

United Bank Limited

UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

**FOR THE HALF YEAR ENDED JUNE 30, 2011
(UNAUDITED)**



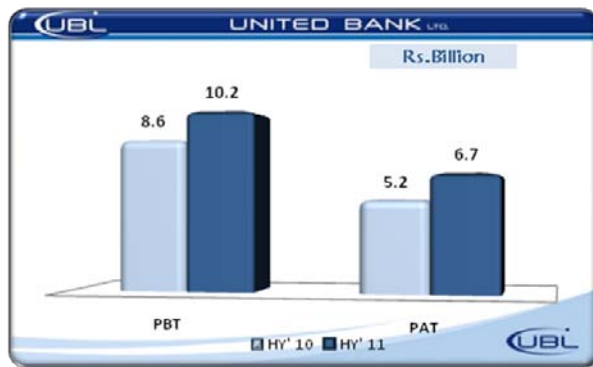
DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present to you the financial statements of UBL for the half year ended June 30, 2011.

Performance Highlights

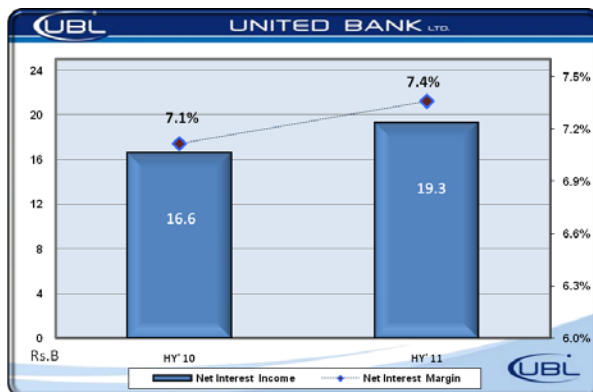
- Unconsolidated PAT for the half year ended 30 June 2011 was Rs 6.7 billion, reflecting a growth of 29% over the same period last year.
- Net Interest Margin remained strong and improved to 7.4% (June 2010: 7.1%).
- The cost/income ratio improved to 38.6% (June 2010: 39.9%)

Strong and consistent financial performance



UBL achieved a profit after tax of Rs 6.7 billion which is 29% higher than the corresponding period last year and translates into earnings per share of Rs. 5.48 (June 2010: Rs. 4.25).

UBL has achieved a profit before tax of Rs 10.2 billion. This is 19% higher than the same period last year as a result of continued improvement in operating efficiency, revenues and margins. On a consolidated basis, UBL achieved a profit after tax of Rs 6.4 billion, an increase of 25% over the first half of 2010.



Continued revenue growth

Net interest income before provisions increased to Rs 19.3 billion, 16% higher than the same six month period last year, driven largely by balance sheet growth of 7%. Spreads also improved as the yield on earning assets increased by 60 bps compared to the first six months of last year. This was sufficient to offset an increase of 36 bps in the cost of funds. As a result, net interest margin increased from 7.1% in 1H 2010 to 7.4% in 1H 2011. Provisions for the half year increased by Rs 0.9 billion compared to 1H 2010; however, this was mainly due to the downgrading of already classified accounts and has resulted in a strong improvement in the bank's coverage ratio from

72% in December 2010 to 76% in June 2011. Nonetheless, this was more than offset by margin improvements as a result of which, net interest income after provisions increased by 15% to Rs 14.4 billion.

Non-interest income increased to Rs 5.9 billion (1H 2010: Rs 4.7 billion), a significant rise of 25% over last year. This was driven by an increase in core banking fees and commissions to Rs 3.3 billion and a substantial rise in income from derivatives as a result of timely anticipation of rate movements. FX income also improved by 55% over last year mainly due to an increase in trade volumes and better leveraging of market opportunities.

Cost management

Administrative expenses increased by 6.9% compared to the prior quarter. This is due to the significant inflationary pressures, escalating utilities costs and the Bank's significant investments in business enhancement activities including network expansion. More importantly, the cost/income ratio improved compared to the prior quarter and the prior year.

Balance Sheet

Total assets have grown by 7.0% over December 2010 and this has been largely driven by a 7.7% increase in total deposits. The Bank's domestic low cost deposit mix improved from 68% in December 2010 to 69% in June 2011 whilst the Bank's domestic CASA has been maintained at 78%. Gross advances have remained flat to December 2010 levels due to the cautious stance adopted by the bank.

The return on average assets has also improved from 1.7% for the year 2010 to 1.9% for 1H 2011. Return on equity also improved from 19.8% for the full year 2010 to 22.1% for the first six months of 2011.

Improved Capital Ratios

The capital adequacy ratio (CAR) of the bank improved to 14.6% in June 2011 (June 2010: 13.7%). The Tier-1 CAR of the bank has also improved from 9.4% in June 2010 to 10.6% in June 2011 reflecting the growing strength of the bank and its franchise.

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

Key Developments**Macroeconomic performance**

The macroeconomic landscape in Pakistan continues to remain stressed. While upward pressure on inflation is expected to be somewhat contained by the decline in international oil prices and the recent budgetary measures, absolute inflation remains high – June'11 YoY inflation was 13.9% compared to 11.7% for the corresponding period last year. The future trajectory will depend on the ability of the GoP to raise additional tax revenues and contain the fiscal deficit.

SBP has been following a conservative monetary policy stance in its efforts to control inflation levels and government borrowing. Consequently, the discount rate has remained unchanged at 14% in 2011. While interest rates appear to have peaked, their direction going forward will be determined by the GoP's success in containing the fiscal deficit, inflation and borrowings from the SBP.

The external account continues to remain a key positive with the current account for FY11 posting a surplus of USD 0.5 billion after 7 years. This was achieved through an encouraging increase in exports which grew by 29% to USD 25.5 billion, all time high remittances of USD 11.2 billion (up 26%) and Coalition Support Fund inflows. The performance on the external account front has added much needed stability to the country's foreign exchange reserves and the exchange rate.

The prevailing power and gas shortages, high interest rates and inflation levels continue to hamper the recovery process in the Large Scale Manufacturing sector which has only grown marginally. The stock market, after rallying strongly in Q4'10, continues to show mixed trends in 2011 despite trading at relatively low valuations compared to regional peers.

With the continuous slowdown in economic activity across the country, the banking sector remains cautious in its outlook, as evidenced by advances remaining flat to Dec'10 levels despite a growth of 9.3% in deposits. NPLs in the banking sector grew by 3.9% to Rs 574 billion in Q1 2011. Although NPL formation has slowed down, significant risks remain within the system which could further exacerbate asset quality and profitability of the sector.

