United Bank Limited
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010
### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with treasury banks</td>
<td>6 67,667,226</td>
<td>61,562,141</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>7 25,980,928</td>
<td>14,049,990</td>
</tr>
<tr>
<td>Lendings to financial institutions</td>
<td>8 12,384,778</td>
<td>23,162,130</td>
</tr>
<tr>
<td>Investments</td>
<td>9 231,717,214</td>
<td>137,734,578</td>
</tr>
<tr>
<td>Advances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing</td>
<td>10 326,441,450</td>
<td>349,715,209</td>
</tr>
<tr>
<td>Non-performing - net of provision</td>
<td>10 15,068,962</td>
<td>12,364,387</td>
</tr>
<tr>
<td>Total</td>
<td>341,510,412</td>
<td>362,079,596</td>
</tr>
<tr>
<td>Operating fixed assets</td>
<td>11 24,684,566</td>
<td>23,734,082</td>
</tr>
<tr>
<td>Deferred tax asset - net</td>
<td>12 1,298,247</td>
<td>649,814</td>
</tr>
<tr>
<td>Other assets</td>
<td>13 20,146,272</td>
<td>17,449,580</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>725,389,643</td>
<td>640,421,911</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills payable</td>
<td>15 5,074,700</td>
<td>5,166,361</td>
</tr>
<tr>
<td>Borrowings</td>
<td>16 47,631,814</td>
<td>37,168,277</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>17 567,611,258</td>
<td>503,831,672</td>
</tr>
<tr>
<td>Sub-ordinated loans</td>
<td>18 11,985,748</td>
<td>11,989,800</td>
</tr>
<tr>
<td>Liabilities against assets subject to finance lease</td>
<td>18 -</td>
<td>611</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>19 17,951,943</td>
<td>14,946,827</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>650,255,463</td>
<td>573,103,548</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>75,134,180</td>
<td>67,318,363</td>
</tr>
</tbody>
</table>

**REPRESENTED BY:**

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>20 12,241,798</td>
<td>11,128,907</td>
</tr>
<tr>
<td>Reserves</td>
<td>24,101,838</td>
<td>21,167,954</td>
</tr>
<tr>
<td>Unappropriated profit</td>
<td>27,576,333</td>
<td>23,617,875</td>
</tr>
<tr>
<td>Total equity attributable to the equity holders of the Bank</td>
<td>63,919,969</td>
<td>55,914,736</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>2,207,241</td>
<td>2,279,691</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>66,127,210</td>
<td>58,194,427</td>
</tr>
<tr>
<td>Surplus on revaluation of assets - net of deferred tax</td>
<td>21 9,006,970</td>
<td>9,123,936</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td>75,134,180</td>
<td>67,318,363</td>
</tr>
</tbody>
</table>

**CONTINGENCIES AND COMMITMENTS**

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.
## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010

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

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax for the year attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity shareholders of the Bank</td>
<td>11,031,630</td>
<td>9,521,546</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>(10,705)</td>
<td>(33,594)</td>
</tr>
<tr>
<td></td>
<td><strong>11,020,925</strong></td>
<td><strong>9,487,952</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other comprehensive income / (loss):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange differences on translation of net investment in foreign branches and subsidiaries</td>
</tr>
<tr>
<td>- Equity shareholders of the Bank</td>
</tr>
<tr>
<td>- Non-controlling interest</td>
</tr>
<tr>
<td>Net gain on cash flow hedges</td>
</tr>
<tr>
<td>Related deferred tax liability on cash flow hedges</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

| Comprehensive income transferred to equity - net of tax | 11,683,115 | 11,913,033 |

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

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.
### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

#### CASH FLOW FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>17,688,623</td>
<td>14,392,181</td>
</tr>
<tr>
<td>Less: Dividend income</td>
<td>(133,962)</td>
<td>(214,727)</td>
</tr>
<tr>
<td>Add / (Less): Share of (profit) / loss of associates</td>
<td>(277,364)</td>
<td>(689,943)</td>
</tr>
<tr>
<td><strong>CASH FLOW FROM OPERATING ACTIVITIES</strong></td>
<td><strong>17,277,297</strong></td>
<td><strong>13,487,511</strong></td>
</tr>
</tbody>
</table>

**Adjustments:**
- Depreciation: 1,576,984, 1,539,028
- Amortization: 224,017, 185,985
- Workers' welfare fund: 414,833, 401,073
- Provision for retirement benefits: 7,927, 605,672
- Provision against loans and advances: 6,838,336, 9,644,927
- Provision against lending to financial institutions: 118,866, 108,028
- Unrealized loss on revaluation of investments classified as held for trading: 33,214, 2,582
- Finance charges on leased assets: 147, 110
- Provision / (reversal of provision) against other assets: 68,113, 622,024

**Net cash flow from operating activities:**
10,237,623, 15,123,427
27,514,920, 28,610,938

#### Decrease / (Increase) in operating assets

- Lendings to financial institutions: 10,777,352, (917,641)
- Held for trading securities: (12,521,604), 526,935
- Advances: 12,722,952, 4,734,867
- Other assets (excluding advance taxation): (2,085,878), 1,950,068

**Net cash flow from operating activities:**
8,892,922, 6,294,229
37,587,211

#### CASH FLOW FROM INVESTING ACTIVITIES

- Net investments in securities: (81,899,081), (16,446,722)
- Dividend income received: 490,012, 457,237
- Investments in operating fixed assets: (2,393,600), (1,595,660)
- Sale proceeds from disposal of property and equipment: 107,228, 174,458

**Net cash flow on investing activities:**
(83,695,441), (17,410,687)

#### CASH FLOW FROM FINANCING ACTIVITIES

- Repayments of principal of sub-ordinated loans: (4,052), (4,048)
- Payments in respect of lease obligations: (611), (1,367)
- Dividends paid: (4,006,407), (1,094,748)

**Net cash (used in) / flow from financing activities:**
(4,011,070), (1,100,163)
(30,568), 351,725
615,495, 2,003,138

**Increase in cash and cash equivalents:**
18,036,023, 10,928,255
75,612,131, 64,683,876

**Cash and cash equivalents at end of the year:**
34 93,648,154, 75,612,131

The annexed notes from 1 to 48 and annexures form an integral part of these consolidated financial statements.
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

### Attributable to ordinary shareholders of the Bank

<table>
<thead>
<tr>
<th>Share Capital</th>
<th>General reserve</th>
<th>Statutory reserve</th>
<th>Exchange translation reserve</th>
<th>Reserve for issue of bonus shares</th>
<th>Cash flow hedge reserve</th>
<th>Unappropriated profit</th>
<th>Sub total</th>
<th>Non-controlling interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at January 01, 2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,117,188</td>
<td>3,000</td>
<td>10,383,033</td>
<td>7,146,661</td>
<td>-</td>
<td>(276,633)</td>
<td>17,703,327</td>
<td>45,076,576</td>
<td>2,044,589</td>
<td>47,121,165</td>
</tr>
</tbody>
</table>

**Final cash dividend for the year ended December 31, 2008** declared subsequent to year end at Re.1.00 per share
- - - - - (1,011,719) (1,011,719) - (1,011,719)

**Transfer to reserve for issue of bonus shares**
- - - 1,011,719 (1,011,719) - - - -

**Issue of bonus shares at 10%**
1,011,719 - - - (1,011,719) - - - -

### Changes in equity for 2009

**Profit after taxation for the year ended December 31, 2009**
- - - - - 9,521,546 9,521,546 (33,594) 9,487,952

**Other comprehensive income - net of tax**
- - - - 2,003,138 - 70,218 - 2,073,356 351,725 2,425,081

**Total comprehensive income**
- - - - 2,003,138 - 70,218 9,521,546 11,594,902 318,131 11,913,033

**Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax**
- - - - - 254,977 254,977 - 254,977

**Ordinary dividend relating to non-controlling shareholders**
- - - - - - (27,510) (27,510)

**Preferred dividend relating to non-controlling shareholders**
- - - - - - (55,519) (55,519)

**Transfer to statutory reserve**
- - 1,838,537 - - - (1,838,537) - - -

**Balance as at December 31, 2009**
11,128,907 3,000 12,221,570 9,149,799 - (206,415) 23,617,875 55,914,736 2,279,691 58,194,427

**Final cash dividend for the year ended December 31, 2009** declared subsequent to year end at Re.1.00 per share
- - - - - (2,782,227) (2,782,227) - (2,782,227)

**Interim cash dividend for the half year ended June 30, 2010** declared at Re.1.00 per share
- - - - - (1,224,180) (1,224,180) - (1,224,180)

**Transfer to reserve for issue of bonus shares**
- - - 1,112,891 (1,112,891) - - - -

**Issue of bonus shares at 10%**
1,112,891 - - - (1,112,891) - - - -

### Changes in equity for 2010

**Profit after taxation for the year ended December 31, 2010**
- - - - - 11,031,630 11,031,630 (15,705) 11,020,925

**Other comprehensive income - net of tax**
- - - - 615,495 - 77,263 - 692,758 (30,568) 662,190

**Total comprehensive income**
- - - - 615,495 - 77,263 11,031,630 11,724,388 (41,273) 11,683,115

**Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax**
- - - - - 256,075 256,075 - 256,075

**Preferred dividend relating to non-controlling shareholders**
- - - - - - (31,177) (31,177)

**Transfer to statutory reserve**
- - 2,241,126 - - - (2,241,126) - - -

**Balance as at December 31, 2010**
12,241,798 3,000 14,462,696 9,765,284 - (129,152) 27,576,333 63,919,969 2,207,241 66,127,210

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

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

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

The "Group" consists of:

- Holding Company

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

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

Subsidiary Companies

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

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

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

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

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

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

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

- UBL Fund Managers Limited, Pakistan - 100 percent holding

  UBL Fund Managers Limited was incorporated as a public limited company in Pakistan under the Companies Ordinance, 1984 on April 03, 2001. The Company is licensed to carry out Asset Management and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). The principal activities of the Company are floating and managing mutual funds and providing investment advisory services. The registered office of the Company is situated at 8th Floor, State Life Building No. 1, I. I. Chundrigar Road, Karachi.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2. BASIS OF PRESENTATION

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

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

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

3. STATEMENT OF COMPLIANCE

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

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

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

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

<table>
<thead>
<tr>
<th>Standard or Interpretation</th>
<th>Effective date (annual periods beginning on or after)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)</td>
<td>February 01, 2010</td>
</tr>
<tr>
<td>IAS 24 - Related Party Disclosures (Revised)</td>
<td>January 01, 2011</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Critical accounting estimates and judgements

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- The consolidated financial statements include the financial statements of UBL - Holding Company and its subsidiary companies - "the Group".
- Subsidiary companies are fully consolidated from the date on which more than 50% of voting rights are transferred to the Group or the power to control the company is established and are excluded from consolidation from the date of disposal or when the control is lost.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

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

5.2 Significant accounting policies

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

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

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

IFRS 3 – Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

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

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

IFRS 2 – Share-based Payments (note 37.3)

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IAS 39 – Financial Instruments: Recognition and measurement

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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

5.3 Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement represent cash and balances with treasury banks and balances with other banks in current and deposit accounts.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

5.4 Lendings to / borrowings from financial institutions

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

5.4.1 Sale under repurchase agreements

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

5.4.2 Purchase under resale agreements

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

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

5.5 Investments

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

Held for trading

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

Held to maturity

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

Available for sale

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

Initial measurement

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

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

Subsequent measurement

Held-for-trading

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

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

Available for sale

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

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

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

Associates

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

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

5.6 Advances

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

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

5.7 Operating fixed assets and depreciation

5.7.1 Owned

Property and equipment, other than freehold land (which is not depreciated) and capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Freehold land is carried at revalued amount less impairment losses while capital work-in-progress is stated at cost less impairment losses. The cost of property and equipment of foreign branches and subsidiaries includes exchange difference arising on currency translation at the year-end rates of exchange.
Depreciation is calculated so as to write off the depreciable amount of the assets over their expected economic lives at the rates specified in note 11.2 to these consolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any, and using methods depending on the nature of the asset and the country of its location. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

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

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

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

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

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

5.7.2 Leased (Ijarah)

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

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

5.7.3 Intangible assets

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

5.8 Impairment

Impairment in available for sale equity investments

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

Impairment in investments in associates

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

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

5.9 Taxation

5.9.1 Current

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

5.9.2 Deferred

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

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

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

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

5.10 Provisions

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

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

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

5.11 Staff retirement and other benefits

5.11.1 United Bank Limited (UBL)

The Bank operates the following staff retirement schemes for its employees:
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

a) For new employees and for those who opted for the new scheme introduced in 1991, the Bank operates an
   - approved contributory provident fund (defined contribution scheme); and
   - approved gratuity scheme (defined benefit scheme).

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

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

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

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

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

Other benefits

a) Employees’ compensated absences

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

b) Post retirement medical benefits (defined benefit scheme)

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

c) Employee motivation and retention scheme

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

Actuarial gains and losses

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

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

5.11.2 United National Bank Limited (UNBL)

Defined benefit scheme

UNBL operates a pension scheme (defined benefit scheme) for certain staff. This scheme is closed for new members and
the accrual of benefits has ceased from January 01, 2010. The amount charged to the profit and loss account are the
gains and losses on settlements and curtailments. The interest cost and the expected return on assets are included in
interest payable and interest receivable. Actuarial gains and losses are recognised immediately in the profit and loss
account.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Defined contribution scheme

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

5.11.3 UBL Fund Managers Limited (UFML)

Defined benefit plan

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

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

Defined contribution plan

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

5.11.4 United Bank AG (Zurich) (UBAG)

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

5.12 Sub-ordinated Debt

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

5.13 Borrowings / deposits and their cost

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

5.14 Revenue recognition

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

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

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

5.14.2 Dividend income

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

5.14.3 Fee, brokerage and commission

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

5.15 Foreign currencies

5.15.1 Functional and presentation currency

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

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

Commitments for outstanding forward foreign exchange contracts are disclosed in the consolidated financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the date of the statement of financial position. All other commitments are disclosed in the consolidated financial statements at the committed amount.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

5.16 Financial instruments

5.16.1 Financial assets and liabilities

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

5.16.2 Derivative financial instruments

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

5.16.3 Hedge accounting

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

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized initially in the statement of changes in equity, and recycled to the profit and loss account in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognized 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 recognized when the hedged item is ultimately recognized in the profit and loss account. When a forecast transaction occurs or is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the profit and loss account.

