19,609</u>	<u>-</u>

46. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on March 12, 2009 has proposed a cash dividend in respect of 2008 of Rs. _____ per share (2007: cash dividend Rs.3.00 per share). In addition, the directors have also announced a bonus issue of _____% (2007: 25%) These appropriations will be approved in the forthcoming Annual General Meeting. The unconsolidated financial statements for the year ended December 31, 2008 do not include the effect of these appropriations which will be accounted for in the unconsolidated financial statements for the year ending December 31, 2009.

47. DATE OF AUTHORIZATION

These financial statements were authorized for issue on March ____, 2009 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 as follows:

Rs.663.277 million have been classified from sundry deposits (deposits and other accounts) to insurance payable against consumer assets (other liabilities).

Rs.3,558 million have been reclassified from staff retirement benefits paid to other liabilities (excluding current taxation) in the cash flow statement.

Rs.25.105 million have been classified from others (other assets) to capital work-in-progress (fixed assets).

Atif R. Bokhari
President and
Chief Executive Officer

Dr. Ashfaqe Hasan Khan
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

Disposals of operating fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	------(Rupees in '000)-----					
Furniture and fixtures						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	1,775	1,478	298	220	Auction	Various
Electrical, office and computer equipment						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	70,260	70,252	8	180	Auction	Various
Vehicles						
Items having book value of more than Rs. 250,000 and cost of more than Rs. 1,000,000						
H/Civic	1,319	932	386	740	Buy back	Najmul Hassan (EVP)
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000						
T/Corolla Xli	864	504	360	446	Buy back	Dr. Abdul Whaid Khan (VP)
S/Mehran	360	156	204	240	Buy back	Muhammad Sarfaraz (VP)
S/Cultus	555	555	0	111	Buy back	Muhammad Arshad (OG-I)
S/Cultus	620	176	444	506	Buy back	Syed Tariq Ali (VP)
S/Cultus	550	550	0	110	Buy back	Aurngzeb Malik (VP)
S/Cultus	620	186	434	496	Buy back	Muhammad Suleman (VP)
S/Cultus	550	550	0	110	Buy back	Fareeda Tabbasum (VP)
S/Cultus	560	168	392	448	Buy back	Mian Ali Afzal (VP)
S/Cultus	620	186	434	496	Buy back	Amir Raza Sheikh (AVP)
S/Cultus	555	509	46	157	Buy back	Muhammad Ali Saleem (AVP)
S/Cultus	620	238	382	444	Buy back	Arif Hussain (AVP)
S/Cultus	555	398	157	268	Buy back	Dahar Junejo (AVP)
S/Cultus	560	243	317	373	Buy back	Syed Rashid Ali (VP)
S/Cultus	550	550	0	110	Buy back	Muhammad Shahid Khan (AVP)
S/Cultus	555	555	0	111	Buy back	Ghulam Sarwar (OG-I)
S/Cultus	560	523	37	149	Buy back	Muhammad Naeem (VP)
S/Cultus	560	196	364	420	Buy back	Mahmood Saeed Siddiqi (AVP)
S/Mehran	360	156	204	240	Buy back	Muhammad Shahid Akhter (AVP)
S/Cultus	620	258	362	424	Buy back	Yameen Ahmed Farooqui (VP)
S/Cultus	560	233	327	439	Buy back	Anis-Ur-Rehman (OG-I)
S/Mehran	360	156	204	240	Buy back	M. Feroz Akhtar (AVP)
S/Cultus	620	258	362	424	Buy back	Tahir Javed (VP)
S/Cultus	555	398	157	268	Buy back	Imran Gul (VP)
S/Cultus	560	280	280	336	Buy back	Muhammad Mushtaq (VP)
S/Cultus	555	287	268	324	Buy back	Rashid Ahmed Baloch (VP)
S/Cultus	555	315	241	296	Buy back	Toufique Ahmed (AVP)
S/Cultus	555	463	93	204	Buy back	Shoukat Ali (AVP)
S/Cultus	555	278	278	333	Buy back	Mansoor Alam Khan Sumbul (AVF)
S/Cultus	555	500	56	167	Buy back	Nazim Ali Malik (AVP)
S/Alto	419	419	0	84	Buy back	Arshad Mahmood Malik (OG-I)
S/Cultus	636	85	552	552	Buy back	Mumtaz Ali Mangi (OG-II)
S/Cultus	555	463	93	204	Buy back	Mahmood Ahmed (VP)
S/Cultus	555	463	93	207	Buy back	Syed Shabbir Ahmed (AVP)
S/Cultus	560	168	392	448	Buy back	Zaheer Afzal Malik (AVP)
S/Cultus	555	463	93	204	Buy back	Muhammad Aslam Awan (AVP)
S/Cultus	560	168	392	448	Buy back	Muhammad Ayub Khan (AVP)