Consistent International Growth

The GCC economies continue to generate substantial surpluses due to higher than expected oil prices. This is likely to positively impact GDP growth and generate greater momentum in infrastructure and development projects. Qatar's buoyant economy remains poised to benefit from hosting the 2022 FIFA World Cup which will need a substantial investment in the country, and open opportunities for the Bank in its traditionally strong areas of trade and contractor financing. In UAE, the investment grade rating given to DEWA and the new more relaxed visa laws for property owners in Dubai is expected to strengthen investor confidence.

Focus on liquidity management has yielded substantial reduction in cost of deposits across all presence countries, whilst maintaining adequate liquidity levels. The asset quality of the Corporate Portfolio remained robust and provisions in this area were mainly as a result of previously classified loans. The Financial Institutions business deepened its presence through penetration into newer markets and enhancing its product range. Keeping in view the improving macroeconomic situation, the Bank is reviewing revival of its unsecured retail lending, which will augment profitability. The launch of Bancassurance in the UAE will provide a new avenue for fee income and increase UBL's market visibility.

Looking ahead, the International business is strategically positioned for organic balance sheet growth in the existing footprint. In-principle approval has been obtained from SBP for opening a subsidiary in Tanzania and other network expansion opportunities are being explored in appropriate markets.

Omni

UBL Omni continues to make significant headway in enhancing the reach and usage of Branchless Banking services in Pakistan. Omni now has over 4,500 Dukaan outlets in over 500 cities and towns across Pakistan. Usage of the platform continues to increase rapidly as transactions, both in size and number increased substantially over the prior quarter. Recent regulatory changes by the SBP, simplifying the account opening process and allowing "remunerative" accounts will make this a more attractive proposition for customers and further accelerate uptake.

UBL Omni has also signed an MOU with VoiceTrust Holdings a global innovator in Voice Biometric Security (VBS) and mobile prepaid programs, which is expected to add new features to the Omni umbrella. With the Gates Foundation grant, UBL Omni has also undertaken a comprehensive market research to refine its target market, glean consumer insights and devise retail product offerings specifically tailored to the financial needs of unbanked consumers.

Project Genesis (new core banking software implementation)

Another 38 branches in Karachi, Islamabad and Lahore were migrated to the new core banking system (CBS) during the quarter ended 30 June 2011 taking the total number of branches on CBS to 63, including the corporate branches in Islamabad and Lahore. The auto loans portfolio was also migrated to CBS during this quarter completing the migration of the consumer term loan portfolio to CBS. In addition to the branch migrations, the credit cards loan origination module (LO) also went live across the country in Q2 2011 bringing the origination of all consumer products on one unified platform.

Corporate Social Responsibility

In Q2 2011, UBL made a further contribution of Rs 20 million to the Karachi Education Initiative (KEI), a not-for-profit, sponsoring and fund raising entity of the Karachi School for Business & Leadership (KSB&L). The Bank continued to support various other initiatives in health and education as a demonstration of its commitment to being a responsible corporate citizen.

Credit Rating re-affirmed

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

been assigned a Stable outlook.

Looking ahead

The macroeconomic outlook is dependent on the ability of GoP to improve revenue collection and control inflation, energy shortages and the law and order situation across the country. However, lower international oil prices should ease the pressure on inflation and the balance of payments. UBL's focus will be on growing its balance sheet, expanding its network and strengthening the capital base whilst closely monitoring asset quality. The Bank will continue to invest in brand building activities and in technology, especially in the area of non-traditional banking channels, to implement cost effective and innovative customer solutions.

Acknowledgements

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

For and on behalf of the Board,

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

London
July 28, 2011

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

	Note	(Un-audited) June 30, 2011	(Audited) December 31, 2010
------(Rupees in '000)-----			
ASSETS			
Cash and balances with treasury banks		68,629,253	67,461,668
Balances with other banks		11,638,777	18,192,142
Lendings to financial institutions	6	13,581,125	12,384,778
Investments	7	269,717,797	224,578,556
Advances	8	333,605,193	333,732,172
Operating fixed assets	9	22,693,426	22,424,072
Deferred tax asset - net		1,244,893	1,298,403
Other assets		26,132,486	18,713,188
		747,242,950	698,784,979
LIABILITIES			
Bills payable		7,367,163	5,045,815
Borrowings	10	46,077,010	45,104,849
Deposits and other accounts	11	593,543,390	550,645,767
Sub-ordinated loans		11,983,720	11,985,748
Other liabilities		17,305,679	17,587,735
		676,276,962	630,369,914
NET ASSETS		70,965,988	68,415,065
REPRESENTED BY			
Share capital	12	12,241,798	12,241,798
Reserves		22,513,612	21,688,637
Unappropriated profit		27,514,910	26,250,489
		62,270,320	60,180,924
Surplus on revaluation of assets - net of deferred tax	13	8,695,668	8,234,141
		70,965,988	68,415,065
CONTINGENCIES AND COMMITMENTS			
	14		

The annexed notes from 1 to 23 form an integral part of these unconsolidated condensed interim financial statements.

Atif R. Bokhari
President &
Chief Executive Officer

Muhammad Sami Saeed
Director

Omar Z. Al Askari
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

**UNCONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	Note	Apr-Jun 2011	Apr-Jun 2010	Jan-Jun 2011	Jan-Jun 2010
------(Rupees in '000)-----					
Mark-up / return / interest earned	15	17,349,835	14,285,230	34,058,409	28,480,265
Mark-up / return / interest expensed	16	(7,194,384)	(5,921,469)	(14,746,784)	(11,876,684)
Net mark-up / return / interest income		10,155,451	8,363,761	19,311,625	16,603,581
Provision against loans and advances - net		(2,188,065)	(1,658,279)	(4,392,844)	(3,393,401)
Provision against lendings to financial institutions		(91,354)	-	(91,354)	-
Provision for diminution in value of investments - net		(203,883)	(70,202)	(205,515)	(64,469)
Bad debts written off directly		(100,291)	(249,200)	(233,116)	(635,909)
Net mark-up / return / interest income after provisions		7,571,858	6,386,080	14,388,796	12,509,802
Non mark-up / return / interest income					
Fee, commission and brokerage income		1,680,691	1,634,739	3,279,993	3,107,754
Dividend income		220,816	140,002	321,993	277,627
Income from dealing in foreign currencies		326,246	330,672	1,075,569	692,034
Gain on sale of securities		7,916	54,258	195,906	140,331
Unrealised loss on revaluation of investments classified as held for trading		(43,402)	(14,487)	(51,369)	(22,388)
Other income		680,000	221,850	1,076,498	532,960
Total non mark-up / return / interest income		2,872,267	2,367,034	5,898,590	4,728,318
		10,444,125	8,753,114	20,287,386	17,238,120
Non mark-up / interest expenses					
Administrative expenses	17	(5,034,042)	(4,392,500)	(9,742,078)	(8,515,740)
Other provisions / write offs / reversals - net		7,503	124,884	13,704	116,557
Workers' welfare fund		(116,036)	(89,459)	(218,709)	(178,367)
Other charges		(84,245)	(90,943)	(110,961)	(95,061)
Total non mark-up / interest expenses		(5,226,820)	(4,448,018)	(10,058,044)	(8,672,611)
Profit before taxation		5,217,305	4,305,096	10,229,342	8,565,509
Taxation	18				
- Current		(2,007,630)	(1,556,754)	(3,815,047)	(3,098,464)
- Prior		(9)	(394,488)	7,529	(394,750)
- Deferred		222,243	63,337	282,717	128,417
		(1,785,396)	(1,887,905)	(3,524,801)	(3,364,797)
Profit after taxation		3,431,909	2,417,191	6,704,541	5,200,712
------(Rupees)-----					
Basic and diluted earnings per share		<u>2.80</u>	<u>1.97</u>	<u>5.48</u>	<u>4.25</u>

The annexed notes from 1 to 23 form an integral part of these unconsolidated condensed interim financial statements.