5.16.4 Off setting

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

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

5.18 Segment reporting

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

5.18.1 Business segments

(a) Corporate finance

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

(b) Trading and sales

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

(c) Retail banking

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

(d) Commercial banking

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

(e) Asset management

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

(f) Others

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

5.18.2 Geographical segments

The Group operates in five geographical regions being:

- Pakistan
- Karachi Export Processing Zone
- United States of America
- Middle East
- Europe
5.19 Dividend and appropriation to reserves

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

5.20 Earnings per share

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>6.</td>
<td>(Rupees in '000)</td>
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<td>In hand</td>
<td>14,274,779</td>
<td>14,065,248</td>
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<td>With State Bank of Pakistan in</td>
<td>27,435,790</td>
<td>23,431,793</td>
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<tr>
<td>With other central banks in foreign currency current account</td>
<td>67,667,226</td>
<td>61,562,141</td>
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<tr>
<td>This represents current accounts maintained with the SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.</td>
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<tr>
<td>This represents US Dollar Settlement Account maintained with SBP and includes current accounts maintained with SBP to meet cash reserve requirement of 5% on FE 25 deposits, under the requirements of BSD Circular No. 18 dated March 31, 2001 and OSED Circular No. 1 dated November 13, 2006.</td>
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<td>This represents special cash reserve requirement maintained with SBP under the requirements of BSD Circular No. 14 of 2008 dated June 21, 2008. The return on this account is declared by SBP on a monthly basis and, as at December 31, 2010 carries, mark-up at the rate of 0% (2009: 0%) per annum.</td>
<td></td>
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<tr>
<td>This represents special cash reserve requirement maintained with SBP under the requirements of BSD Circular No. 14 of 2008 dated June 21, 2008. The return on this account is declared by SBP on a monthly basis and, as at December 31, 2010 carries, mark-up at the rate of 0% (2009: 0%) per annum.</td>
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6. CASH AND BALANCES WITH TREASURY BANKS

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<td>National Prize Bonds</td>
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</tbody>
</table>

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

7. BALANCES WITH OTHER BANKS

Inside Pakistan
- In current accounts
- In deposit accounts

Outside Pakistan
- In current accounts
- In deposit accounts

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

8. LENDINGS TO FINANCIAL INSTITUTIONS

8.1 Particulars of lendings to financial institutions

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

8.3 Securities held as collateral against repurchase agreement lendings

These carry mark-up at rates ranging from 11.75% to 13.50% per annum (2009: 11.95% to 12.35% per annum) and are due to mature latest by February 2011.

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

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

### 9. INVESTMENTS

#### 9.1 Investments by types

<table>
<thead>
<tr>
<th>Note</th>
<th>Held by Group</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investments</td>
<td>2010</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Held by Group</td>
<td>Given as collateral</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>15,440,514,1,189,144,16,629,658,4,013,320,97,386,4,110,836</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Held for trading securities**
  - **Market Treasury Bills**
    - 2010: 39,519,598, 20,695,498, 60,215,096, 35,572,747, 3,973,323, 39,551,070
  - **Pakistan Investment Bonds**
    - 2010: 18,981,194, 536,428, 19,512,622, 16,278,759, - , 16,278,759
  - **Government of Pakistan - Sukuk**
    - 2010: 30,000, - , 30,000, - , - , -
  - **Preference shares**
    - 2010: 472,097, - , 472,097, 197,015, - , 197,015
  - **Ordinary shares of unlisted companies**
    - 2010: 184,639, - , 184,639, 170,136, - , 170,136
  - **Term Finance Certificates**
    - 2010: 2,163,818, - , 2,163,818, 1,948,702, - , 1,948,702
  - **Units of mutual funds**
  - **Foreign securities**
    - 2010: 15,285,049, - , 15,285,049, 12,740,879, - , 12,740,879

- **Available for sale securities**
  - **Market Treasury Bills**
    - 2010: 39,519,598, 20,695,498, 60,215,096, 35,572,747, 3,973,323, 39,551,070
  - **Pakistan Investment Bonds**
    - 2010: 18,981,194, 536,428, 19,512,622, 16,278,759, - , 16,278,759
  - **Government of Pakistan - Sukuk**
    - 2010: 30,000, - , 30,000, - , - , -
  - **Preference shares**
    - 2010: 472,097, - , 472,097, 197,015, - , 197,015
  - **Ordinary shares of unlisted companies**
    - 2010: 184,639, - , 184,639, 170,136, - , 170,136
  - **Term Finance Certificates**
    - 2010: 2,163,818, - , 2,163,818, 1,948,702, - , 1,948,702
  - **Units of mutual funds**
  - **Foreign securities**
    - 2010: 15,285,049, - , 15,285,049, 12,740,879, - , 12,740,879

- **Held to maturity securities**
  - **Market Treasury Bills**
    - 2010: 58,843,648, - , 58,843,648, 11,611,110, - , 11,611,110
  - **Pakistan Investment Bonds**
    - 2010: 4,392,225, - , 4,392,225, 2,497,301, - , 2,497,301
  - **Government of Pakistan - Sukuk**
    - 2010: 30,000, - , 30,000, - , - , -
  - **Government of Pakistan - Eurombonds**
    - 2010: 696,506, - , 696,506, 922,925, - , 922,925
  - **Government of Pakistan - Guaranteed Bonds**
    - 2010: 51,399, - , 51,399, 1,486,057, - , 1,486,057
  - **Term Finance Certificates**
  - **Sukuk Bonds**
    - 2010: 2,548,739, - , 2,548,739, 2,640,040, - , 2,640,040
  - **Participation Term Certificates**
    - 2010: 19,202, - , 19,202, 26,838, - , 26,838
  - **Debentures**
    - 2010: 4,392, - , 4,392, 4,592, - , 4,592
  - **Foreign securities**
    - 2010: 9,727,562, - , 9,727,562, 4,013,330, - , 4,013,330
  - **CDD SAARC Fund**
    - 2010: 428, - , 428, 421, - , 421

- **Associates**
  - **United Growth and Income Fund**
    - 2010: 3,023,430, - , 3,023,430, 5,279,234, - , 5,279,234
  - **UBL Liquidity Plus Fund**
    - 2010: 2,613,475, - , 2,613,475, 749,831, - , 749,831
  - **Unated Composite Islamic Fund**
    - 2010: 338,110, - , 338,110, 539,012, - , 539,012
  - **United Islamic Income Fund**
    - 2010: 196,425, - , 196,425, 249,850, - , 249,850
  - **United Stock Advantage Fund**
  - **UBL Participation Protected Plan**
    - 2010: 184,639, - , 184,639, 170,136, - , 170,136
  - **UBL Capital Protected Fund - I**
    - 2010: 108,757, - , 108,757, - , - , -
  - **UBL Savings Income Fund**
    - 2010: 174,469, - , 174,469, - , - , -
  - **UBL Islamic Savings Fund**
    - 2010: 197,224, - , 197,224, - , - , -
  - **UBL Islamic Retirement Savings Fund**
    - 2010: 98,310, - , 98,310, - , - , -
  - **UBL Retirement Savings Fund**
    - 2010: 99,681, - , 99,681, - , - , -
  - **UBL Capital Protected Fund - II**
    - 2010: 64,165, - , 64,165, - , - , -
  - **Oman United Exchange Company, Muscat**

- **Provision for diminution in value of investments**
  - 2010: 2,613,475, - , 2,613,475, 749,831, - , 749,831

- **Investments (net of provisions)**
  - 2010: 212,652,475, 22,421,070, 235,073,545, 136,704,138, 4,075,629, 140,779,767

- **Deficit on revaluation of available for sale securities**
  - 2010: 138,850,932, 4,075,629, 142,926,561

- **Deficit on revaluation of held for trading securities**
  - 2010: 560,852, 560,852
## Federal Government Securities

<table>
<thead>
<tr>
<th>Security Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Treasury Bills</td>
<td>127,315,215</td>
<td>48,577,758</td>
</tr>
<tr>
<td>Pakistan Investment Bonds</td>
<td>24,722,104</td>
<td>19,761,871</td>
</tr>
<tr>
<td>Government of Pakistan - Sukus</td>
<td>4,152,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Government of Pakistan - Euro Bonds</td>
<td>4,708,516</td>
<td>4,869,268</td>
</tr>
<tr>
<td>Government of Pakistan - Guaranteed Bonds</td>
<td>51,399</td>
<td>1,485,057</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>160,949,234</td>
<td>78,193,954</td>
</tr>
</tbody>
</table>

## Foreign Securities

<table>
<thead>
<tr>
<th>Security Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Treasury Bills</td>
<td>5,917,073</td>
<td>5,852,457</td>
</tr>
<tr>
<td>Government securities</td>
<td>5,043,926</td>
<td>3,214,893</td>
</tr>
<tr>
<td>CDC SAARC Fund</td>
<td>428</td>
<td>421</td>
</tr>
<tr>
<td>Other securities</td>
<td>21,405,871</td>
<td>13,527,704</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32,367,298</td>
<td>22,595,475</td>
</tr>
</tbody>
</table>

## Ordinary Shares

<table>
<thead>
<tr>
<th>Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies</td>
<td>3,638,263</td>
<td>3,644,398</td>
</tr>
<tr>
<td>Unlisted companies</td>
<td>445,632</td>
<td>441,824</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,083,895</td>
<td>4,086,222</td>
</tr>
</tbody>
</table>

## Preference Shares

<table>
<thead>
<tr>
<th>type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>472,097</td>
<td>197,015</td>
</tr>
</tbody>
</table>

## Units of Mutual Funds

<table>
<thead>
<tr>
<th>Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>211,628</td>
<td>406,164</td>
</tr>
</tbody>
</table>

## Term Finance Certificates

<table>
<thead>
<tr>
<th>Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed</td>
<td>2,437,296</td>
<td>2,667,787</td>
</tr>
<tr>
<td>Unlisted</td>
<td>26,939,702</td>
<td>24,570,114</td>
</tr>
<tr>
<td>Sukuk Bonds</td>
<td>2,571,591</td>
<td>2,655,759</td>
</tr>
<tr>
<td>Debentures</td>
<td>4,392</td>
<td>4,592</td>
</tr>
<tr>
<td>Participation Term Certificates</td>
<td>19,202</td>
<td>26,838</td>
</tr>
<tr>
<td><strong>Total Investment in associates</strong></td>
<td>31,972,183</td>
<td>29,925,090</td>
</tr>
</tbody>
</table>

## Total investments at cost

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>237,722,550</td>
<td>142,926,561</td>
</tr>
</tbody>
</table>

## Provision for diminution in value of investments

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2,649,005)</td>
<td>(2,146,794)</td>
</tr>
</tbody>
</table>

## Investments (net of provisions)

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>235,073,545</td>
<td>140,779,767</td>
</tr>
</tbody>
</table>

## Deficit on revaluation of available for sale securities

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3,323,117)</td>
<td>(3,042,607)</td>
</tr>
</tbody>
</table>

## Deficit on revaluation of held for trading securities

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(33,214)</td>
<td>(2,582)</td>
</tr>
</tbody>
</table>

## Total investments

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>231,717,214</td>
<td>137,734,578</td>
</tr>
</tbody>
</table>
9.3 Particulars of provision for diminution in value of investments:

9.3.1 Opening balance

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charged during the year</td>
<td>346,263</td>
<td>1,162,066</td>
</tr>
<tr>
<td>(Reversal) / impairment loss on associate</td>
<td>(25,394)</td>
<td>25,394</td>
</tr>
<tr>
<td>Reversed during the year</td>
<td>(16,843)</td>
<td>-</td>
</tr>
<tr>
<td>Reversed on disposal</td>
<td>(340,488)</td>
<td>(1,208,712)</td>
</tr>
<tr>
<td>Transfers</td>
<td>548,318</td>
<td>-</td>
</tr>
<tr>
<td>Written off during the year</td>
<td>(9,645)</td>
<td>(20,747)</td>
</tr>
<tr>
<td>Closing balance</td>
<td>2,649,005</td>
<td>2,146,794</td>
</tr>
</tbody>
</table>

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

Available for sale securities

<table>
<thead>
<tr>
<th>Security Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares of listed companies</td>
<td>2,017,861</td>
<td>1,832,026</td>
</tr>
<tr>
<td>Ordinary shares of unlisted companies</td>
<td>141,761</td>
<td>150,524</td>
</tr>
<tr>
<td>Preference shares</td>
<td>6,090</td>
<td>2,436</td>
</tr>
<tr>
<td>Foreign securities</td>
<td>281,585</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2,447,297</td>
<td>1,984,986</td>
</tr>
</tbody>
</table>

Held to maturity securities

<table>
<thead>
<tr>
<th>Security Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Finance Certificates</td>
<td>100,448</td>
<td>104,985</td>
</tr>
<tr>
<td>Sukuk</td>
<td>77,667</td>
<td>-</td>
</tr>
<tr>
<td>Debentures</td>
<td>4,391</td>
<td>4,591</td>
</tr>
<tr>
<td>Participation Term Certificates</td>
<td>19,202</td>
<td>26,838</td>
</tr>
<tr>
<td></td>
<td>201,708</td>
<td>136,414</td>
</tr>
</tbody>
</table>

Associates                           | -          | 25,394     |

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing balance</td>
<td>2,649,005</td>
<td>2,146,794</td>
</tr>
</tbody>
</table>

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

Ordinary Shares

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies</td>
<td>2,017,861</td>
<td>1,832,026</td>
</tr>
<tr>
<td>Unlisted companies</td>
<td>141,761</td>
<td>150,524</td>
</tr>
<tr>
<td>Foreign securities</td>
<td>281,585</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2,441,207</td>
<td>1,982,550</td>
</tr>
</tbody>
</table>

Preference shares

|                     | 6,090      | 2,436      |

Term Finance Certificates, Debentures and Participation Term Certificates

<table>
<thead>
<tr>
<th>Security Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Finance Certificates</td>
<td>100,448</td>
<td>104,985</td>
</tr>
<tr>
<td>Sukuk</td>
<td>77,667</td>
<td>-</td>
</tr>
<tr>
<td>Debentures</td>
<td>4,391</td>
<td>4,591</td>
</tr>
<tr>
<td>Participation Term Certificates</td>
<td>19,202</td>
<td>26,838</td>
</tr>
<tr>
<td></td>
<td>201,708</td>
<td>136,414</td>
</tr>
</tbody>
</table>

Associates                           | -          | 25,394     |

|                     | 2,649,005  | 2,146,794  |

9.4 Unrealized loss on revaluation of investments classified as held for trading

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Treasury Bills</td>
<td>(353)</td>
<td>1,416</td>
</tr>
<tr>
<td>Pakistan Investment Bonds</td>
<td>2,440</td>
<td>(4,422)</td>
</tr>
<tr>
<td>Ordinary shares of listed companies</td>
<td>91</td>
<td>-</td>
</tr>
<tr>
<td>Foreign Securities</td>
<td>(40,543)</td>
<td>-</td>
</tr>
<tr>
<td>Term Finance Certificates</td>
<td>7,834</td>
<td>-</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>(2,683)</td>
<td>424</td>
</tr>
<tr>
<td></td>
<td>(33,214)</td>
<td>(2,582)</td>
</tr>
</tbody>
</table>
9.5 Investments include certain approved / government securities which are held by the Group to comply with the Statutory Liquidity Requirement as set out under Section 29 of the Banking Companies Ordinance, 1962.