Disposals of operating fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	------(Rupees in '000)-----					
S/Cultus	560	168	392	449	Buy back	Ch. Abdul Ghani (AVP)
S/Cultus	560	523	37	149	Buy back	Malik Abdul Majid (AVP)
S/Cultus	555	527	28	139	Buy back	Saqib Rahid Butt (AVP)
S/Cultus	555	463	93	204	Buy back	Muhammad Yousuf (OG-I)
S/Cultus	550	550	0	110	Buy back	Syed Tariq Javed Bokhari (VP)
S/Cultus	555	259	296	352	Buy back	Nasir Ahmed (AVP)
S/Alto	419	419	0	84	Buy back	Muhammad Ashraf Shahid (AVP)
S/Alto	419	419	0	84	Buy back	Ibrar ul Haq (AVP)
S/Alto	419	419	0	84	Buy back	Shahid Imtiaz (AVP)
S/Cultus	560	289	271	327	Buy back	Dilshad Aslam (OG-II)
S/Cultus	520	520	0	104	Buy back	Malik Tehseen (AVP)
S/Alto	419	419	0	84	Buy back	Waheed Uz Zaman (OG-I)
S/Alto	419	419	0	84	Buy back	Tariq Mehmood (AVP)
S/Cultus	550	550	0	110	Buy back	Naeem Raza Tahir (AVP)
S/Alto	419	419	0	84	Buy back	Muhammad Iqbal Chattha (AVP)
S/Cultus	550	507	43	153	Buy back	Pervez Ahmed (OG-II)
T/Corolla Xli	849	708	142	311	Buy back	Naseem Ahmed Quershi (VP)
S/Cultus	550	550	0	110	Buy back	Hamid Naseem Bhutta (AVP)
S/Alto	419	419	0	84	Buy back	Syed Muhammad Ahsan (AVP)
S/Cultus	560	252	308	420	Buy back	Shahid Aslam (AVP)
S/Cultus	555	463	93	204	Buy back	M.Mashkoo Anjum (OG-I)
S/Cultus	555	305	250	305	Buy back	Zahid Abbas Ch. (AVP)
S/Mehran	360	156	204	240	Buy back	Abdul Rashid (AVP)
S/Mehran	346	219	127	205	Buy back	Muhammad Akram (AVP)
S/Cultus	604	604	0	121	Buy back	Iftikhar Saeed Quershi (AVP)
S/Cultus	555	315	241	296	Buy back	Farida Bano (AVP)
S/Cultus	555	315	241	296	Buy back	Nadeem Riaz (AVP)
S/Cultus	652	76	576	576	Buy back	Muhammad Riaz Tarar (OG-I)
S/Cultus	636	66	570	570	Buy back	Ghulam Abbas (AVP)
S/Cultus	636	65	572	572	Buy back	Muhammad Arif Naeem (AVP)
S/Cultus	560	336	224	280	Buy back	Naveed Ahmed (AVP)
S/Alto	419	419	0	83	Buy back	Muhammad Anwar (AVP)
S/Cultus	620	289	331	393	Buy back	Aslam Pervez Nizamani (AVP)
S/Cultus	636	85	551	551	Buy back	Dildar Ahmed (OG-II)
S/Mehran	365	213	152	188	Buy back	Rashid Mehmood Ishaqui (AVP)
S/Alto	419	419	0	84	Buy back	Muhammad Hayat Khan (OG-I)
S/Cultus	560	168	392	448	Buy back	Azeez Rasool Chishtie (VP)
S/Cultus	620	258	362	424	Buy back	Nusrat Iqbal Khan (VP)
S/Cultus	560	159	401	457	Buy back	Kh. Mumtaz Ahmed (AVP)
S/Cultus	555	509	46	157	Buy back	Farida Bano (VP)
S/Alto	419	419	0	84	Buy back	Muhammad Javed Amin (OG-I)
S/Cultus	599	599	0	120	Buy back	Muhammad Najaf Khan (OG-I)
S/Cultus	620	230	390	452	Buy back	Shahnawaz Hadi (AVP)
S/Mehran	360	150	210	246	Buy back	S.M. Saleem (OG-I)
S/Cultus	560	168	392	448	Buy back	Nasir Mehmood (OG-I)
S/Alto	419	419	0	84	Buy back	Muhammad Zafar Abbas (AVP)
S/Cultus	567	387	180	293	Buy back	Muhammad Ahsan Idrees (AVP)
S/Cultus	636	85	552	552	Buy back	Shoukat Ali (OG-I)
S/Cultus	550	550	0	110	Buy back	Anwar Khan (AVP)
S/Mehran	346	218	128	198	Buy back	Saifur Rehman Khan (OG-I)
S/Cultus	636	11	626	626	Buy back	Muhammad Shamim (AVP)
S/Alto	419	419	0	86	Buy back	Muhammad Saeed (OG-I)
S/Mehran	360	156	204	240	Buy back	Muhammad Asif (AVP)
S/Alto	419	419	0	84	Buy back	Muhammad Amir (AVP)
S/Alto	419	419	0	84	Buy back	M.Azahar Javed Awan (AVP)
S/Cultus	555	532	23	134	Buy back	Ahmed Nawaz Janjua (OG-II)
S/Mehran	346	190	156	225	Buy back	Mansoor Hussain (AVP)
S/Mehran	350	187	163	198	Buy back	Shakil Ahmed (AVP)
S/Cultus	620	258	362	424	Buy back	Hamid Nadeem (AVP)