Atif R. Bokhari
President &
Chief Executive Officer

Muhammad Sami Saeed
Director

Omar Z. Al Askari
Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman



**UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	Apr- Jun 2011	Apr-Jun 2010	Jan-Jun 2011	Jan-Jun 2010
------(Rupees in '000)-----				
Profit after taxation	3,431,909	2,417,191	6,704,541	5,200,712
Other comprehensive income:				
Exchange differences on translation of net investment in foreign branches	215,140	422,438	118,681	170,074
Gain on cash flow hedges	24,109	34,004	55,138	52,303
Related deferred tax liability on cash flow hedges	(8,438)	(11,901)	(19,298)	(18,306)
	15,671	22,103	35,840	33,997
Comprehensive income transferred to equity - net of tax	<u>230,811</u>	<u>444,541</u>	<u>154,521</u>	<u>204,071</u>
	<u>3,662,720</u>	<u>2,861,732</u>	<u>6,859,062</u>	<u>5,404,783</u>

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

The annexed notes from 1 to 23 form an integral part of these unconsolidated condensed interim financial statements.

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President and
Chief Executive Officer

Muhammad Sami Saeed
Director

Omar Z. Al Askari
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

**UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	June 30, 2011	June 30, 2010
	----- (Rupees in '000) -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	10,229,342	8,565,509
Less: dividend income	(321,993)	(277,627)
	<u>9,907,349</u>	<u>8,287,882</u>
Adjustments:		
Depreciation	898,110	867,509
Workers' welfare fund	218,709	178,367
Provision / (reversal) for retirement benefits and compensated absences	135,617	(4,126)
Provision against loans and advances	4,392,844	3,393,401
Provision against lendings to financial institutions	91,354	-
Provision for diminution in value of investments	205,515	64,469
Gain on sale of fixed assets	(11,304)	(4,203)
Reversal of provision against other assets	(13,704)	(116,883)
Amortization of cash flow hedge reserve	55,138	52,303
Unrealized loss on revaluation of investments classified as held for trading	51,369	22,388
Bad debts written-off	233,116	635,909
	<u>6,256,764</u>	<u>5,089,134</u>
	16,164,113	13,377,016
(Increase) / decrease in operating assets		
Lendings to financial institutions	(1,287,701)	10,663,612
Held for trading investments	(3,983,148)	(13,724,164)
Advances	(4,498,981)	6,722,433
Other assets - (excluding advance taxation)	(1,021,396)	279,685
	(10,791,226)	3,941,566
Increase / (decrease) in operating liabilities		
Bills payable	2,321,348	(1,045,602)
Borrowings	972,161	12,377,354
Deposits and other accounts	42,897,623	7,855,620
Other liabilities	(285,789)	3,407,754
	<u>45,905,343</u>	<u>22,595,126</u>
	51,278,230	39,913,708
(Payment to) / Receipt from staff retirement benefit funds	(296,654)	19,919
Income tax paid	(10,151,615)	(5,857,912)
Net cash inflow from operating activities	<u>40,829,961</u>	<u>34,075,715</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in securities	(40,507,498)	(19,371,666)
Dividend income received	225,223	273,862
Investment in operating fixed assets	(1,225,080)	(1,132,782)
Sale proceeds from disposal of operating fixed assets	71,680	51,307
Net cash outflow from investing activities	<u>(41,435,675)</u>	<u>(20,179,279)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of principal of sub-ordinated loans	(2,028)	(2,024)
Dividend paid	(4,896,719)	(2,782,227)
Net cash outflow from financing activities	<u>(4,898,747)</u>	<u>(2,784,251)</u>
	(5,504,461)	11,112,185
Exchange difference on translation of net investment in foreign branches	118,681	170,074
(Decrease) / Increase in cash and cash equivalents during the period	<u>(5,385,780)</u>	<u>11,282,259</u>
Cash and cash equivalents at beginning of the period	<u>85,653,810</u>	<u>66,568,148</u>
Cash and cash equivalents at end of the period	<u><u>80,268,030</u></u>	<u><u>77,850,407</u></u>

The annexed notes from 1 to 23 form an integral part of these unconsolidated condensed interim financial statements.

**UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	Capital Reserves			Cash flow hedge reserve	Unappropriated Profit	Total	
	Share Capital	Statutory Reserve	Exchange Translation Reserve				Reserve for Issue of Bonus Shares
(Rupees in '000)							
Balance as at January 1, 2010 (Audited)	11,128,907	12,214,912	6,951,040	-	(206,415)	22,187,802	52,276,246
Final cash dividend for the year ended December 31, 2009 declared subsequent to year end at Rs. 2.5 per share	-	-	-	-	-	(2,782,227)	(2,782,227)
Transfer to reserve for issue of bonus shares	-	-	-	1,112,891	-	(1,112,891)	-
Issue of bonus shares	1,112,891	-	-	(1,112,891)	-	-	-
Changes in equity during the half year ended June 30, 2010							
Profit after taxation for the half year ended June 30, 2010	-	-	-	-	-	5,200,712	5,200,712
Other comprehensive income - net of tax	-	-	170,074	-	33,997	-	204,071
Total comprehensive income	-	-	170,074	-	33,997	5,200,712	5,404,783
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	126,549	126,549
Transfer to statutory reserve	-	1,040,142	-	-	-	(1,040,142)	-
Balance as at June 30, 2010 (Un-audited)	12,241,798	13,255,054	7,121,114	-	(172,418)	22,579,803	55,025,351
Interim cash dividend for the half year ended June 30, 2010 declared at Re 1 per share	-	-	-	-	-	(1,224,180)	(1,224,180)
Changes in equity during the half year ended December 31, 2010							
Profit after taxation for the half year ended December 31, 2010	-	-	-	-	-	5,959,218	5,959,218
Other comprehensive income - net of tax	-	-	249,777	-	43,266	-	293,043
Total comprehensive income	-	-	249,777	-	43,266	5,959,218	6,252,261
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	127,492	127,492
Transfer to statutory reserve	-	1,191,844	-	-	-	(1,191,844)	-
Balance as at December 31, 2010 (Audited)	12,241,798	14,446,898	7,370,891	-	(129,152)	26,250,489	60,180,924
Final cash dividend for the year ended December 31, 2010 declared subsequent to year end at Rs. 4.0 per share	-	-	-	-	-	(4,896,719)	(4,896,719)
Changes in equity during half year ended June 30, 2011							
Profit after taxation for the half year ended June 30, 2011	-	-	-	-	-	6,704,541	6,704,541
Other comprehensive income - net of tax	-	-	118,681	-	35,840	-	154,521
Total comprehensive income	-	-	118,681	-	35,840	6,704,541	6,859,062
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	127,053	127,053
Transfer to statutory reserve	-	670,454	-	-	-	(670,454)	-
Balance as at June 30, 2011 (Un-audited)	12,241,798	15,117,352	7,489,572	-	(93,312)	27,514,910	62,270,320