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

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

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

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

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

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

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

9.9 Investment in associates

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

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

9.9.1.1 United Growth and Income Fund is an open ended mutual fund, listed on the Karachi Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.
9.9.1.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, based on reviewed financial statements are as follows:

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Growth and Income Fund 2010</td>
</tr>
<tr>
<td>2009</td>
</tr>
</tbody>
</table>

9.9.2 United Liquidity Plus Fund

| Investment as at January 01 | 749,831 |
| Investment during the year | 1,874,833 |
| Share of profit | 64,591 |
| Dividend distribution | (75,421) |
| Share of unrealised (deficit) / surplus on assets | (359) |
| Balance as at December 31 | 2,613,475 |

| Percentage holding as at December 31 | 21.39% |

9.9.3 United Composite Islamic Fund

| Investment as at January 01 | 539,012 |
| (Redemption) / investment during the year | (262,811) |
| Share of profit | 70,735 |
| Share of unrealised (deficit) / surplus on assets | (8,826) |
| Balance as at December 31 | 338,110 |

| Percentage holding as at December 31 | 69.94% |

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

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

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

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

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Liquidity Plus Fund 2010</td>
</tr>
<tr>
<td>2009</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Composite Islamic Fund 2010</td>
</tr>
<tr>
<td>2009</td>
</tr>
</tbody>
</table>
## United Islamic Income Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment as at January 01</th>
<th>Redemption during the year</th>
<th>Share of profit</th>
<th>Dividend distribution</th>
<th>Share of unrealised (deficit) / surplus on assets</th>
<th>Balance as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>249,850</td>
<td>(50,000)</td>
<td>33,783</td>
<td>(8,075)</td>
<td>(29,133)</td>
<td>196,425</td>
</tr>
<tr>
<td>2009</td>
<td>308,700</td>
<td>(83,852)</td>
<td>12,338</td>
<td>(9,575)</td>
<td>22,239</td>
<td>249,850</td>
</tr>
</tbody>
</table>

**Percentage holding as at December 31**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>48.08%</td>
</tr>
<tr>
<td>2009</td>
<td>19.80%</td>
</tr>
</tbody>
</table>

### United Islamic Income Fund

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Revenue</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>411,540</td>
<td>2,974</td>
<td>141,110</td>
<td>84,842</td>
</tr>
<tr>
<td>2009</td>
<td>1,265,397</td>
<td>3,652</td>
<td>172,447</td>
<td>71,325</td>
</tr>
</tbody>
</table>

## United Stock Advantage Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment as at January 01</th>
<th>(Redemption) / investment during the year</th>
<th>Share of profit</th>
<th>Share of unrealised surplus on assets</th>
<th>Balance as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>305,297</td>
<td>(1,075)</td>
<td>40,421</td>
<td>10,254</td>
<td>354,897</td>
</tr>
<tr>
<td>2009</td>
<td>1,265,397</td>
<td>35,200</td>
<td>121,231</td>
<td>6,100</td>
<td>305,297</td>
</tr>
</tbody>
</table>

**Percentage holding as at December 31**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>31.70%</td>
</tr>
<tr>
<td>2009</td>
<td>16.04%</td>
</tr>
</tbody>
</table>

### United Stock Advantage Fund

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Revenue</th>
<th>(Loss) / profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,124,139</td>
<td>4,808</td>
<td>427,056</td>
<td>(629,162)</td>
</tr>
<tr>
<td>2009</td>
<td>1,951,232</td>
<td>47,966</td>
<td>904,450</td>
<td>835,578</td>
</tr>
</tbody>
</table>

## UBL Participation Protected Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment as at January 01</th>
<th>Share of profit</th>
<th>Balance as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>170,136</td>
<td>14,503</td>
<td>184,639</td>
</tr>
<tr>
<td>2009</td>
<td>138,887</td>
<td>31,249</td>
<td>170,136</td>
</tr>
</tbody>
</table>

### UBL Participation Protected Plan

UBL Participation Protected Plan is an open ended administrative plan with the objective of earning potentially high returns through dynamic asset allocation between equity and fixed income investments. The life of the plan is 3 years.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

9.9.7 UBL Capital Protected Fund - II

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 01</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment during the year</td>
<td>103,459</td>
<td>-</td>
</tr>
<tr>
<td>Share of profit</td>
<td>5,298</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>108,757</td>
<td>-</td>
</tr>
</tbody>
</table>

Percentage holding as at December 31
53.04% -

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

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

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>UBL Capital Protected Fund - II</td>
</tr>
</tbody>
</table>

9.9.8 UBL Savings Income Fund

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>UBL Savings Income Fund 2010</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>UBL Savings Income Fund 2010</td>
</tr>
</tbody>
</table>

9.9.9 UBL Islamic Savings Fund

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>UBL Islamic Savings Fund 2010</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Assets Liabilities Revenue Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>UBL Islamic Savings Fund 2010</td>
</tr>
</tbody>
</table>
### UBL Islamic Retirement Savings Fund

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 01</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment during the year</td>
<td>90,000</td>
<td>-</td>
</tr>
<tr>
<td>Share of profit</td>
<td>8,720</td>
<td>-</td>
</tr>
<tr>
<td>Share of unrealised deficit on assets</td>
<td>(410)</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>96,310</td>
<td>-</td>
</tr>
<tr>
<td>Percentage holding as at December 31</td>
<td>96.09%</td>
<td>-</td>
</tr>
</tbody>
</table>

### UBL Retirement Savings Fund

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 01</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment / (redemption) during the year</td>
<td>90,000</td>
<td>-</td>
</tr>
<tr>
<td>Share of profit</td>
<td>9,665</td>
<td>-</td>
</tr>
<tr>
<td>Share of unrealised surplus on assets</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>99,681</td>
<td>-</td>
</tr>
<tr>
<td>Percentage holding as at December 31</td>
<td>89.84%</td>
<td>-</td>
</tr>
</tbody>
</table>

### UBL Capital Protected Fund - I

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 01</td>
<td>64,905</td>
<td>75,500</td>
</tr>
<tr>
<td>(Redemption) / Investment during the year</td>
<td>(1,105)</td>
<td>1,122</td>
</tr>
<tr>
<td>Share of (loss) / profit</td>
<td>(27,523)</td>
<td>13,577</td>
</tr>
<tr>
<td>Share of unrealised deficit on assets</td>
<td>(19)</td>
<td>-</td>
</tr>
<tr>
<td>Reversal / (impairment) loss</td>
<td>36,258</td>
<td>90,299</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>61,652</td>
<td>64,905</td>
</tr>
<tr>
<td>Percentage holding as at December 31</td>
<td>11.61%</td>
<td>11.61%</td>
</tr>
</tbody>
</table>

### Notes

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>856,256</td>
<td>782,298</td>
</tr>
<tr>
<td>Liabilities</td>
<td>10,283</td>
<td>4,605</td>
</tr>
<tr>
<td>Revenue</td>
<td>85,644</td>
<td>134,019</td>
</tr>
<tr>
<td>Profit</td>
<td>68,440</td>
<td>121,250</td>
</tr>
</tbody>
</table>

### UBL Insurers Limited

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 1</td>
<td>67,583</td>
<td>52,154</td>
</tr>
<tr>
<td>Investment during the year</td>
<td>90,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Share of loss</td>
<td>(7,545)</td>
<td>(44,571)</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>150,038</td>
<td>67,583</td>
</tr>
<tr>
<td>Percentage holding as at December 31</td>
<td>30.00%</td>
<td>30.00%</td>
</tr>
</tbody>
</table>

### Oman United Exchange Company

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as at January 01</td>
<td>71,399</td>
<td>72,307</td>
</tr>
<tr>
<td>Share of profit</td>
<td>15,838</td>
<td>22,586</td>
</tr>
<tr>
<td>Dividend distribution</td>
<td>(22,129)</td>
<td>(23,494)</td>
</tr>
<tr>
<td>Balance as at December 31</td>
<td>65,108</td>
<td>71,399</td>
</tr>
<tr>
<td>Percentage holding as at December 31</td>
<td>25.00%</td>
<td>25.00%</td>
</tr>
</tbody>
</table>

### Notes

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

- **Oman United Exchange Company LLC** is incorporated in the Sultanate of Oman as a limited liability company and is primarily engaged in money changing, issuing of drafts and the purchase and sale of travellers cheques.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Loans, cash credits, running finances, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.2</td>
<td>In Pakistan</td>
<td>228,034,418</td>
<td>244,389,450</td>
<td>40,726,130</td>
<td>32,220,534</td>
<td>268,760,548</td>
</tr>
<tr>
<td></td>
<td>Outside Pakistan</td>
<td>82,913,093</td>
<td>89,370,415</td>
<td>5,219,441</td>
<td>5,028,007</td>
<td>88,132,534</td>
</tr>
<tr>
<td></td>
<td></td>
<td>310,947,511</td>
<td>333,759,865</td>
<td>45,945,571</td>
<td>37,248,541</td>
<td>356,893,082</td>
</tr>
<tr>
<td>Bills discounted and purchased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(excluding government treasury bills)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.5</td>
<td>Payable in Pakistan</td>
<td>12,429,950</td>
<td>11,607,055</td>
<td>2,235,582</td>
<td>2,400,013</td>
<td>14,665,532</td>
</tr>
<tr>
<td></td>
<td>Payable outside Pakistan</td>
<td>4,489,485</td>
<td>5,061,796</td>
<td>431,925</td>
<td>416,683</td>
<td>4,921,410</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16,919,435</td>
<td>16,668,851</td>
<td>2,667,507</td>
<td>2,816,696</td>
<td>19,586,942</td>
</tr>
<tr>
<td></td>
<td>Advances - gross</td>
<td>327,866,946</td>
<td>350,428,716</td>
<td>48,613,078</td>
<td>40,065,237</td>
<td>376,480,024</td>
</tr>
<tr>
<td>Provision against advances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.5</td>
<td>Specific</td>
<td>-</td>
<td>-</td>
<td>(33,544,116)</td>
<td>(27,700,850)</td>
<td>(33,544,116)</td>
</tr>
<tr>
<td></td>
<td>General</td>
<td>(1,425,496)</td>
<td>(713,507)</td>
<td>-</td>
<td>-</td>
<td>(1,425,496)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1,425,496)</td>
<td>(713,507)</td>
<td>(33,544,116)</td>
<td>(27,700,850)</td>
<td>(34,969,612)</td>
</tr>
<tr>
<td></td>
<td>Advances - net of provision</td>
<td>326,441,450</td>
<td>349,715,209</td>
<td>15,068,962</td>
<td>12,364,387</td>
<td>341,510,412</td>
</tr>
</tbody>
</table>

10.1 Particulars of advances - gross

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.1.1</td>
<td>In local currency</td>
<td>235,079,268</td>
<td>253,182,865</td>
<td>42,816,359</td>
<td>33,781,868</td>
<td>277,895,627</td>
</tr>
<tr>
<td>In foreign currencies</td>
<td>92,787,678</td>
<td>97,245,851</td>
<td>5,796,719</td>
<td>6,283,369</td>
<td>98,584,397</td>
<td>103,529,220</td>
</tr>
<tr>
<td></td>
<td></td>
<td>327,866,946</td>
<td>350,428,716</td>
<td>48,613,078</td>
<td>40,065,237</td>
<td>376,480,024</td>
</tr>
<tr>
<td>10.1.2</td>
<td>Short term</td>
<td>247,828,594</td>
<td>232,398,519</td>
<td>-</td>
<td>-</td>
<td>247,828,594</td>
</tr>
<tr>
<td>Long term</td>
<td>80,038,352</td>
<td>118,030,197</td>
<td>48,613,078</td>
<td>40,065,237</td>
<td>128,651,430</td>
<td>158,095,434</td>
</tr>
<tr>
<td></td>
<td></td>
<td>327,866,946</td>
<td>350,428,716</td>
<td>48,613,078</td>
<td>40,065,237</td>
<td>376,480,024</td>
</tr>
</tbody>
</table>

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

10.3 Non-performing advances include advances having gross book value of Rs.5,774.675 million (2009: Rs.1,596.136 million) and net book value of Rs.2,110.614 million (2009: Rs.919.006 million) which, though restructured and performing have been placed under non-performing status as required by the revised Prudential Regulations issued by the SBP, which requires monitoring for at least one year before any upgradation is considered.
10.4 Advances include Rs.48.613 million (2009: Rs.40.065 million) which have been placed under non-performing status as detailed below:

<table>
<thead>
<tr>
<th>Category of Classification</th>
<th>Domestic</th>
<th>Overseas</th>
<th>Total</th>
<th>Domestic</th>
<th>Overseas</th>
<th>Total</th>
<th>Domestic</th>
<th>Overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Other Assets Especially Mentioned ***</td>
<td>336,651</td>
<td>-</td>
<td>336,651</td>
<td>1,414,035</td>
<td>259,344</td>
<td>1,673,379</td>
<td>1,414,035</td>
<td>259,344</td>
<td>1,673,379</td>
</tr>
<tr>
<td><strong>Substandard</strong></td>
<td>6,320,318</td>
<td>1,037,361</td>
<td>7,357,679</td>
<td>27,239,551</td>
<td>259,344</td>
<td>27,498,895</td>
<td>27,239,551</td>
<td>259,344</td>
<td>27,498,895</td>
</tr>
<tr>
<td><strong>Doubtful</strong></td>
<td>5,716,839</td>
<td>3,005,088</td>
<td>8,721,927</td>
<td>1,530,397</td>
<td>1,502,546</td>
<td>3,032,943</td>
<td>1,530,397</td>
<td>1,502,546</td>
<td>3,032,943</td>
</tr>
<tr>
<td><strong>Loss</strong></td>
<td>30,587,904</td>
<td>1,608,917</td>
<td>32,196,821</td>
<td>10,539,551</td>
<td>6,092,554</td>
<td>16,632,105</td>
<td>10,539,551</td>
<td>6,092,554</td>
<td>16,632,105</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>42,961,712</td>
<td>5,651,366</td>
<td>48,613,078</td>
<td>30,183,983</td>
<td>3,360,133</td>
<td>33,544,116</td>
<td>30,183,983</td>
<td>3,360,133</td>
<td>33,544,116</td>
</tr>
</tbody>
</table>

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

10.5 Particulars of provision against advances

<table>
<thead>
<tr>
<th>Note</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>27,700,850</td>
<td>713,507</td>
<td>28,414,357</td>
<td>18,567,383</td>
<td>1,223,697</td>
<td>19,791,080</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>196,861</td>
<td>-</td>
<td>196,861</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27,907,711</td>
<td>713,507</td>
<td>28,621,218</td>
<td>18,567,383</td>
<td>1,223,697</td>
<td>19,791,080</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>30,183,983</td>
<td>1,010,327</td>
<td>31,194,310</td>
<td>24,327,702</td>
<td>713,507</td>
<td>25,041,209</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>196,861</td>
<td>-</td>
<td>196,861</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30,380,844</td>
<td>1,010,327</td>
<td>31,391,171</td>
<td>24,327,702</td>
<td>713,507</td>
<td>25,041,209</td>
</tr>
</tbody>
</table>

10.5.1 General provision represents provision amounting to Rs.375.327 million (2009: Rs.569,195 million) against consumer finance portfolio as required by the Prudential Regulations issued by the SBP, Rs.415.169 million (2009: Rs.144,311 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries in which the overseas branches operate. General provisions also include an amount of Rs.635 million (2009: Rs.Nil) which the Group carries as matter of prudence given the current economic environment prevailing in Pakistan and is based on management estimates.

10.5.2 Particulars of provision against advances

<table>
<thead>
<tr>
<th>Note</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
<th>Specific</th>
<th>General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In local currency</td>
<td>30,183,984</td>
<td>31,194,310</td>
<td>61,378,294</td>
<td>24,327,702</td>
<td>569,195</td>
<td>24,896,897</td>
</tr>
<tr>
<td>In foreign currencies</td>
<td>30,183,984</td>
<td>31,194,310</td>
<td>61,378,294</td>
<td>24,327,702</td>
<td>569,195</td>
<td>24,896,897</td>
</tr>
</tbody>
</table>

Closing balance | 33,544,116 | 34,969,612 | 68,513,728 | 27,700,850 | 713,507 | 28,414,357 |
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

10.6 Particulars of write-offs

10.6.1 Against provisions

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td>10.5</td>
<td>562,247</td>
<td>1,285,082</td>
</tr>
<tr>
<td></td>
<td>1,007,896</td>
<td>1,485,976</td>
</tr>
<tr>
<td>10.6.1</td>
<td>1,570,143</td>
<td>2,771,058</td>
</tr>
</tbody>
</table>

10.6.2 Write-offs of Rs.500,000 and above

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td>10.7</td>
<td>764,563</td>
<td>1,588,946</td>
</tr>
<tr>
<td></td>
<td>17,221</td>
<td>-</td>
</tr>
<tr>
<td>10.6.3</td>
<td>788,359</td>
<td>1,182,112</td>
</tr>
<tr>
<td></td>
<td>1,570,143</td>
<td>2,771,058</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
</tbody>
</table>

10.8 Particulars of loans and advances to executives, directors, associated companies etc.

Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td></td>
<td>1,536,523</td>
<td>1,057,982</td>
</tr>
<tr>
<td></td>
<td>717,242</td>
<td>1,020,264</td>
</tr>
<tr>
<td></td>
<td>(633,956)</td>
<td>(555,826)</td>
</tr>
<tr>
<td></td>
<td>1,228</td>
<td>14,103</td>
</tr>
<tr>
<td></td>
<td>1,621,037</td>
<td>1,536,523</td>
</tr>
</tbody>
</table>

11. OPERATING FIXED ASSETS

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
</tbody>
</table>

11.1 Capital work-in-progress

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
</tbody>
</table>

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

11.1.2 This includes Rs.516.081 million (2009: Rs.221.56 million) paid in respect of the Core Banking Software of the Bank.
## Notes to and Forming Part of the Consolidated Financial Statements

### For the Year Ended December 31, 2010

#### 11.2 Property and Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ijarah assets - note 11.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets held under leasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating lease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold land</td>
<td>$1,825,754 (105,306)</td>
<td>$1,825,754 (105,306)</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$12,602,015 (9,060)</td>
<td>$12,602,015 (9,060)</td>
</tr>
<tr>
<td><strong>Buildings on freehold land</strong></td>
<td>$1,906,204 (50,015)</td>
<td>$1,906,204 (50,015)</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$2,192,088 (91,124)</td>
<td>$2,192,088 (91,124)</td>
</tr>
<tr>
<td><strong>Leasehold improvements</strong></td>
<td>$1,495,013 (160,075)</td>
<td>$1,495,013 (160,075)</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td>$2,182,998 (1,970)</td>
<td>$2,182,998 (1,970)</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical, office and computer equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>$978,099 (92,933)</td>
<td>$978,099 (92,933)</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$13,810,212 (59,608)</td>
<td>$13,810,212 (59,608)</td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cost/Revaluation

<table>
<thead>
<tr>
<th>Description</th>
<th>At December 31, 2009</th>
<th>Change for the year</th>
<th>Exchange adjustment / Other adjustments</th>
<th>At December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COST/REVALUATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>At January 01, 2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold land</td>
<td>$1,835,754</td>
<td></td>
<td></td>
<td>$1,835,754</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$12,602,015</td>
<td></td>
<td></td>
<td>$12,602,015</td>
</tr>
<tr>
<td><strong>Buildings on freehold land</strong></td>
<td>$1,892,015</td>
<td></td>
<td></td>
<td>$1,892,015</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$2,192,088</td>
<td></td>
<td></td>
<td>$2,192,088</td>
</tr>
<tr>
<td><strong>Leasehold improvements</strong></td>
<td>$1,495,013</td>
<td></td>
<td></td>
<td>$1,495,013</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td>$2,182,998</td>
<td></td>
<td></td>
<td>$2,182,998</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical, office and computer equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Accumulated Depreciation

<table>
<thead>
<tr>
<th>Description</th>
<th>At December 31, 2009</th>
<th>Change for the year</th>
<th>Exchange adjustment / Other adjustments</th>
<th>At December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accumulated depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>At January 01, 2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold land</td>
<td>$1,835,754</td>
<td></td>
<td></td>
<td>$1,835,754</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$12,602,015</td>
<td></td>
<td></td>
<td>$12,602,015</td>
</tr>
<tr>
<td><strong>Buildings on freehold land</strong></td>
<td>$1,892,015</td>
<td></td>
<td></td>
<td>$1,892,015</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$2,192,088</td>
<td></td>
<td></td>
<td>$2,192,088</td>
</tr>
<tr>
<td><strong>Leasehold improvements</strong></td>
<td>$1,495,013</td>
<td></td>
<td></td>
<td>$1,495,013</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td>$2,182,998</td>
<td></td>
<td></td>
<td>$2,182,998</td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical, office and computer equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Net book value

<table>
<thead>
<tr>
<th>Description</th>
<th>At December 31, 2010</th>
<th>Annual rate of depreciation %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COST/REVALUATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>At January 01, 2010</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold land</td>
<td>$1,825,754</td>
<td></td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$12,602,015</td>
<td></td>
</tr>
<tr>
<td><strong>Buildings on freehold land</strong></td>
<td>$1,906,204</td>
<td></td>
</tr>
<tr>
<td>Leasehold land</td>
<td>$2,192,088</td>
<td></td>
</tr>
<tr>
<td><strong>Leasehold improvements</strong></td>
<td>$1,495,013</td>
<td></td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td>$2,182,998</td>
<td></td>
</tr>
<tr>
<td><strong>Buildings on leasehold land</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical, office and computer equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Other

- **At January 01, 2010**
  - (deletions)
  - (33,732) (9,699) - (9,699)
  - (33,732) (9,699) - (9,699)
  - (33,732) (9,699) - (9,699)
- **At December 31, 2009**
  - (3,772) (9,699) - (9,699)
  - (3,772) (9,699) - (9,699)
  - (3,772) (9,699) - (9,699)

### Reversal of Adjustments

- **Surplus on reclassification**
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
- **Depreciation / revaluation / reclassification**
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
- **Reclassification adjustment / other adjustments**
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
- **Exchange adjustment / Other adjustments**
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
  - (281,601) (281,601) - (281,601)
11.3 Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated Amortization</td>
</tr>
<tr>
<td></td>
<td>At January 01, 2010</td>
<td>Exchange Adjustment/ Other adjustments</td>
</tr>
<tr>
<td></td>
<td>Additions/ (deletions)</td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>1,052,072</td>
<td>(4,140)</td>
</tr>
<tr>
<td></td>
<td>672,056</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>19,899</td>
<td>(2,691)</td>
</tr>
</tbody>
</table>

11.4 Revaluation of properties

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

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

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold land</td>
<td>1,484,906</td>
<td>1,484,906</td>
</tr>
<tr>
<td>Leasehold land</td>
<td>9,168,903</td>
<td>9,472,729</td>
</tr>
<tr>
<td>Buildings on freehold land</td>
<td>1,134,537</td>
<td>1,179,068</td>
</tr>
<tr>
<td>Buildings on leasehold land</td>
<td>1,584,701</td>
<td>1,679,280</td>
</tr>
</tbody>
</table>

11.5 Carrying amount of temporarily idle properties of the Group

11.6 The cost of fully depreciated assets still in use

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>267,283</td>
<td>251,347</td>
</tr>
<tr>
<td>Electrical, office and computer equipment</td>
<td>1,772,687</td>
<td>1,329,088</td>
</tr>
<tr>
<td>Vehicles</td>
<td>69,474</td>
<td>33,601</td>
</tr>
<tr>
<td></td>
<td>2,109,444</td>
<td>1,614,036</td>
</tr>
</tbody>
</table>

11.7 Details of disposals of operating fixed assets

The information relating to operating fixed assets disposed off during the year is given in Annexure 'C' and is an integral part of these consolidated financial statements.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 (Rupees in '000)</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>103,811</td>
<td>270,864</td>
</tr>
<tr>
<td>Later than one year but not later than five years</td>
<td>242,387</td>
<td>436,129</td>
</tr>
<tr>
<td>Later than five years</td>
<td>94</td>
<td>3,020</td>
</tr>
<tr>
<td></td>
<td>346,292</td>
<td>710,013</td>
</tr>
</tbody>
</table>

12. DEFERRED TAX ASSET - NET

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

12.1 Movement in temporary differences during the year

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductible temporary differences on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Recognized tax losses on subsidiary</td>
<td>21.2</td>
<td></td>
</tr>
<tr>
<td>- Deficit on revaluation of investments</td>
<td>1,066,434</td>
<td></td>
</tr>
<tr>
<td>- Ijarah financing</td>
<td>52,314</td>
<td></td>
</tr>
<tr>
<td>- Workers' Welfare Fund</td>
<td>139,142</td>
<td></td>
</tr>
<tr>
<td>- Cash flow hedge reserve</td>
<td>111,148</td>
<td></td>
</tr>
<tr>
<td>- Provision against off balance sheet items, post retirement medical benefits and advances</td>
<td>4,665,734</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,076,245</td>
<td>53,040</td>
</tr>
<tr>
<td>Taxable temporary differences on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Surplus on revaluation of fixed assets</td>
<td>21.1</td>
<td></td>
</tr>
<tr>
<td>- Accelerated tax depreciation</td>
<td>5,426,431</td>
<td></td>
</tr>
<tr>
<td></td>
<td>649,814</td>
<td>49,948</td>
</tr>
</tbody>
</table>

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

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

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<th>Note</th>
<th>2010 (Rupees in '000)</th>
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<td></td>
</tr>
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<td></td>
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<td></td>
<td></td>
</tr>
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</tr>
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<td>3,020</td>
</tr>
<tr>
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<th>2009</th>
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</thead>
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<tr>
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<td>21.2</td>
<td></td>
</tr>
<tr>
<td>- Deficit on revaluation of investments</td>
<td>1,066,434</td>
<td></td>
</tr>
<tr>
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<td>52,314</td>
<td></td>
</tr>
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<td>139,142</td>
<td></td>
</tr>
<tr>
<td>- Cash flow hedge reserve</td>
<td>111,148</td>
<td></td>
</tr>
<tr>
<td>- Provision against off balance sheet items, post retirement medical benefits and advances</td>
<td>4,665,734</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,076,245</td>
<td>53,040</td>
</tr>
<tr>
<td>Taxable temporary differences on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Surplus on revaluation of fixed assets</td>
<td>21.1</td>
<td></td>
</tr>
<tr>
<td>- Accelerated tax depreciation</td>
<td>5,426,431</td>
<td></td>
</tr>
<tr>
<td></td>
<td>649,814</td>
<td>49,948</td>
</tr>
</tbody>
</table>
13. OTHER ASSETS