Disposals of operating fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	------(Rupees in '000)-----					
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	659	76	583	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	670	73	597	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	670	73	597	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	670	73	597	626	Auction	T. M. & Sons
Suzuki Cultus VXLi	670	73	597	626	Auction	T. M. & Sons
	105,826	50,546	55,278	67,861		

Ijara Assets

Suzuki Alto VXR CNG	534	45	489	459	Buy back	Abdul Rehman Javed
Suzuki Cultus VXR CNG	1,178	93	1,085	1,019	Buy back	Shahid Hameed
Daihatsu Coure	446	68	378	336	Buy back	Shaikh Azeem
Daihatsu Cuore CX ECO	512	73	439	408	Buy back	Syed Salman Raza
Suzuki Cultus VXR CNG	632	83	548	504	Buy back	Shahrukh Khan
Toyota Corolla XLI	908	129	779	708	Buy back	Imran Umer
Toyota Corolla GLI	998	119	879	826	Buy back	Munwar Iqbal
Honda City IDS-I MT	870	104	766	719	Buy back	Raza Syed
Suzuki Alto VXR CNG	448	42	406	385	Buy back	Tariq Kamal
Suzuki Cultus VXR CNG	615	190	425	373	Buy back	Mohammad Kamran
Honda City IDS-I MT	894	64	829	782	Buy back	Ghulam Mustafa
Cultus VXR CNG	647	90	557	518	Buy back	Wase-Ur-Rehman
Suzuki Alto VXR CNG	531	76	455	421	Buy back	Rasheed Ahmed
Honda City IDS-I MT	896	212	684	621	Buy back	Danish Ahmed
Toyota Corolla XLI/1300	943	17	926	907	Buy back	Muhammad Saleh
Suzuki Mehran VX	344	14	330	315	Buy back	Muhammad Rizwan
Alto VXR CNG	555	28	527	516	Buy back	Naveed Hassan
Toyota Corolla XLI	1,023	137	886	816	Buy back	Bilal Ahmed
Honda City Vario CVT	665	62	603	577	Buy back	Asif Ijaz Shaikh
Suzuki Alto VXR CNG	536	58	478	448	Buy back	Saima Ishtiaq
Honda City Vario CVT	693	74	619	572	Buy back	Muhammad Faheem Quershhi
Honda City Vario CVT	643	55	588	568	Buy back	Riaz Hussain
Cheverlet JOY CNG	570	28	542	531	Buy back	Mir Muhammad Ali
Suzuki Bolan STD CNG	433	42	391	382	Buy back	Khaild Abdul Ghani
Suzuki Cultus VXR CNG	647	93	554	549	Buy back	Shahid Hameed
Toyota Surf	2,468	198	2,270	2,194	Buy back	Ahmed Yousf
Toyota Corolla XLI	933	50	883	859	Buy back	Syed Imran Nawaz
Mehran VX CNG	383	5	378	370	Buy back	Sami Ur Rehman