The annexed notes from 1 to 23 form an integral part of these unconsolidated condensed interim financial statements.

Atif R. Bokhari
President &
Chief Executive Officer

Muhammad Sami Saeed
Director

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Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011****1. STATUS AND NATURE OF BUSINESS**

United Bank Limited ("the Bank") is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's registered office and principal office are situated at UBL building, Jinnah Avenue, Blue Area, Islamabad and at State Life Building No.1, I. I. Chundrigar Road, Karachi respectively. The Bank operates 1,128 (December 31, 2010: 1,123) branches inside Pakistan including 7 (December 31, 2010: 6) Islamic Banking branches and 1 (December 31, 2010: 1) branch in Karachi Export Processing Zone. The Bank also operates 17 (December 31, 2010: 17) branches outside Pakistan as at June 30, 2011.

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

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan ("SBP") has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated condensed interim financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon. 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 included in these unconsolidated condensed interim financial statements for reporting purposes, after eliminating intra branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in note 21 to these unconsolidated condensed interim financial statements.

3. STATEMENT OF COMPLIANCE

- 3.1 These unconsolidated condensed interim financial statements of the Bank have been prepared in accordance with the requirements of International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. In case requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.
- 3.2 The SBP vide BSD Circular Letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Further, according to the notification of the SECP issued vide SRO 411(I)/2008 dated April 28, 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable to banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.
- 3.3 The disclosures made in these unconsolidated condensed interim financial statements have been limited based on a format prescribed by the SBP vide BSD Circular Letter No. 2 dated May 12, 2004 and International Accounting Standard 34, Interim Financial Reporting. They do not include all the disclosures required for annual financial statements, and these unconsolidated condensed interim financial statements should be read in conjunction with the unconsolidated annual financial statements of the Bank for the year ended December 31, 2010.
- 3.4 On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ("the Scheme") for employees of certain State Owned Enterprises (SOEs) and non-SOEs.

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

Had the exemption not been granted, the staff costs of the Bank for the period would have been higher by Rs. 275 million (June 30, 2010: 275 million), profit before taxation would have been lower by Rs. 275 million (June 30, 2010: 275 million), unappropriated profit would have been lower by Rs. 1,031 million (June 30, 2010: 481 million) and reserves would have been higher by Rs. 1,031 million (June 30, 2010: 481 million), hence, there would have been no impact on net equity. Further, earnings per share would have been lower by Rs. 0.22 per share (June 30, 2010: Rs 0.22).

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

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

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

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

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

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

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

Adoption of the above standards, amendments and interpretations did not have any material effect on the financial statements.

4.4 Improvements to IFRSs

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

5. BASIS OF MEASUREMENT

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

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

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

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

6. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	30,000	450,000
Repurchase agreement lendings	50,000	4,431,877
Other lendings to financial institutions	13,592,479	7,502,901
	<u>13,672,479</u>	<u>12,384,778</u>
Provisions against lendings to financial institutions	(91,354)	-
	<u>13,581,125</u>	<u>12,384,778</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**
7. INVESTMENTS

	(Un-audited) June 30, 2011			(Audited) December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
7.1. Investments by types	(Rupees in '000)					
7.1.1 Held-for-trading securities						
Market Treasury Bills	18,843,023	593,234	19,436,257	12,984,400	1,189,144	14,173,544
Pakistan Investment Bonds	447,598	-	447,598	805,257	-	805,257
Ordinary shares of listed companies	346,062	-	346,062	8,928	-	8,928
Foreign securities	-	-	-	1,297,405	-	1,297,405
	19,636,683	593,234	20,229,917	15,095,990	1,189,144	16,285,134
7.1.2 Available-for-sale securities						
Market Treasury Bills	73,120,940	27,595,468	100,716,408	39,519,598	20,695,498	60,215,096
Pakistan Investment Bonds	20,898,767	48,353	20,947,120	18,988,194	536,428	19,524,622
Government of Pakistan - Sukuk	4,619,500	-	4,619,500	4,122,000	-	4,122,000
Government of Pakistan Eurobonds	6,184,241	-	6,184,241	3,938,516	-	3,938,516
Ordinary shares of listed companies	3,862,997	-	3,862,997	3,629,299	-	3,629,299
Preference shares	465,024	-	465,024	463,977	-	463,977
Ordinary shares of unlisted companies	445,389	-	445,389	445,382	-	445,382
Term Finance Certificates	2,155,770	-	2,155,770	2,163,810	-	2,163,810
Units of mutual funds	164,662	-	164,662	164,662	-	164,662
Foreign securities	15,405,233	-	15,405,233	14,878,099	-	14,878,099
	127,322,523	27,643,821	154,966,344	88,313,537	21,231,926	109,545,463
7.1.3 Held-to-maturity securities						
Market Treasury Bills	49,710,557	-	49,710,557	58,843,648	-	58,843,648
Pakistan Investment Bonds	7,858,865	-	7,858,865	4,392,225	-	4,392,225
Government of Pakistan - Sukuk	330,000	-	330,000	30,000	-	30,000
Government of Pakistan - Guaranteed Bonds	51,310	-	51,310	51,399	-	51,399
Term Finance Certificates	27,067,865	-	27,067,865	27,106,749	-	27,106,749
Sukuk Bonds	2,379,847	-	2,379,847	2,548,739	-	2,548,739
Participation Term Certificates	16,637	-	16,637	19,202	-	19,202
Debentures	4,392	-	4,392	4,392	-	4,392
Foreign securities	2,188,091	-	2,188,091	2,184,264	-	2,184,264
Commercial paper	27,740	-	27,740	-	-	-
CDC SAARC Fund	430	-	430	428	-	428
	89,635,734	-	89,635,734	95,181,046	-	95,181,046
7.1.4 Associates						
United Growth and Income Fund	3,030,136	-	3,030,136	3,030,136	-	3,030,136
UBL Liquidity Plus Fund	2,100,000	-	2,100,000	2,600,000	-	2,600,000
United Composite Islamic Fund	250,000	-	250,000	250,000	-	250,000
United Islamic Income Fund	200,000	-	200,000	200,000	-	200,000
United Stock Advantage Fund	250,000	-	250,000	250,000	-	250,000
UBL Participation Protected Plan	200,000	-	200,000	200,000	-	200,000
UBL Capital Protected Fund - II	100,000	-	100,000	100,000	-	100,000
UBL Savings Income Fund	600,000	-	600,000	100,000	-	100,000
UBL Islamic Savings Fund	600,000	-	600,000	150,000	-	150,000
UBL Islamic Retirement Savings Fund	90,000	-	90,000	90,000	-	90,000
UBL Retirement Savings Fund	90,000	-	90,000	90,000	-	90,000
UBL Capital Protected Fund - I	-	-	-	75,075	-	75,075
UBL Insurers Limited	240,000	-	240,000	240,000	-	240,000
Oman United Exchange Company, Muscat	6,981	-	6,981	6,981	-	6,981
	7,757,117	-	7,757,117	7,382,192	-	7,382,192
7.1.5 Subsidiaries						
United National Bank Limited, UK	1,482,011	-	1,482,011	1,482,011	-	1,482,011
United Bank AG Zurich, Switzerland	589,837	-	589,837	589,837	-	589,837
UBL Fund Managers Limited	100,000	-	100,000	100,000	-	100,000
United Executors and Trustees Company Ltd	30,100	-	30,100	30,100	-	30,100
	2,201,948	-	2,201,948	2,201,948	-	2,201,948
	246,554,005	28,237,055	274,791,060	208,174,713	22,421,070	230,595,783
Provision for diminution in the value of investments	(2,606,511)	-	(2,606,511)	(2,658,000)	-	(2,658,000)
Investments (net of provisions)	243,947,494	28,237,055	272,184,549	205,516,713	22,421,070	227,937,783
Deficit on revaluation of available-for-sale securities	(2,411,729)	(3,654)	(2,415,383)	(3,309,144)	(11,718)	(3,320,862)
Deficit on revaluation of held-for-trading investments	(51,187)	(182)	(51,369)	(38,201)	(164)	(38,365)
Total Investments	241,484,578	28,233,219	269,717,797	202,169,368	22,409,188	224,578,556