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>Income / mark-up accrued in local currency</td>
<td>11,753,658</td>
<td>11,036,265</td>
</tr>
<tr>
<td>Income / mark-up accrued in foreign currency</td>
<td>1,227,402</td>
<td>361,643</td>
</tr>
<tr>
<td>Advance taxation - net of provision for taxation</td>
<td>13.1</td>
<td>12,981,060</td>
</tr>
<tr>
<td>Receivable from staff retirement funds</td>
<td>66,595</td>
<td>1,996,049</td>
</tr>
<tr>
<td>Receivable on account of encashment of savings certificates</td>
<td>43,086</td>
<td>37,393</td>
</tr>
<tr>
<td>Receivable in respect of derivative transactions</td>
<td>31,121</td>
<td>124,977</td>
</tr>
<tr>
<td>Receivable against sale of securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receivable from other banks against telegraphic transfers and demand drafts</td>
<td>1,219,425</td>
<td>836,556</td>
</tr>
<tr>
<td>Unrealized gain on forward foreign exchange contracts</td>
<td>145,346</td>
<td>141,324</td>
</tr>
<tr>
<td>Unrealized gain on derivative financial instruments</td>
<td>19.4.1 &amp; 23.2</td>
<td>693,675</td>
</tr>
<tr>
<td>Advance against Murabaha</td>
<td>-</td>
<td>383,929</td>
</tr>
<tr>
<td>Suspense accounts</td>
<td>237,439</td>
<td>187,143</td>
</tr>
<tr>
<td>Stationery and stamps on hand</td>
<td>151,528</td>
<td>143,825</td>
</tr>
<tr>
<td>Advances, deposits, advance rent and other prepayments</td>
<td>768,894</td>
<td>805,474</td>
</tr>
<tr>
<td>Non-banking assets acquired in satisfaction of claim</td>
<td>13.2</td>
<td>1,192,095</td>
</tr>
<tr>
<td>Receivable from non-controlling interest</td>
<td>-</td>
<td>10,312</td>
</tr>
<tr>
<td>Others</td>
<td>1,275,329</td>
<td>1,208,513</td>
</tr>
<tr>
<td>Provision held against other assets</td>
<td>13.3</td>
<td>(2,352,444)</td>
</tr>
<tr>
<td>Other assets (net of provisions)</td>
<td>20,146,272</td>
<td>17,449,580</td>
</tr>
</tbody>
</table>

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

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

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

The tax returns for Azad Kashmir (AK) Branches have been filed for tax years 2005 to 2010 (financial years ended December 31, 2004 to 2009) under the provisions of section 120(1) read with section 114 of the Ordinance and in compliance with the terms of agreement between banks and the Azad Kashmir Council in May 2005. The returns filed are considered as deemed assessment orders under the law.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.2</td>
<td>Market value of non-banking assets acquired in satisfaction of claims</td>
<td>1,221,295</td>
</tr>
<tr>
<td>13.3</td>
<td>Provision against other assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opening balance</td>
<td>2,633,892</td>
</tr>
<tr>
<td></td>
<td>Exchange adjustments</td>
<td>8,638</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,642,530</td>
</tr>
<tr>
<td></td>
<td>Charge for the year</td>
<td>40,598</td>
</tr>
<tr>
<td></td>
<td>Reversals</td>
<td>(162,859)</td>
</tr>
<tr>
<td></td>
<td>Transfers</td>
<td>221,772</td>
</tr>
<tr>
<td></td>
<td>Amounts written off</td>
<td>(389,597)</td>
</tr>
<tr>
<td></td>
<td>Closing balance</td>
<td>2,352,444</td>
</tr>
</tbody>
</table>

14. CONTINGENT ASSETS

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

15. BILLS PAYABLE

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Pakistan</td>
<td>4,136,487</td>
<td>4,944,903</td>
</tr>
<tr>
<td>Outside Pakistan</td>
<td>938,213</td>
<td>221,458</td>
</tr>
<tr>
<td></td>
<td>5,074,700</td>
<td>5,166,361</td>
</tr>
</tbody>
</table>

16. BORROWINGS

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Pakistan</td>
<td>43,401,942</td>
<td>30,953,356</td>
</tr>
<tr>
<td>Outside Pakistan</td>
<td>4,229,872</td>
<td>6,214,921</td>
</tr>
<tr>
<td></td>
<td>47,631,814</td>
<td>37,168,277</td>
</tr>
</tbody>
</table>

16.1 Particulars of borrowings with respect to currencies

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>In local currency</td>
<td>43,401,942</td>
<td>30,953,356</td>
</tr>
<tr>
<td>In foreign currencies</td>
<td>4,229,872</td>
<td>6,214,921</td>
</tr>
<tr>
<td></td>
<td>47,631,814</td>
<td>37,168,277</td>
</tr>
</tbody>
</table>
16.2 Details of borrowings from financial institutions

Secured

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings from the State Bank of Pakistan under</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Export refinance scheme</td>
<td>16.3</td>
<td>14,840,163</td>
</tr>
<tr>
<td>- Refinance facility for modernization of SME</td>
<td>16.4</td>
<td>27,500</td>
</tr>
<tr>
<td>- Long-term fixed finance</td>
<td>16.5</td>
<td>2,444,872</td>
</tr>
<tr>
<td>- Long-term financing under export oriented projects</td>
<td>16.6</td>
<td>2,770,789</td>
</tr>
<tr>
<td>Repurchase agreement borrowings</td>
<td>16.7</td>
<td>22,412,235</td>
</tr>
</tbody>
</table>

Unsecured

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call borrowings</td>
<td>16.8</td>
<td>428,195</td>
</tr>
<tr>
<td>Overdrawn nostro accounts</td>
<td></td>
<td>452,682</td>
</tr>
<tr>
<td>Trading liabilities</td>
<td></td>
<td>806,942</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>16.9</td>
<td>3,448,436</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,136,255</td>
</tr>
<tr>
<td></td>
<td></td>
<td>47,631,814</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

16.9 This includes borrowing from an overseas bank for the development of Small and Medium Sized Enterprises (SMEs) in Pakistan, carries mark-up at the rate of six months LIBOR + 1.2% (2009: six months LIBOR + 1.2%) and is repayable by June 2013.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

17. DEPOSITS AND OTHER ACCOUNTS

Customers

<table>
<thead>
<tr>
<th>Type of Deposit</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed deposits</td>
<td>169,880,101</td>
<td>155,634,121</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>195,535,049</td>
<td>179,752,604</td>
</tr>
<tr>
<td>Sundry deposits</td>
<td>4,767,873</td>
<td>4,643,923</td>
</tr>
<tr>
<td>Margin deposits</td>
<td>3,696,330</td>
<td>4,319,476</td>
</tr>
<tr>
<td>Current accounts - remunerative</td>
<td>4,235,253</td>
<td>2,820,934</td>
</tr>
<tr>
<td>Current accounts - non-remunerative</td>
<td>184,647,813</td>
<td>154,283,090</td>
</tr>
</tbody>
</table>

Total Customers Deposits                                      | 562,762,419      | 501,454,148      |

Financial Institutions

<table>
<thead>
<tr>
<th>Type of Deposit</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remunerative deposits</td>
<td>2,359,999</td>
<td>1,529,551</td>
</tr>
<tr>
<td>Non-remunerative deposits</td>
<td>2,488,840</td>
<td>847,973</td>
</tr>
</tbody>
</table>

Total Financial Institutions Deposits                     | 4,848,839        | 2,377,524        |

Total Deposits and Other Accounts                        | 567,611,258      | 503,831,672      |

17.1 Particulars of deposits and other accounts

In local currency | 415,661,258 | 368,267,813 |
In foreign currencies | 151,950,000 | 135,563,859 |

Total Deposits and Other Accounts                        | 567,611,258      | 503,831,672      |

18. SUB-ORDINATED LOANS - UNSECURED

<table>
<thead>
<tr>
<th>Note</th>
<th>Issue Date</th>
<th>Tenor</th>
<th>Rate % per annum</th>
<th>Maturity</th>
<th>Frequency of principal redemption</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.1</td>
<td>August 2004</td>
<td>8 years</td>
<td>8.45%</td>
<td>August 2012</td>
<td>Semi Annual</td>
<td>1,995,388</td>
<td>1,996,160</td>
</tr>
<tr>
<td>18.1</td>
<td>March 2005</td>
<td>8 years</td>
<td>9.49%</td>
<td>March 2013</td>
<td>Semi Annual</td>
<td>1,999,560</td>
<td>1,999,640</td>
</tr>
<tr>
<td>18.1</td>
<td>September 2006</td>
<td>8 years / 6 months KIBOR+1.70%</td>
<td>September 2014</td>
<td>Semi Annual</td>
<td>1,996,800</td>
<td>1,997,600</td>
<td></td>
</tr>
<tr>
<td>18.2</td>
<td>February 2008</td>
<td>10 Years</td>
<td>KIBOR+0.65%</td>
<td>February 2018</td>
<td>Semi Annual</td>
<td>5,994,000</td>
<td>5,996,400</td>
</tr>
</tbody>
</table>

Total Sub-Ordained Loans - Unsecured                     | 11,985,748       | 11,989,800       |

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

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

19. OTHER LIABILITIES

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark-up / return / interest payable in local currency</td>
<td>8,427,554</td>
<td>7,015,580</td>
</tr>
<tr>
<td>Mark-up / return / interest payable in foreign currency</td>
<td>334,899</td>
<td>349,630</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>19.1</td>
<td>2,283,207</td>
</tr>
<tr>
<td>Branch adjustment account</td>
<td>1,399,052</td>
<td>839,346</td>
</tr>
<tr>
<td>Payable against purchase of securities</td>
<td>236,683</td>
<td>197,722</td>
</tr>
<tr>
<td>Payable under severance scheme</td>
<td>32,563</td>
<td>33,452</td>
</tr>
<tr>
<td>Unearned commission</td>
<td>191</td>
<td>151,611</td>
</tr>
<tr>
<td>Provision against off - balance sheet obligations</td>
<td>19.2</td>
<td>669,891</td>
</tr>
<tr>
<td>Unrealized loss on forward foreign exchange contracts</td>
<td>664,027</td>
<td>207,567</td>
</tr>
<tr>
<td>Deferred liabilities</td>
<td>19.3</td>
<td>2,113,439</td>
</tr>
<tr>
<td>Unrealised loss on derivative financial instruments</td>
<td>19.4.1 &amp; 23.2</td>
<td>753,854</td>
</tr>
<tr>
<td>Workers’ Welfare Fund payable</td>
<td>418,384</td>
<td>404,622</td>
</tr>
<tr>
<td>Insurance payable against consumer assets</td>
<td>183,095</td>
<td>393,288</td>
</tr>
<tr>
<td>Others</td>
<td>283,684</td>
<td>260,088</td>
</tr>
</tbody>
</table>

Total Other Liabilities                                   | 17,951,943       | 14,946,827       |
19.1 This includes an accrual of Rs.255 million (2009: Rs.216 million) for the year ended December 31, 2010 in respect of employee benefit scheme. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of the Bank. The liability of the Group in respect of this scheme is fixed and is approved each year by the Board of Directors of the Bank. The scheme for each year is managed by a separate Trust formed for this purpose.

19.2 Provision against off - balance sheet obligations

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>682,141</td>
<td>651,697</td>
</tr>
<tr>
<td>Charge during the year</td>
<td>29</td>
<td>-</td>
</tr>
<tr>
<td>Transfers during the year</td>
<td>-</td>
<td>10,194</td>
</tr>
<tr>
<td>Payments during the year</td>
<td>(12,250)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>669,891</td>
<td>682,141</td>
</tr>
</tbody>
</table>

19.3 Deferred liabilities

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

19.4 Unrealized gain / (loss) on derivative financial instruments

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized loss on derivative financial instruments - net</td>
<td>13</td>
</tr>
<tr>
<td>Unrealized gain on derivative financial instruments</td>
<td>19</td>
</tr>
<tr>
<td>23.2</td>
<td>(60,179)</td>
</tr>
</tbody>
</table>

20. SHARE CAPITAL

20.1 Authorized Capital

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>2,000,000,000</td>
</tr>
<tr>
<td>Ordinary shares of Rs.10 each</td>
<td>20,000,000</td>
</tr>
</tbody>
</table>
20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs. 10 each

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully paid-up ordinary shares of Rs.10 each</td>
<td>518,000,000</td>
<td>518,000,000</td>
</tr>
<tr>
<td></td>
<td>706,179,687</td>
<td>594,890,625</td>
</tr>
<tr>
<td></td>
<td>1,224,179,687</td>
<td>1,112,890,625</td>
</tr>
<tr>
<td></td>
<td>5,180,000</td>
<td>5,180,000</td>
</tr>
<tr>
<td></td>
<td>7,061,798</td>
<td>5,948,907</td>
</tr>
<tr>
<td></td>
<td>12,241,798</td>
<td>11,128,907</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

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

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

Surplus arising on revaluation of assets - net of tax:

<table>
<thead>
<tr>
<th>Fixed assets</th>
<th>2010: 10,865,342</th>
<th>2009: 10,870,484</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group’s share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td>2010: 11,252,048</td>
<td>2009: 11,055,841</td>
</tr>
<tr>
<td>Group’s share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21.1 20.865,342 20.870,484 185,357