Disposals of operating fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	------(Rupees in '000)-----					
Toyota Land Cruiser Prado	2,818	306	2,512	2,412	Buy back	Javeed Iqbal
Ravi Petrol	327	43	284	255	Buy back	Kamran Zaheer
Honda City IDS-I M/T	643	89	554	519	Buy back	Abdul Hafeez Siddiqui
Hoda City IDS-I M/T	871	75	796	748	Buy back	Muhammad Rashid Ghani
Honda City IDS-I M/T	864	172	692	651	Buy back	Ms. Hina Muzaffar
Chevrolet JOY CNG	570	40	529	672	Buy back	Rahat Ali
Suzuki Cultus VXR CNG	660	50	610	582	Buy back	Kamran Ahmed Bhatti
Honda Civic VTI Oriel MT	1,545	73	1,472	1,537	Insurance claimed	Pak Kuwait Takaful
Daihatsu Cuore CX ECO	512	16	496	518	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VXR CNG	408	34	374	403	Insurance claimed	Takaful Pakistan Ltd
Daihatsu Cuore CX ECO	512	17	495	520	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VXR CNG	408	23	385	410	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VX CNG	368	11	357	384	Insurance claimed	Takaful Pakistan Ltd
Daihatsu Cuore CX A/T	502	15	487	523	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VXR CNG	418	12	406	462	Insurance claimed	Takaful Pakistan Ltd
Suzuki Ravi	338	27	310	340	Insurance claimed	Takaful Pakistan Ltd
Suzuki Alto VXR CNG	647	74	573	622	Insurance claimed	Takaful Pakistan Ltd
Daihatsu Cuore CX ECO	510	14	496	513	Insurance claimed	Pak Kuwait Takaful
Daihatsu Cuore CX ECO	510	16	494	499	Insurance claimed	Pak Kuwait Takaful
Ravi CNG	385	16	369	378	Insurance claimed	Pak Kuwait Takaful
Mehran VX CNG	385	11	374	387	Insurance claimed	Pak Kuwait Takaful
Daihatsu Cuore CX ECO	520	15	505	510	Insurance claimed	Pak Kuwait Takaful
Suzuki Ravi CNG	385	23	362	364	Insurance claimed	Pak Kuwait Takaful
Suzuki Bolan/ 800	443	34	409	433	Insurance claimed	Takaful Pakistan Ltd
Daihatsu Cuore CX ECO	510	36	474	478	Insurance claimed	Takaful Pakistan Ltd
Mehran VX CNG	400	19	381	383	Insurance claimed	Pak Kuwait Takaful
Suzuki Mehran VX	345	12	333	350	Insurance claimed	Pak Kuwait Takaful
Honda City Vario CVT	952	112	840	776	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VX	378	11	367	359	Insurance claimed	Pak Kuwait Takaful
Daihatsu Cuore CX	478	73	405	368	Insurance claimed	Takaful Pakistan Ltd
Suzuki Mehran VX CNG	384	66	318	273	Insurance claimed	Pak Kuwait Takaful
Suzuki Bolan STD CNG	431	73	357	327	Insurance claimed	Pak Kuwait Takaful
Honda City IDS-I M/T	872	73	798	896	Insurance claimed	Takaful Pakistan Ltd
Corolla Altis A/T	1,460	21	1,439	1,337	Insurance claimed	Pak Kuwait Takaful
Suzuki Mehran VXR CNG	464	-	464	488	Insurance claimed	Takaful Pakistan Ltd
Ravi CNG	385	18	367	205	Insurance claimed	Pak Kuwait Takaful
Cuore CX ECO	532	31	501	336	Insurance claimed	Pak Kuwait Takaful
Daihatsu Cuore CX ECO	512	28	484	457	Insurance claimed	Takaful Pakistan Ltd
	26,700	-			Buy back	Fazli-E-Rabi Services (Pvt) Ltd.
	71,294	4,027	40,566	39,358		
Total	249,155	126,304	96,150	107,620		

Guidelines for mapping of Business Lines**Segment Reporting**

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

Business segments**(a) Corporate finance**

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

(b) Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

(c) Retail Banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

(d) Commercial banking

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