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

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	Note	(Un-audited) June 30, 2011	(Audited) December 31, 2010
----- (Rupees in '000) -----			
8. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		267,037,893	268,760,548
Outside Pakistan		<u>78,206,650</u>	<u>80,428,953</u>
		345,244,543	349,189,501
Bills discounted and purchased			
Payable in Pakistan		20,031,732	14,665,532
Payable outside Pakistan		<u>7,479,421</u>	<u>4,836,907</u>
		27,511,153	19,502,439
	8.1	<u>372,755,696</u>	<u>368,691,940</u>
Provision against advances			
- Specific	8.2	(38,221,742)	(33,534,272)
- General	8.3	<u>(928,761)</u>	<u>(1,425,496)</u>
		<u>333,605,193</u>	<u>333,732,172</u>

8.1 Advances include Rs. 51,698 million (December 31, 2010: Rs.48,593 million) which have been placed under non-performing status.

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

	June 30, 2011 (Un-audited)				
	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in '000) -----					
Other Assets Especially Mentioned*	347,911	-	347,911	-	-
Substandard	5,025,790	40,045	5,065,835	950,596	950,596
Doubtful	5,553,624	4,411,395	9,965,019	5,001,551	5,001,551
Loss	<u>34,898,640</u>	<u>1,420,883</u>	<u>36,319,523</u>	<u>32,269,595</u>	<u>32,269,595</u>
	45,825,965	5,872,323	51,698,288	38,221,742	38,221,742
----- (Rupees in '000) -----					
Category of Classification	December 31, 2010 (Audited)				
	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in '000) -----					
Other Assets Especially Mentioned*	336,651	-	336,651	-	-
Substandard	6,320,318	1,037,361	7,357,679	1,673,379	1,673,379
Doubtful	5,716,839	3,005,088	8,721,927	3,032,943	3,032,943
Loss	<u>30,587,904</u>	<u>1,588,399</u>	<u>32,176,303</u>	<u>28,827,950</u>	<u>28,827,950</u>
	42,961,712	5,630,848	48,592,560	33,534,272	33,534,272

* The other assets especially mentioned category pertains to agricultural finance

8.3 General provision represents provision amounting to Rs 327.693 million (December 31, 2010: Rs.375.327 million) against consumer finance portfolio as required by the Prudential Regulations issued by the SBP and Rs. 509.488 million (December 31, 2010: Rs.415.169 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries in which the overseas branches operate. General provisions also include an amount of Rs. 91.580 million (December 31, 2010: 635.000 million) which the Bank carries based on management estimates.

8.4 Consistent with prior years, the Bank has availed the benefit of Forced Sale Value (FSV) of pledged stocks, mortgaged residential and commercial properties (land and building only) held as collateral against non-performing advances as allowed under BSD Circular 2 of 2009. Had the benefit under the said circular not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 3,271 million (December 31, 2010: Rs. 3,068 million). The FSV benefit recognized will not be available for the distribution of cash and stock dividend to shareholders.

	Note	(Un-audited) June 30, 2011	(Audited) December 31, 2010
----- (Rupees in '000) -----			
9. OPERATING FIXED ASSETS			
Capital work-in-progress		1,709,981	1,334,951
Property and equipment		20,139,900	20,166,071
Intangible assets		843,545	923,050
	9.1	<u>22,693,426</u>	<u>22,424,072</u>

9.1 Additions and disposals during the period amounted to Rs. 1,225.080 million (June 30, 2010:Rs. 1,132.782 million) and Rs. 312.615 million (June 30, 2010:Rs. 96.150 million), respectively.