21.2 199,76,173 44,268
### 21.1 Surplus on revaluation of fixed assets

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus on revaluation of fixed assets at January 01</td>
<td>16,331,741</td>
<td>12,957,920</td>
</tr>
<tr>
<td>Revaluation of fixed assets during the year / adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>467,625</td>
<td>3,646,052</td>
</tr>
<tr>
<td>Written off during the year</td>
<td>(12,251)</td>
<td>146,055</td>
</tr>
<tr>
<td>Transferred to unappropriated profit in respect of incremental depreciation charged during the year</td>
<td>(256,075)</td>
<td>(254,977)</td>
</tr>
<tr>
<td>Related deferred tax liability of incremental depreciation charged during the year</td>
<td>(12.1)</td>
<td>(136,238)</td>
</tr>
<tr>
<td>Less: Related deferred tax liability on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation as on January 01</td>
<td>5,275,900</td>
<td>3,972,755</td>
</tr>
<tr>
<td>Revaluation of fixed assets during the year</td>
<td>3,092</td>
<td>1,448,858</td>
</tr>
<tr>
<td>Written off during the year</td>
<td>-</td>
<td>(9,475)</td>
</tr>
<tr>
<td>Incremental depreciation charged on related assets</td>
<td>(136,794)</td>
<td>(136,238)</td>
</tr>
<tr>
<td>Less: Related deferred tax liability on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Treasury Bills</td>
<td>(55,830)</td>
<td>20,995</td>
</tr>
<tr>
<td>Pakistan Investment Bonds</td>
<td>(1,937,605)</td>
<td>(1,129,224)</td>
</tr>
<tr>
<td>Listed shares</td>
<td>(34,452)</td>
<td>95,526</td>
</tr>
<tr>
<td>Mutual fund units</td>
<td>(709)</td>
<td>(2,302)</td>
</tr>
<tr>
<td>Term Finance Certificates, Sukuk, other Bonds etc</td>
<td>(27,242)</td>
<td>(41,213)</td>
</tr>
<tr>
<td>Overseas securities</td>
<td>(1,267,279)</td>
<td>(1,986,189)</td>
</tr>
<tr>
<td>Related deferred tax asset</td>
<td>(3,323,117)</td>
<td>(3,042,607)</td>
</tr>
<tr>
<td>Less: Related deferred tax liability on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>5,142,198</td>
<td>5,275,900</td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td>11,252,048</td>
<td>11,055,841</td>
</tr>
<tr>
<td>Others</td>
<td>12.1</td>
<td></td>
</tr>
</tbody>
</table>

### 22. CONTINGENCIES AND COMMITMENTS

#### 22.1 Direct credit substitutes

Contingent liabilities in respect of guarantees given favouring

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>8,742,208</td>
<td>10,831,974</td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td>5,766,641</td>
<td>2,910,518</td>
</tr>
<tr>
<td>Others</td>
<td>6,124,874</td>
<td>7,396,201</td>
</tr>
</tbody>
</table>

#### 22.2 Transaction-related contingent liabilities

Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>82,423,478</td>
<td>77,448,985</td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td>2,470,740</td>
<td>3,311,075</td>
</tr>
<tr>
<td>Others</td>
<td>14,018,380</td>
<td>18,521,775</td>
</tr>
</tbody>
</table>

#### 22.3 Trade-related contingent liabilities

Contingent liabilities in respect of letters of credit opened favouring

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>58,188,686</td>
<td>56,186,541</td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td>760,593</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>69,387,773</td>
<td>62,787,741</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>98,912,598</td>
<td>99,281,835</td>
</tr>
<tr>
<td>Banking companies and other financial institutions</td>
<td>20,633,723</td>
<td>21,138,693</td>
</tr>
<tr>
<td>Others</td>
<td>128,337,052</td>
<td>118,974,282</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

22.4 Other contingencies

Claims against the Group not acknowledged as debts

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>29,938,014</td>
<td>20,670,923</td>
</tr>
</tbody>
</table>

22.5 Commitments in respect of forward lending

The Group makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

22.6 Commitments in respect of forward foreign exchange contracts

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td>85,906,329</td>
<td>47,499,455</td>
</tr>
<tr>
<td>Purchase</td>
<td>131,134,706</td>
<td>92,086,590</td>
</tr>
</tbody>
</table>

22.7 Commitments in respect of derivatives

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>6,985,703</td>
<td>11,014,381</td>
</tr>
<tr>
<td>Cross currency swaps</td>
<td>35,570,843</td>
<td>36,372,837</td>
</tr>
<tr>
<td>Swaptions</td>
<td></td>
<td>2,527,248</td>
</tr>
<tr>
<td>FX Options - purchased</td>
<td>2,055,442</td>
<td>410,535</td>
</tr>
<tr>
<td>FX Options - sold</td>
<td>2,055,442</td>
<td>410,535</td>
</tr>
<tr>
<td>Forward sale contracts of government securities</td>
<td>441,981</td>
<td>-</td>
</tr>
</tbody>
</table>

22.8 Commitments in respect of capital expenditure

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>576,398</td>
<td>575,176</td>
</tr>
</tbody>
</table>

22.9 For contingencies relating to taxation refer note 13.1

23. DERIVATIVE INSTRUMENTS

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

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

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

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

The authority for approving policies lies with the Board of Directors (BoD) and Board Risk Management Committee (BRMC), who has delegated its powers to the Market Risk Committee (MRC).
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

With regard to derivatives, the MRC is authorized to:

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

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

Derivative Risk Management

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

Credit Risk

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

Market Risk

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

Liquidity Risk

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

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

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. A state-of-the-art system has been put in place which handles derivative transactions. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from the policies and procedures. The Group’s Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices, end-user roles and responsibilities.
The Bank has installed a state of the art derivatives system called ‘Super Derivatives’ which provides an end-to-end solution. Other than supporting the routine transactional process it also provides analytical tools to measure various risk exposures, stress tests and sensitivity analysis.

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

### 23.1 Product Analysis

<table>
<thead>
<tr>
<th></th>
<th>Interest rate swaps</th>
<th>Cross currency swaps</th>
<th>Swaptions</th>
<th>FX options</th>
<th>Forward sale contracts of government securities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of contracts</td>
<td>Notional principal</td>
<td>Number of contracts</td>
<td>Notional principal</td>
<td>Number of contracts</td>
</tr>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td><strong>With Banks for</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging</td>
<td>4</td>
<td>3,475,777</td>
<td>4</td>
<td>14,996,850</td>
<td>-</td>
</tr>
<tr>
<td>Market making</td>
<td>3</td>
<td>1,871,064</td>
<td>2</td>
<td>2,201,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>With other entities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Making</td>
<td>4</td>
<td>1,638,862</td>
<td>9</td>
<td>18,372,993</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11</td>
<td>6,985,703</td>
<td>15</td>
<td>35,570,843</td>
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</tbody>
</table>

### 2009

<table>
<thead>
<tr>
<th></th>
<th>Interest rate swaps</th>
<th>Cross currency swaps</th>
<th>Swaptions</th>
<th>FX options</th>
<th>Forward sale contracts of government securities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of contracts</td>
<td>Notional principal</td>
<td>Number of contracts</td>
<td>Notional principal</td>
<td>Number of contracts</td>
</tr>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td><strong>With Banks for</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging</td>
<td>8</td>
<td>7,740,900</td>
<td>4</td>
<td>14,571,600</td>
<td>-</td>
</tr>
<tr>
<td>Market making</td>
<td>4</td>
<td>2,206,208</td>
<td>5</td>
<td>2,335,884</td>
<td>1</td>
</tr>
<tr>
<td><strong>With other entities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Making</td>
<td>8</td>
<td>1,067,273</td>
<td>8</td>
<td>19,465,353</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12</td>
<td>11,014,381</td>
<td>17</td>
<td>36,372,837</td>
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</tr>
</tbody>
</table>
23.2 Maturity analysis of derivatives

<table>
<thead>
<tr>
<th>Remaining Maturity</th>
<th>No. of contracts</th>
<th>Notional principal</th>
<th>Mark to market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Loss) Gain Net</td>
</tr>
<tr>
<td>Upto 1 Month</td>
<td>66</td>
<td>1,152,095</td>
<td>-</td>
</tr>
<tr>
<td>1 to 3 Month</td>
<td>101</td>
<td>3,425,771</td>
<td>(360)</td>
</tr>
<tr>
<td>3 to 6 Month</td>
<td>1</td>
<td>9,091</td>
<td>(264)</td>
</tr>
<tr>
<td>6 Month to 1 Year</td>
<td>2</td>
<td>1,050,000</td>
<td>(27,191)</td>
</tr>
<tr>
<td>1 to 2 Year</td>
<td>2</td>
<td>6,921,500</td>
<td>(19,363)</td>
</tr>
<tr>
<td>2 to 3 Year</td>
<td>8</td>
<td>6,039,258</td>
<td>(60,313)</td>
</tr>
<tr>
<td>3 to 5 Year</td>
<td>4</td>
<td>8,883,870</td>
<td>(816)</td>
</tr>
<tr>
<td>5 to 10 Year</td>
<td>8</td>
<td>19,627,826</td>
<td>(645,547)</td>
</tr>
<tr>
<td>Above 10 Year</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>192</strong></td>
<td><strong>47,109,411</strong></td>
<td>(753,854)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Remaining Maturity</th>
<th>No. of contracts</th>
<th>Notional principal</th>
<th>Mark to market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Loss) Gain Net</td>
</tr>
<tr>
<td>Upto 1 Month</td>
<td>2</td>
<td>40,000</td>
<td>(918)</td>
</tr>
<tr>
<td>1 to 3 Month</td>
<td>11</td>
<td>979,704</td>
<td>-</td>
</tr>
<tr>
<td>3 to 6 Month</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6 Month to 1 Year</td>
<td>7</td>
<td>1,225,196</td>
<td>(8,367)</td>
</tr>
<tr>
<td>1 to 2 Year</td>
<td>4</td>
<td>1,202,273</td>
<td>(61,448)</td>
</tr>
<tr>
<td>2 to 3 Year</td>
<td>2</td>
<td>6,975,000</td>
<td>(32,171)</td>
</tr>
<tr>
<td>3 to 5 Year</td>
<td>14</td>
<td>17,317,094</td>
<td>(145,045)</td>
</tr>
<tr>
<td>5 to 10 Year</td>
<td>6</td>
<td>22,996,269</td>
<td>(309,465)</td>
</tr>
<tr>
<td>Above 10 Year</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46</strong></td>
<td><strong>50,735,536</strong></td>
<td>(557,414)</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rupees in '000)</td>
<td>----</td>
</tr>
</tbody>
</table>

24. MARK-UP / RETURN / INTEREST EARNED

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>On loans and advances to customers</td>
<td>40,375,630</td>
<td>45,815,220</td>
</tr>
<tr>
<td>On lending to financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Call money lending</td>
<td>75,784</td>
<td>300,863</td>
</tr>
<tr>
<td>- Securities purchased under resale agreements</td>
<td>930,386</td>
<td>1,115,663</td>
</tr>
<tr>
<td>- Advances to financial institutions</td>
<td>243,905</td>
<td>348,117</td>
</tr>
<tr>
<td></td>
<td>1,250,075</td>
<td>1,764,643</td>
</tr>
<tr>
<td>On investments in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held for trading securities</td>
<td>798,013</td>
<td>942,613</td>
</tr>
<tr>
<td>- Available for sale securities</td>
<td>8,118,652</td>
<td>9,419,796</td>
</tr>
<tr>
<td>- Held to maturity securities</td>
<td>9,169,756</td>
<td>3,510,314</td>
</tr>
<tr>
<td>- Associates</td>
<td>3,828</td>
<td>18,532</td>
</tr>
<tr>
<td></td>
<td>18,090,249</td>
<td>13,891,255</td>
</tr>
<tr>
<td>On deposits with financial institutions</td>
<td>351,454</td>
<td>250,014</td>
</tr>
<tr>
<td>Discount income</td>
<td>33,002</td>
<td>24,330</td>
</tr>
<tr>
<td></td>
<td>60,100,410</td>
<td>61,745,462</td>
</tr>
</tbody>
</table>

25. MARK-UP / RETURN / INTEREST EXPENSED

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>On deposits</td>
<td>19,138,026</td>
<td>22,335,927</td>
</tr>
<tr>
<td>On securities sold under repurchase agreements</td>
<td>1,686,337</td>
<td>1,622,552</td>
</tr>
<tr>
<td>On other short - term borrowings</td>
<td>3,009,529</td>
<td>2,615,138</td>
</tr>
<tr>
<td>On long - term borrowings</td>
<td>1,428,292</td>
<td>1,514,905</td>
</tr>
<tr>
<td>Discount expense</td>
<td>171,666</td>
<td>234,750</td>
</tr>
<tr>
<td></td>
<td>25,433,850</td>
<td>28,323,272</td>
</tr>
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</table>

26. GAIN ON SALE OF SECURITIES - NET

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government Securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Treasury Bills</td>
<td>(598)</td>
<td>108,683</td>
</tr>
<tr>
<td>Pakistan Investment Bonds</td>
<td>(12,899)</td>
<td>46,290</td>
</tr>
<tr>
<td></td>
<td>(13,497)</td>
<td>154,973</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed companies</td>
<td>118,090</td>
<td>331,362</td>
</tr>
<tr>
<td></td>
<td>83,571</td>
<td>212,940</td>
</tr>
<tr>
<td>Other securities</td>
<td>188,164</td>
<td>699,275</td>
</tr>
</tbody>
</table>

27. OTHER INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges recovered from customers</td>
<td>768,840</td>
<td>1,162,018</td>
</tr>
<tr>
<td>Rent on properties</td>
<td>155,590</td>
<td>166,361</td>
</tr>
<tr>
<td>Income from dealing in derivatives</td>
<td>501,118</td>
<td>1,721,740</td>
</tr>
<tr>
<td>Others</td>
<td>144,183</td>
<td>96,691</td>
</tr>
<tr>
<td></td>
<td>1,569,731</td>
<td>3,146,810</td>
</tr>
</tbody>
</table>

------- (Rupees in '000) -------

42
## ADMINISTRATIVE EXPENSES

### Personnel cost

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td></td>
<td>7,799,700</td>
<td>7,586,763</td>
</tr>
<tr>
<td>28.1</td>
<td>Charge for compensated absences</td>
<td>152,261</td>
</tr>
<tr>
<td>36.1.8</td>
<td>Medical expenses</td>
<td>384,422</td>
</tr>
<tr>
<td></td>
<td>Contribution to defined contribution plan</td>
<td>132,641</td>
</tr>
<tr>
<td></td>
<td>Reversal in respect of defined benefit obligations</td>
<td>(276,975)</td>
</tr>
<tr>
<td></td>
<td>8,192,049</td>
<td>8,569,539</td>
</tr>
</tbody>
</table>

### Premises cost

<table>
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<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td></td>
<td>2,336,782</td>
<td>2,090,735</td>
</tr>
<tr>
<td>11.2</td>
<td>Rent, taxes, insurance, electricity etc.</td>
<td>589,384</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>95,852</td>
</tr>
<tr>
<td></td>
<td>3,022,018</td>
<td>2,770,553</td>
</tr>
</tbody>
</table>

### Other operating cost

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td></td>
<td>1,520,532</td>
<td>1,313,164</td>
</tr>
<tr>
<td></td>
<td>Advertisement and publicity</td>
<td>794,271</td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>783,934</td>
</tr>
<tr>
<td>11.2</td>
<td>Depreciation</td>
<td>987,600</td>
</tr>
<tr>
<td></td>
<td>Legal and professional charges</td>
<td>300,169</td>
</tr>
<tr>
<td></td>
<td>Banking service charges</td>
<td>407,414</td>
</tr>
<tr>
<td></td>
<td>Stationery and printing</td>
<td>450,659</td>
</tr>
<tr>
<td></td>
<td>Travelling</td>
<td>192,471</td>
</tr>
<tr>
<td></td>
<td>Cash transportation charges</td>
<td>292,392</td>
</tr>
<tr>
<td></td>
<td>Repairs and maintenance</td>
<td>143,726</td>
</tr>
<tr>
<td></td>
<td>Maintenance contracts</td>
<td>509,225</td>
</tr>
<tr>
<td></td>
<td>Insurance expense</td>
<td>94,477</td>
</tr>
<tr>
<td></td>
<td>Vehicle expense</td>
<td>132,446</td>
</tr>
<tr>
<td>11.3</td>
<td>Amortization</td>
<td>224,017</td>
</tr>
<tr>
<td></td>
<td>Training and seminars</td>
<td>53,390</td>
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<tr>
<td></td>
<td>Office running expense</td>
<td>199,895</td>
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<tr>
<td></td>
<td>Entertainment</td>
<td>104,718</td>
</tr>
<tr>
<td></td>
<td>Cartage, freight and conveyance</td>
<td>68,378</td>
</tr>
<tr>
<td>28.3</td>
<td>Auditors' remuneration</td>
<td>61,257</td>
</tr>
<tr>
<td></td>
<td>Subscriptions</td>
<td>32,665</td>
</tr>
<tr>
<td></td>
<td>Brokerage expenses</td>
<td>17,153</td>
</tr>
<tr>
<td></td>
<td>Sub-ordinated debt related costs</td>
<td>7,086</td>
</tr>
<tr>
<td>28.2</td>
<td>Donations</td>
<td>82,696</td>
</tr>
<tr>
<td></td>
<td>Non-executive Directors' fee and allowances</td>
<td>42,993</td>
</tr>
<tr>
<td></td>
<td>Finance charges on leased assets</td>
<td>147</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous expenses</td>
<td>278,883</td>
</tr>
<tr>
<td></td>
<td>7,782,594</td>
<td>6,463,247</td>
</tr>
</tbody>
</table>

### Summary

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td>18,996,661</td>
<td>17,803,338</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

28.2 Donations exceeding Rs.0.1 million

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Karachi Education Initiative</td>
<td>28.2.1</td>
<td>40,000</td>
</tr>
<tr>
<td>UBL Flood Relief Campaign</td>
<td>28.142</td>
<td>-</td>
</tr>
<tr>
<td>Police Hospital Fund</td>
<td>5,000</td>
<td>-</td>
</tr>
<tr>
<td>The Citizens Foundation</td>
<td>2,200</td>
<td>-</td>
</tr>
<tr>
<td>Hisaar Foundation</td>
<td>1,086</td>
<td>550</td>
</tr>
<tr>
<td>Friends of Burns Centre</td>
<td>1,008</td>
<td>1,728</td>
</tr>
<tr>
<td>Family Education Services Foundation</td>
<td>900</td>
<td>900</td>
</tr>
<tr>
<td>Marie Adelaide Leprosy Centre</td>
<td>850</td>
<td>850</td>
</tr>
<tr>
<td>Lahore University of Management Sciences</td>
<td>815</td>
<td>315</td>
</tr>
<tr>
<td>Patient Welfare Association</td>
<td>800</td>
<td>-</td>
</tr>
<tr>
<td>SOS Children's Villages of Sindh</td>
<td>581</td>
<td>451</td>
</tr>
<tr>
<td>Edhi Foundation</td>
<td>550</td>
<td>-</td>
</tr>
<tr>
<td>Glückskette - Switzerland</td>
<td>410</td>
<td>-</td>
</tr>
<tr>
<td>Special Olympics Pakistan</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Umeed-e-Noor</td>
<td>150</td>
<td>-</td>
</tr>
<tr>
<td>Karachi City Police</td>
<td>-</td>
<td>9,793</td>
</tr>
<tr>
<td>Shalamar Hospital</td>
<td>-</td>
<td>545</td>
</tr>
<tr>
<td>Sun Development Foundation</td>
<td>-</td>
<td>483</td>
</tr>
<tr>
<td>Institute of Business Administration</td>
<td>-</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>82,692</td>
<td>55,975</td>
</tr>
</tbody>
</table>

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

28.3 Auditors' remuneration

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>5,738</td>
<td>5,738</td>
</tr>
<tr>
<td>Ford Rhodes</td>
<td>221</td>
<td>-</td>
</tr>
<tr>
<td>Sidat Hyder &amp; Co.</td>
<td>7,713</td>
<td>7,749</td>
</tr>
<tr>
<td>BDO</td>
<td>45,361</td>
<td>58,563</td>
</tr>
<tr>
<td>Erasmus Ebrahim Auditors</td>
<td>234</td>
<td>328</td>
</tr>
<tr>
<td>Overseas Auditors</td>
<td>45,595</td>
<td>62,662</td>
</tr>
<tr>
<td>Total</td>
<td>61,257</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>5,738</td>
<td>5,738</td>
</tr>
<tr>
<td>Ford Rhodes</td>
<td>221</td>
<td>-</td>
</tr>
<tr>
<td>Sidat Hyder &amp; Co.</td>
<td>1,868</td>
<td>1,682</td>
</tr>
<tr>
<td>BDO</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Erasmus Ebrahim Auditors</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overseas Auditors</td>
<td>47,087</td>
<td>62,662</td>
</tr>
<tr>
<td>Total</td>
<td>58,563</td>
<td>62,662</td>
</tr>
</tbody>
</table>
**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

### 29. OTHER PROVISIONS / WRITE OFFS - Net

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
</tbody>
</table>

| (Reversal) / provision against other assets - net | 13.3 | 122,261 | 339,131 |
| Provision against off- balance sheet obligations | 19.2 | - | 20,250 |
| Other provisions / write offs | 193,304 | 276,716 |
| (Reversal) / provision against Ijara assets - specific | 803 | 9,191 |
| Reversal against Ijara assets - general | 2,127 | -|
| | | 68,113 | 642,274 |

### 30. WORKERS WELFARE FUND

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

### 31. OTHER CHARGES

<table>
<thead>
<tr>
<th>Penalties imposed by the SBP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pertaining to current year</td>
<td>107,491</td>
</tr>
<tr>
<td>Pertaining to prior year</td>
<td>128,000</td>
</tr>
<tr>
<td>Other penalties</td>
<td>4,900</td>
</tr>
<tr>
<td></td>
<td>240,391</td>
</tr>
</tbody>
</table>

### 32. TAXATION

| | Overseas | Azad Kashmir | Domestic | Total |
| | (Rupees in '000) | (Rupees in '000) | (Number of shares) |
| | | | |

| Current tax | 1,034,572 | 22,653 | 5,793,629 |
| Prior year tax | 414,937 | - | 392 |
| Deferred tax | 37,176 | (239) | (635,422) |
| | | | |
| | 1,486,685 | 22,414 | 5,158,599 |
| | | | |

| | Overseas | Azad Kashmir | Domestic | Total |
| | (Rupees in '000) | (Rupees in '000) | (Number of shares) |
| | | | |

| Current tax | 906,230 | 113,181 | 5,976,846 |
| Prior year tax | 78,598 | - | 112 |
| Deferred tax | (7,677) | (684) | (2,162,377) |
| | | | |
| | 977,151 | 112,497 | 3,814,581 |
| | | | |

### 32.1 RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

| Accounting profit for the year | 17,688,623 |
| Tax on income @ 35% (2009: 35%) | 6,191,018 |
| Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates / permanent difference | 58,487 |
| Prior year tax charge | 415,329 |
| Other charges | 119,838 |
| Tax charge | 6,667,698 |

### 33. EARNINGS PER SHARE

| Profit after tax attributable to equity shareholders of the Bank | 11,031,630 |
| Weighted average number of ordinary shares | 1,224,179,687 |

**Earnings per share - basic and diluted**

<table>
<thead>
<tr>
<th></th>
<th>9.01</th>
</tr>
</thead>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

34. CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
</tr>
<tr>
<td>34.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with treasury banks</td>
<td>6 67,667,226</td>
<td>61,562,141</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>7 25,980,928</td>
<td>14,049,990</td>
</tr>
<tr>
<td></td>
<td>93,648,154</td>
<td>75,612,131</td>
</tr>
</tbody>
</table>

35. STAFF STRENGTH

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Number)</td>
<td></td>
</tr>
<tr>
<td>35.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent</td>
<td>8,669</td>
<td>8,648</td>
</tr>
<tr>
<td>Contractual basis</td>
<td>104</td>
<td>90</td>
</tr>
<tr>
<td>Group's own staff strength at the end of the year</td>
<td>8,773</td>
<td>8,738</td>
</tr>
<tr>
<td>Outsourced</td>
<td>3,074</td>
<td>2,905</td>
</tr>
<tr>
<td>Total number of employees at the end of the year</td>
<td>11,847</td>
<td>11,643</td>
</tr>
</tbody>
</table>

36. EMPLOYEE BENEFITS

36.1 United Bank Limited

36.1.1 Defined benefit plan

36.1.2 General description

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

36.1.3 Number of Employees under the scheme

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Number)</td>
<td></td>
</tr>
<tr>
<td>- Pension fund</td>
<td>7,723</td>
<td>7,845</td>
</tr>
<tr>
<td>- Gratuity fund</td>
<td>5,589</td>
<td>5,416</td>
</tr>
<tr>
<td>- Benevolent fund</td>
<td>7,490</td>
<td>7,888</td>
</tr>
<tr>
<td>- Employee compensated absences</td>
<td>6,708</td>
<td>6,942</td>
</tr>
<tr>
<td>- Post retirement medical benefit scheme</td>
<td>4,480</td>
<td>4,790</td>
</tr>
</tbody>
</table>

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

36.1.4 Principal actuarial assumptions

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per annum</td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>14.50%</td>
<td>12.75%</td>
</tr>
<tr>
<td>Expected rate of return on plan assets</td>
<td>14.50%</td>
<td>12.75%</td>
</tr>
<tr>
<td>Expected rate of salary increase</td>
<td>12.50%</td>
<td>10.50%</td>
</tr>
<tr>
<td>Expected rate of pension increase</td>
<td>6.75%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

Diluted earnings per share has not been presented as the Group does not have any convertible instruments in issue at December 31, 2010 and 2009 which would have any effect on the earnings per share if the option to convert is exercised. Earnings per share for the year 2009 has been restated for the effect of bonus shares issued during the current year.
### 36.1.5 Reconciliation of (receivable from) / payable to defined benefit plans

<table>
<thead>
<tr>
<th></th>
<th>Pension fund</th>
<th>Gratuity fund</th>
<th>Benevolent fund</th>
<th>Post retirement medical</th>
<th>Employee compensated absences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of funded obligations</td>
<td>3,598,231</td>
<td>417,733</td>
<td>420,778</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(5,627,239)</td>
<td>(325,781)</td>
<td>(799,917)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Present value of unfunded obligation</td>
<td>(1,929,008)</td>
<td>91,952</td>
<td>(379,139)</td>
<td>826,088</td>
<td>677,152</td>
</tr>
<tr>
<td>Net actuarial gains or (losses) not recognized</td>
<td>1,925,416</td>
<td>(100,137)</td>
<td>198,356</td>
<td>313,528</td>
<td></td>
</tr>
<tr>
<td>(Receivable) / payable</td>
<td>(3,592)</td>
<td>(8,185)</td>
<td>(180,783)</td>
<td>1,139,616</td>
<td>677,152</td>
</tr>
</tbody>
</table>

### 2009

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

### 36.1.6 Movement in defined benefit obligation

#### Note

<table>
<thead>
<tr>
<th></th>
<th>Pension fund</th>
<th>Gratuity fund</th>
<th>Benevolent fund</th>
<th>Post retirement medical</th>
<th>Employee compensated absences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation at the beginning of the year</td>
<td>3,585,208</td>
<td>365,292</td>
<td>459,080</td>
<td>852,603</td>
<td>731,908</td>
</tr>
<tr>
<td>Current service cost</td>
<td>10,788</td>
<td>48,711</td>
<td>6,694</td>
<td>6,430</td>
<td>41,106</td>
</tr>
<tr>
<td>Interest cost</td>
<td>118,861</td>
<td>48,331</td>
<td>48,347</td>
<td>112,903</td>
<td>104,760</td>
</tr>
<tr>
<td>Benefits paid by the Bank</td>
<td>(333,708)</td>
<td>(61,513)</td>
<td>(73,242)</td>
<td>(100,658)</td>
<td>(207,017)</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Return allocated to other funds</td>
<td>232,232</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Early retirement liability</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial (gain) / loss on obligation</td>
<td>(15,150)</td>
<td>16,912</td>
<td>(20,101)</td>
<td>17,357</td>
<td>211,236</td>
</tr>
<tr>
<td>Obligation at the end of the year</td>
<td>3,598,231</td>
<td>417,733</td>
<td>420,778</td>
<td>826,088</td>
<td>677,152</td>
</tr>
</tbody>
</table>