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	(Un-audited) June 30, 2011	(Audited) December 31, 2010
Note	----- (Rupees in '000) -----	
10. BORROWINGS		
Secured		
Borrowings from the State Bank of Pakistan		
- Export refinance scheme	11,260,535	14,840,163
- Refinance facility for modernization of SME	23,329	27,500
- Long term fixed finance	3,244,230	2,770,789
- Long term finance under export oriented projects	1,907,714	2,444,872
	<u>16,435,808</u>	<u>20,083,324</u>
Repurchase agreement borrowings	28,184,607	22,412,235
	<u>44,620,415</u>	<u>42,495,559</u>
Unsecured		
Call borrowings	645,024	428,195
Overdrawn nostro accounts	74,726	456,617
Trading liabilities	-	806,942
Other borrowings	736,845	917,536
	<u>1,456,595</u>	<u>2,609,290</u>
	<u>46,077,010</u>	<u>45,104,849</u>
11. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	165,386,381	161,587,884
Savings deposits	201,799,277	187,047,804
Sundry deposits	8,339,885	4,767,873
Margin deposits	3,930,483	3,696,330
Current accounts - remunerative	3,936,753	3,412,476
Current accounts - non-remunerative	198,206,853	175,589,304
	<u>581,599,632</u>	<u>536,101,671</u>
Financial Institutions		
Remunerative deposits	6,990,107	9,292,255
Non-remunerative deposits	4,953,651	5,251,841
	<u>11,943,758</u>	<u>14,544,096</u>
	<u>593,543,390</u>	<u>550,645,767</u>
12. SHARE CAPITAL		
Issued, subscribed and paid-up capital		
Fully paid-up ordinary shares of Rs.10 each		
	June 2011	Dec 2010
	(Number of shares)	
	518,000,000	518,000,000
	706,179,687	706,179,687
	<u>1,224,179,687</u>	<u>1,224,179,687</u>
	Fully paid-up ordinary shares of Rs.10 each	
	5,180,000	5,180,000
	7,061,798	7,061,798
	<u>12,241,798</u>	<u>12,241,798</u>
12.1	As disclosed in note 20.4 of the audited financial statements for the year ended 31 December 2010, the Abu Dhabi Group (ADG) and Bestway (Holdings) Limited had entered into a Share Purchase Agreement dated 28 December 2010 for inter se transfer of 20% of the issued and outstanding ordinary shares of the Bank held by ADG to Bestway (Holdings) Limited. The inter se transfer of these shares took place on 26 January 2011.	
13. SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX		
Surplus arising on revaluation of assets - net of tax:		
Fixed assets	13.1 10,265,668	10,392,701
Securities	13.2 (1,570,000)	(2,158,560)
	<u>8,695,668</u>	<u>8,234,141</u>
13.1 Surplus on revaluation of fixed assets		
Surplus on revaluation of fixed assets at January 01	15,534,899	15,916,898
Revaluation of fixed assets during the period / year	-	8,788
Exchange adjustments	31	48
Transferred to unappropriated profit in respect of incremental depreciation charged during the period / year	(127,053)	(254,041)
Related deferred tax charge on incremental depreciation during the period / year	(68,413)	(136,794)
	<u>(195,435)</u>	<u>(381,999)</u>
	15,339,464	15,534,899
Less: related deferred tax liability on:		
Revaluation as on January 01	5,142,198	5,275,900
Revaluation of fixed assets during the period / year	-	3,075
Exchange adjustments	11	17
Incremental depreciation charged on related assets	(68,413)	(136,794)
	<u>5,073,796</u>	<u>5,142,198</u>
	<u>10,265,668</u>	<u>10,392,701</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	(Un-audited) June 30, 2011 ------(Rupees in '000)-----	(Audited) December 31, 2010
13.2 Deficit on revaluation on available-for-sale securities		
Market Treasury Bills	9,303	(55,830)
Pakistan Investment Bonds	(1,670,333)	(1,937,605)
Listed shares	(87,611)	(34,452)
Mutual fund units	(1,504)	(709)
Term Finance Certificates, Sukuk, other Bonds, etc.	(2,734)	(27,242)
Overseas securities	(662,505)	(1,265,024)
	(2,415,384)	(3,320,862)
Related deferred tax asset	845,384	1,162,302
	<u>(1,570,000)</u>	<u>(2,158,560)</u>
14. CONTINGENCIES AND COMMITMENTS		
14.1 Direct Credit Substitutes		
Contingent liabilities in respect of guarantees given favouring:		
Government	8,418,047	8,742,208
Banking companies and other financial institutions	5,500,340	5,316,009
Others	6,304,948	6,079,170
	<u>20,223,335</u>	<u>20,137,387</u>
14.2 Transaction-related Contingent Liabilities		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
Government	76,357,161	82,423,478
Banking companies and other financial institutions	2,199,496	2,470,740
Others	14,234,504	14,018,380
	<u>92,791,161</u>	<u>98,912,598</u>
14.3 Trade-related Contingent Liabilities		
Contingent liabilities in respect of letters of credit opened favouring:		
Government	54,783,941	52,859,909
Others	91,546,927	74,635,184
	<u>146,330,868</u>	<u>127,495,093</u>
14.4 Other Contingencies		
Claims against the Bank not acknowledged as debts	<u>22,192,615</u>	<u>21,991,957</u>
14.5 Commitments in respect of forward lending		
The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
	(Un-audited) June 30, 2011 ------(Rupees in '000)-----	(Audited) December 31, 2010
14.6 Commitments in respect of forward exchange contracts		
Sale	<u>96,435,432</u>	<u>85,434,818</u>
Purchase	<u>140,670,367</u>	<u>130,653,749</u>
14.7 Other commitments		
Interest rate swaps	<u>9,530,627</u>	<u>6,985,703</u>
Cross currency swaps	<u>35,154,851</u>	<u>35,570,843</u>
FX options - purchased	<u>-</u>	<u>2,055,442</u>
FX options - sold	<u>-</u>	<u>2,055,442</u>
Forward sale contracts of government securities	<u>447,115</u>	<u>441,981</u>
Commitments in respect of capital expenditure	<u>562,745</u>	<u>571,403</u>

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	----- (Un-audited) -----	
	Jan-Jun 2011	Jan-Jun 2010
	----- (Rupees in '000) -----	
15. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to customers	19,577,973	19,974,507
On lendings to financial institutions		
- Call money lending	20,275	40,878
- Securities purchased under resale agreements	254,909	553,338
- Advances to financial institutions	158,348	110,417
	433,532	704,633
On investments in		
- Held for trading securities	706,924	273,570
- Available for sale securities	6,607,078	3,742,458
- Held to maturity securities	6,680,823	3,639,096
- Associates and subsidiaries	578	79
	13,995,403	7,655,203
On deposits with financial institutions	42,221	133,743
Discount income	9,280	12,179
	34,058,409	28,480,265
16. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	11,540,451	9,190,902
On securities sold under repurchase agreements	1,155,946	658,869
On other short - term borrowings	1,297,631	1,333,104
On long - term borrowings	752,756	693,809
	14,746,784	11,876,684
17. ADMINISTRATIVE EXPENSES		
Salaries, allowances etc.	4,022,539	3,768,571
Rent, taxes, insurance, electricity etc.	1,208,164	1,095,651
Depreciation	898,110	867,510
Outsourced service charges including sales commission	753,799	653,847
Communications	384,706	353,186
Banking service charges	376,985	275,612
Cash transportation charges	155,736	131,440
Stationery and printing	203,309	192,598
Legal and professional charges	106,662	152,032
Contribution to retirement plan - net	2,850	(74,856)
Advertisement and publicity	304,846	171,255
Repairs and maintenance	112,143	83,539
Maintenance contracts	300,814	195,235
Travelling	129,110	76,564
Office running expenses	135,478	105,237
Charge for compensated absences	132,767	70,730
Vehicle expenses	71,533	58,264
Entertainment	65,578	46,881
Cartage, freight and conveyance	37,873	31,672
Insurance expense	73,818	40,685
Auditors' remuneration	27,303	21,234
Training and seminars	19,703	18,560
Brokerage expenses	17,235	7,720
Subscriptions	21,096	18,491
Subordinated debt related costs	3,195	3,833
Donations	24,530	46,558
Miscellaneous expenses	152,196	103,691
	9,742,078	8,515,740

**NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**
18. TAXATION

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

The tax authorities have amended assessments for the tax years 2003 to 2010 (accounting year ended December 31, 2002 to 2009) determining additional tax liability of Rs.7,308 million, which has been fully paid as required under the law. For the tax years 2004 to 2009, appeals have also been decided by the Commissioner of Inland Revenue [CIR(A)], while tax years 2003 and 2010 remain pending before CIR(A). Tax years 2004 to 2007 have been decided by the Appellate Tribunal Inland Revenue (ATIR), while tax year 2008 and 2009 remain pending for decision before ATIR. For tax year 2004 to 2007, the ATIR has allowed relief on certain issues, which would result in a refund of Rs.1,262 million. The Bank has filed a reference application before the Honorable High Court of Sindh for a decision on the remaining issues in tax years 2004 to 2007. The management is confident that the appeals will be decided in favor of the Bank.

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

The Seventh Schedule to the Ordinance allows provision for advances and off balance sheet exposures @ 5% of advances to consumer and small and medium enterprises (SMEs), and 1% of other advances. A deferred tax asset of Rs. 2,728 million has been recognized relating to amounts in excess of the allowable limits which is carried forward to future years.

The Bank also carries a tax asset amounting to Rs.5,454 million (December 31, 2010: 5,454 million), representing disallowance of provisions against advances and off balance sheet obligations, for the periods prior to the applicability of the Seventh Schedule. Out of these Rs. 1,262 million have been allowed by the ATIR. The management, in consultation with its tax advisors, is confident that the remainder would be allowed to the Bank at appellate levels.

19. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the Half Year Ended June 30, 2011 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment reconciliation
	(Rupees in '000)					
Total income	222,529	3,288,462	16,865,152	4,174,267	659,805	-
Total expenses	(59,301)	(1,750,539)	(10,108,601)	(2,618,175)	(444,257)	-
Net income before tax	163,228	1,537,923	6,756,551	1,556,092	215,548	-
Segment return on assets (ROA) (%)	4.44%	0.58%	1.72%	0.80%	-	-
Segment cost of funds (%)	0.38%	7.96%	4.13%	9.16%	-	-

	For the Half Year Ended June 30, 2010 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment reconciliation
	(Rupees in '000)					
Total income	209,416	1,011,872	15,005,582	4,553,906	551,122	-
Total expenses	(47,672)	(280,443)	(10,083,755)	(2,047,636)	(306,884)	-
Net income before tax	161,744	731,429	4,921,827	2,506,270	244,238	-
Segment return on assets (ROA) (%)	2.76%	0.35%	1.46%	1.26%	-	-
Segment cost of funds (%)	0.31%	7.06%	4.07%	8.82%	-	-

	As at June 30, 2011 (Un-audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment reconciliation
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	4,909,853	289,351,320	611,703,389	290,770,797	93,264,789	(504,535,456)
Segment non performing loans (NPL)	-	1,990,916	22,418,816	27,275,403	13,153	-
Segment provision required against NPL	-	1,363,412	18,243,082	18,602,095	13,153	-
Segment liabilities	4,634,759	286,270,844	591,392,738	270,699,811	27,814,266	(504,535,456)

	As at December 31, 2010 (Audited)					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Inter segment reconciliation
	(Rupees in '000)					
Segment assets (gross of NPL provisions)	5,004,302	257,667,931	568,277,686	276,599,141	77,695,753	(452,925,564)
Segment non performing loans (NPL)	-	2,002,017	21,766,521	24,810,869	13,153	-
Segment provision required against NPL	-	10,105	16,682,106	16,828,908	13,153	-
Segment liabilities	4,665,722	258,459,687	545,120,988	257,101,306	17,947,775	(452,925,564)

Segment assets and liabilities include the inter segment balances.

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

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

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

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

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

	As at June 30, 2011 (Un-audited)					As at December 31, 2010 (Audited)				
	Directors	Key management personnel	Subsidiaries	Associates	Other related parties	Directors	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)									
Balances with banks										
In current accounts	-	-	761,573	-	-	-	-	1,274,033	-	-
In saving accounts	-	-	-	-	236	-	-	-	-	2,773
	-	-	761,573	-	236	-	-	1,274,033	-	2,773
In deposit accounts										
Opening balance	-	-	-	-	-	-	-	-	-	-
Placements during the period / year	-	-	8,009,283	-	1,238,424	-	-	4,960,214	-	-
Settled during the period / year	-	-	(7,422,233)	-	(1,238,424)	-	-	(4,960,214)	-	-
Closing balance	-	-	587,050	-	-	-	-	-	-	-
Lendings to financial institutions										
Call Money Lendings	-	-	-	-	-	-	-	-	-	350,000
Investments										
Opening balance	-	-	2,201,948	7,382,192	317,176	-	-	2,201,948	6,921,080	317,176
Investment made during the period / year	-	-	-	4,450,000	-	-	-	-	2,620,000	-
Investment redeemed / disposed off during the period / year	-	-	-	(4,075,075)	(47,125)	-	-	-	(2,158,888)	-
Investment net of provision	-	-	2,201,948	7,757,117	270,051	-	-	2,201,948	7,382,192	317,176
Provision for diminution in value of investments	-	-	-	(15,361)	(59,803)	-	-	-	(15,361)	(59,803)
Advances										
Opening balance	969	141,762	-	-	-	2,142	102,750	-	-	-
Addition during the period / year	-	16,881	-	-	-	-	170,447	-	-	-
Repaid during the period / year	(43)	(30,662)	-	-	-	(1,173)	(131,435)	-	-	-
Closing balance	926	127,981	-	-	-	969	141,762	-	-	-
Other Assets										
Interest markup accrued	11	135	148	-	2,194	-	135	-	-	4,656
Receivable from staff retirement funds	-	-	-	-	9,927	-	-	-	-	66,595
Prepaid insurance	-	-	-	116,240	-	-	-	-	1,368	-
Other receivable	-	-	2,606	100,000	-	-	-	2,369	-	-
Borrowings										
Opening balance	-	-	-	-	-	-	-	-	300,000	100,000
Borrowings during the period / year	-	-	692,051	-	4,812,311	-	-	1,461,661	2,100,000	-
Settled during the period / year	-	-	(692,051)	-	(4,812,311)	-	-	(1,461,661)	(2,400,000)	(100,000)
Closing balance	-	-	-	-	-	-	-	-	-	-
Overdrawn nostros	-	-	-	-	-	-	-	120,552	533	-
Deposits and other accounts										
Opening balance	2,796,798	24,857	146,247	3,824,208	957,640	28,205	19,365	112,363	220,116	888,467
Received during the period / year	11,475,299	562,667	52,783,769	15,466,293	47,998,819	9,791,140	444,766	127,723,196	37,943,495	62,734,505
Withdrawn during the period / year	(10,777,650)	(537,612)	(52,911,545)	(17,245,510)	(47,315,817)	(7,022,547)	(439,274)	(127,689,312)	(34,339,403)	(62,665,332)
Closing balance	3,494,447	49,912	18,471	2,044,991	1,640,642	2,796,798	24,857	146,247	3,824,208	957,640
Sub-ordinated loans	-	5	-	5,999	-	-	5	-	5,999	-
Other Liabilities										
Interest / markup payable on deposits	6,022	228	102	165	147	9,431	41	50	17,769	1,024
Interest / markup payable on sub-ordinated loans	-	-	-	167	-	-	-	-	167	-
Unrealised loss on derivative transactions	-	-	-	-	729,315	-	-	-	-	618,818
Unearned income	-	-	617	-	-	-	-	-	-	-
Others	-	-	10,000	-	-	-	-	10,000	-	-
Contingencies and Commitments										
Letter of guarantee	1,703,614	-	-	72,318	-	1,697,143	-	-	30,031	-
Forward purchase of exchange contracts	-	-	1,768,004	-	2,276,840	-	-	-	-	2,602,090
Forward sale of exchange contracts	-	-	1,831,106	-	435,600	-	-	-	-	429,850
	For the half year ended June 30, 2011 (Un-audited)					For the half year ended June 30, 2010 (Un-audited)				
	Directors	Key management personnel	Subsidiaries	Associates	Other related parties	Directors	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)									
Income										
Mark-up / return / interest earned	60	4,444	578	-	16,844	195	3,317	79	-	10,511
Commission / charges recovered	4	8	106	505	3,257	4	5	47	786	4,257
Dividend income	-	-	16,600	208,406	-	-	-	50,000	185,822	2,346
Net gain on sale of investment	-	-	-	20,724	-	-	-	-	2,191	-
Realised gain on derivative transactions	-	-	-	-	1,153,982	-	-	-	-	1,057,185
Other income	-	2,398	665	90	-	-	-	877	8	-
Expenses										
Mark-up / return / interest paid	42,977	1,285	388	135,837	17,489	9,605	174	61	119,585	17,884
Managerial remuneration	-	195,161	-	-	-	-	210,021	-	-	-
Post employment benefits	-	7,036	-	-	-	-	6,397	-	-	-
Non-executive directors' fee and allowances	15,711	-	-	-	-	24,433	-	-	-	-
Net charge for defined contribution plans	-	-	-	-	73,479	-	-	-	-	36,575
Net reversal for defined benefit plans	-	-	-	-	(151,296)	-	-	-	-	181,335
Payment for employee motivation and retention scheme	-	-	-	-	230,000	-	-	-	-	210,000
Donation	-	-	-	-	20,000	-	-	-	-	40,000
Insurance premium paid	-	-	-	243,745	-	-	-	-	184,062	-
Insurance claims settled	-	-	-	79,089	-	-	-	-	77,795	-

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

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

	(Un-audited) June 30, 2011	(Audited) December 31, 2010
	----- (Rupees in '000) -----	
ASSETS		
Cash and balances with treasury banks	427,247	389,582
Balances with other banks	52,564	46,654
Lendings to financial institutions	-	450,000
Investments	3,928,019	2,884,260
Financing and receivables		
- Murabaha	298,058	203,787
- Musharaka	138,889	166,667
- Diminishing Musharaka	79,530	90,888
	516,477	461,342
Operating fixed assets		
- In own use	44,884	54,546
- Given under Ijarah financing	454,251	371,506
	499,135	426,052
Due from head office	2,130,821	83,725
Other assets	357,447	297,649
Total Assets	7,911,710	5,039,264
LIABILITIES		
Bills payable	970	970
Deposits and other accounts		
- Current accounts	891,021	724,750
- Saving accounts	733,963	933,100
- Term deposits	1,922,427	1,456,596
- Deposits from financial institutions - remunerative	3,664,709	1,344,775
	7,212,120	4,459,221
Other liabilities	162,511	101,782
	7,375,601	4,561,973
NET ASSETS	536,109	477,291
REPRESENTED BY		
Islamic Banking Fund	681,000	681,000
Accumulated loss	(143,387)	(203,000)
	537,613	478,000
Deficit on revaluation of assets	(1,504)	(709)
	536,109	477,291

21.2 The profit and loss account of the Bank's Islamic Banking branches for the half year ended June 30, 2011 is as follows:

	(Un-audited) Jan-Jun 2011	(Un-audited) Jan-Jun 2010
	----- (Rupees in '000) -----	
Return earned	369,801	273,634
Return expensed	(240,307)	(113,252)
	129,494	160,382
Reversal of diminution in value of investment	35,130	8,575
Reversal of provision against assets given on Ijara	3,937	1,932
	39,067	10,507
Net return after provision	168,561	170,889
OTHER INCOME		
Fee, commission and brokerage income	3,455	2,913
Dividend income	27,357	1,250
Income from dealing in foreign currencies	790	424
Loss on sale of securities	-	(4,750)
Other income	2,410	1,238
Total other income	34,012	1,075
	202,573	171,964
OTHER EXPENSES		
Administrative expenses	(142,960)	(145,306)
Other provisions / write offs	-	(1,721)
Total other expenses	(142,960)	(147,027)
Net profit for the period	59,613	24,937
Accumulated losses brought forward	(203,000)	(174,404)
Accumulated losses carried forward	(143,387)	(149,467)
Remuneration to Sharia Advisor / Board	1,209	1,502

22. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on July 28, 2011 has declared a cash dividend in respect of half year ended June 30, 2011 of Rs. 1.5 per share (June 30, 2010: Re.1.00 per share). The unconsolidated condensed interim financial statements for the half year ended June 30, 2011 do not include the effect of this appropriation which will be accounted for subsequent to the period end.

23. DATE OF AUTHORIZATION

These condensed interim financial statements were authorised for issue on July 28, 2011 by the Board of Directors of the Bank.