### 2009

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

### 36.1.7 Movement in fair value of plan assets

#### 2010

<table>
<thead>
<tr>
<th></th>
<th>Pension fund</th>
<th>Gratuity fund</th>
<th>Benevolent fund</th>
<th>Post retirement medical</th>
<th>Employee compensated absences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value at the beginning of the year</td>
<td>6,107,212</td>
<td>301,174</td>
<td>796,302</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>642,077</td>
<td>40,904</td>
<td>87,822</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contribution by the Bank</td>
<td>118,861</td>
<td>48,331</td>
<td>48,347</td>
<td>112,903</td>
<td>104,760</td>
</tr>
<tr>
<td>Contribution by the employees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amount paid by the fund to the Bank</td>
<td>(1,214,658)</td>
<td>(77,251)</td>
<td>(85,232)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payment received on behalf of the fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial gain / (loss) on plan assets</td>
<td>(24,242)</td>
<td>(24,242)</td>
<td>(24,242)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair value at the end of the year</td>
<td>5,627,239</td>
<td>325,781</td>
<td>799,917</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
### 36.1.8 Movement in (receivable from) / payable to defined benefit plans

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

### 36.1.9 Charge for defined benefit plans

<table>
<thead>
<tr>
<th></th>
<th>Pension fund</th>
<th>Gratuity fund</th>
<th>Benevolent fund</th>
<th>Post retirement medical</th>
<th>Employee compensated absences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>10,788</td>
<td>48,711</td>
<td>6,694</td>
<td>6,430</td>
<td>41,106</td>
</tr>
<tr>
<td>Interest cost</td>
<td>118,861</td>
<td>48,331</td>
<td>48,347</td>
<td>112,903</td>
<td>104,760</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(642,077)</td>
<td>(40,904)</td>
<td>(87,822)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial (gains) and losses</td>
<td>(188,569)</td>
<td>(846)</td>
<td>(99)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Return allocated to other funds</td>
<td>232,232</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employees' contribution</td>
<td>-</td>
<td>-</td>
<td>(5,450)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Settlement loss / gains</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(468,765)</td>
<td>60,447</td>
<td>(53,984)</td>
<td>(100,658)</td>
<td>(299,837)</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Pension fund Gratuity fund Benevolent fund Post retirement medical benefit Employee compensated absences

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current service cost</td>
<td>10,051</td>
<td>46,619</td>
<td>7,103</td>
<td>5,914</td>
<td>34,461</td>
</tr>
<tr>
<td>Interest cost</td>
<td>156,655</td>
<td>53,312</td>
<td>62,995</td>
<td>103,084</td>
<td>110,245</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(843,851)</td>
<td>(41,702)</td>
<td>(90,031)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>62,201</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial (gains) and losses</td>
<td>(229,260)</td>
<td>9,533</td>
<td>(5,805)</td>
<td>(32,042)</td>
<td>211,236</td>
</tr>
<tr>
<td>Return allocated to other funds</td>
<td>322,253</td>
<td>-</td>
<td>(5,979)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employees' contribution</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Settlement loss / gains</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(24,242)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(583,852)</td>
<td>67,762</td>
<td>(31,717)</td>
<td>52,714</td>
<td>418,143</td>
</tr>
</tbody>
</table>

36.1.9.1

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

36.1.10

Actual return on plan assets

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>642,077</td>
<td>40,904</td>
<td>87,822</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actual gain / (loss) on plan assets</td>
<td>(7,392)</td>
<td>(7,677)</td>
<td>(9,875)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>634,685</td>
<td>33,227</td>
<td>77,947</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

36.1.11

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

Pension Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>(3,598,231)</td>
<td>(3,585,208)</td>
<td>(3,625,280)</td>
<td>(4,343,529)</td>
<td>(4,433,583)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>5,527,239</td>
<td>6,107,212</td>
<td>6,526,828</td>
<td>7,260,256</td>
<td>7,116,577</td>
</tr>
<tr>
<td>Surplus / (deficit)</td>
<td>1,929,008</td>
<td>2,520,044</td>
<td>2,901,548</td>
<td>2,616,727</td>
<td>2,682,994</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>(214,828)</td>
<td>89,216</td>
<td>(87,141)</td>
<td>126,265</td>
<td>238,500</td>
</tr>
<tr>
<td>Experience adjustments on plan assets [loss / (gain)]</td>
<td>57,726</td>
<td>(282,376)</td>
<td>1,195</td>
<td>(11,848)</td>
<td>(411,713)</td>
</tr>
<tr>
<td>Present value of defined benefit obligation</td>
<td>(417,733)</td>
<td>(365,292)</td>
<td>(384,786)</td>
<td>(399,289)</td>
<td>(437,373)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>325,781</td>
<td>301,174</td>
<td>291,292</td>
<td>356,766</td>
<td>335,449</td>
</tr>
<tr>
<td>Surplus / (deficit)</td>
<td>(91,952)</td>
<td>(64,118)</td>
<td>(93,494)</td>
<td>(42,613)</td>
<td>(101,924)</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>36,338</td>
<td>137,106</td>
<td>43,905</td>
<td>27,782</td>
<td>33,547</td>
</tr>
<tr>
<td>Experience adjustments on plan assets [loss / (gain)]</td>
<td>6,400</td>
<td>96,896</td>
<td>55,290</td>
<td>(5,179)</td>
<td>10,979</td>
</tr>
</tbody>
</table>

Gratuity Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>(417,733)</td>
<td>(365,292)</td>
<td>(384,786)</td>
<td>(399,289)</td>
<td>(437,373)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>325,781</td>
<td>301,174</td>
<td>291,292</td>
<td>356,766</td>
<td>335,449</td>
</tr>
<tr>
<td>Surplus / (deficit)</td>
<td>(91,952)</td>
<td>(64,118)</td>
<td>(93,494)</td>
<td>(42,613)</td>
<td>(101,924)</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>36,338</td>
<td>137,106</td>
<td>43,905</td>
<td>27,782</td>
<td>33,547</td>
</tr>
<tr>
<td>Experience adjustments on plan assets [loss / (gain)]</td>
<td>6,400</td>
<td>96,896</td>
<td>55,290</td>
<td>(5,179)</td>
<td>10,979</td>
</tr>
</tbody>
</table>

Benevolent Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>(420,778)</td>
<td>(459,080)</td>
<td>(529,647)</td>
<td>(564,591)</td>
<td>(670,979)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>799,917</td>
<td>796,302</td>
<td>739,180</td>
<td>914,356</td>
<td>917,522</td>
</tr>
<tr>
<td>Surplus / (deficit)</td>
<td>379,139</td>
<td>337,222</td>
<td>209,533</td>
<td>349,765</td>
<td>246,543</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>1,505</td>
<td>(8,798)</td>
<td>138,712</td>
<td>(90,203)</td>
<td>(110,924)</td>
</tr>
<tr>
<td>Experience adjustments on plan assets [loss / (gain)]</td>
<td>2,737</td>
<td>(56,670)</td>
<td>144,550</td>
<td>(45,638)</td>
<td>(64,187)</td>
</tr>
</tbody>
</table>

Post retirement medical benefit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>(826,088)</td>
<td>(852,603)</td>
<td>(875,509)</td>
<td>(1,202,462)</td>
<td>(1,298,048)</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>(26,232)</td>
<td>37,473</td>
<td>761</td>
<td>(67,904)</td>
<td>(37,633)</td>
</tr>
</tbody>
</table>

Employee compensated absences

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>677,152</td>
<td>731,908</td>
<td>613,602</td>
<td>843,193</td>
<td>1,074,258</td>
</tr>
<tr>
<td>Experience adjustments on plan liabilities [loss / (gain)]</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
36.1.12 Effects of a 1% movement in assumed medical cost trend rates

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

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension fund</td>
<td>Gratuity fund</td>
</tr>
<tr>
<td>Government securities</td>
<td>6.58%</td>
<td>98.51%</td>
</tr>
<tr>
<td>Units of mutual funds</td>
<td>5.20%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Ordinary shares of listed companies</td>
<td>0.68%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Term finance certificates</td>
<td>9.72%</td>
<td>0.73%</td>
</tr>
<tr>
<td>Others (including bank balances)</td>
<td>77.82%</td>
<td>0.01%</td>
</tr>
<tr>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension fund</td>
<td>Gratuity fund</td>
</tr>
<tr>
<td>Government securities</td>
<td>15.95%</td>
<td>51.14%</td>
</tr>
<tr>
<td>Units of mutual funds</td>
<td>24.98%</td>
<td>17.84%</td>
</tr>
<tr>
<td>Ordinary shares of listed companies</td>
<td>0.62%</td>
<td>0.77%</td>
</tr>
<tr>
<td>Term finance certificates</td>
<td>7.23%</td>
<td>29.35%</td>
</tr>
<tr>
<td>Others (including bank balances)</td>
<td>51.22%</td>
<td>0.90%</td>
</tr>
<tr>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension fund</td>
<td>Gratuity fund</td>
</tr>
<tr>
<td>Expected charge for the year</td>
<td>(410,926)</td>
<td>71,743</td>
</tr>
</tbody>
</table>
36.2 United National Bank Limited Pension and Life Assurance Scheme for U.K Employees.

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

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

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

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>5.50%</td>
</tr>
<tr>
<td>Rate of revaluation of pension in deferment</td>
<td>5.00%</td>
</tr>
<tr>
<td>Expected rate of salary increase</td>
<td>0.00%</td>
</tr>
<tr>
<td>Expected rate of pension increase</td>
<td>3.50%</td>
</tr>
<tr>
<td>Price inflation</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>(Rupees '000)</td>
</tr>
<tr>
<td>Other - insurance policy</td>
<td>5.50%</td>
</tr>
<tr>
<td>Total market value of assets</td>
<td>512,198</td>
</tr>
<tr>
<td>Actuarial value of liability</td>
<td>(610,152)</td>
</tr>
<tr>
<td>Gross pension liability</td>
<td>(97,954)</td>
</tr>
<tr>
<td>Related Deferred Tax Relief</td>
<td>27,475</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>(70,479)</td>
</tr>
</tbody>
</table>

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

36.2.1 Movement in surplus / (deficit) during the year

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligation at the beginning of the year</td>
<td>(103,897)</td>
</tr>
<tr>
<td>Current service cost</td>
<td>-</td>
</tr>
<tr>
<td>Past service cost</td>
<td>-</td>
</tr>
<tr>
<td>Interest (expense) / income</td>
<td>(8,431)</td>
</tr>
<tr>
<td>Employer’s contribution</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial losses / (gains)</td>
<td>51,631</td>
</tr>
<tr>
<td>Exchange adjustment</td>
<td>(37,257)</td>
</tr>
<tr>
<td>Related deferred tax relief</td>
<td>27,475</td>
</tr>
<tr>
<td>Obligation at the end of the year</td>
<td>(70,479)</td>
</tr>
</tbody>
</table>

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

36.2.2 Analysis of the amount charged to operating profit

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>-</td>
</tr>
<tr>
<td>Past service cost</td>
<td>-</td>
</tr>
<tr>
<td>Total operating charge</td>
<td>-</td>
</tr>
</tbody>
</table>

The defined benefit scheme is now closed to new entrants and future accrual has ceased from January 01, 2010. As a result of the curtailment in benefits UNBL recognised a past service cost of Rs.28.178 million in prior year.
### 36.2.3 Analysis of the amount credited / (debited) to net interest income

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected return on pension scheme assets</td>
<td>26,609</td>
<td>29,331</td>
</tr>
<tr>
<td>Interest on pension scheme liabilities</td>
<td>(35,040)</td>
<td>(28,050)</td>
</tr>
<tr>
<td><strong>Net return</strong></td>
<td><strong>(8,431)</strong></td>
<td><strong>1,281</strong></td>
</tr>
</tbody>
</table>

### 36.3 UBL Fund Managers Limited

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

#### 36.3.1 Principal actuarial assumptions

The key assumptions used for actuarial valuation were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>14.50%</td>
<td>12.75%</td>
</tr>
<tr>
<td>Expected rate of return on plan assets</td>
<td>14.50%</td>
<td>12.75%</td>
</tr>
<tr>
<td>Expected rate of salary increase</td>
<td>14.50%</td>
<td>12.75%</td>
</tr>
</tbody>
</table>

#### 36.3.2 Reconciliation of payable to defined benefit plan

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligations</td>
<td>19,776</td>
<td>13,168</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(11,619)</td>
<td>(7,246)</td>
</tr>
<tr>
<td>Net actuarial losses not recognized</td>
<td>(2,749)</td>
<td>(1,131)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,408</strong></td>
<td><strong>4,791</strong></td>
</tr>
</tbody>
</table>

#### 36.3.3 Movement in defined benefit obligation

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

#### 36.3.4 Movement in the fair value of plan assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at the beginning of the year</td>
<td>7,246</td>
<td>3,061</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>1,270</td>
<td>828</td>
</tr>
<tr>
<td>Contributions to the plan</td>
<td>4,791</td>
<td>2,930</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,701)</td>
<td>(250)</td>
</tr>
<tr>
<td>Actuarial gains</td>
<td>13</td>
<td>677</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,619</strong></td>
<td><strong>7,246</strong></td>
</tr>
</tbody>
</table>

#### 36.3.5 Plan assets are comprise as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>7,936</td>
<td>2,809</td>
</tr>
<tr>
<td>Cash</td>
<td>592</td>
<td>847</td>
</tr>
<tr>
<td>Equity</td>
<td>2,582</td>
<td>3,575</td>
</tr>
<tr>
<td>Others</td>
<td>509</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,619</strong></td>
<td><strong>7,246</strong></td>
</tr>
</tbody>
</table>

#### 36.3.6 Charge for defined benefit plan

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>4,730</td>
<td>4,045</td>
</tr>
<tr>
<td>Interest cost</td>
<td>1,948</td>
<td>1,491</td>
</tr>
<tr>
<td>Expected return on plan asset</td>
<td>(1,270)</td>
<td>(828)</td>
</tr>
<tr>
<td>Amortization of loss</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,408</strong></td>
<td><strong>4,791</strong></td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>1,301</td>
<td>1,433</td>
</tr>
</tbody>
</table>
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

36.3.7 Movement in net liability recognised

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening net asset</td>
<td>4,791</td>
<td>2,930</td>
</tr>
<tr>
<td>Expense recognised</td>
<td>5,408</td>
<td>4,791</td>
</tr>
<tr>
<td>Contribution to the</td>
<td>(4,791)</td>
<td>(2,930)</td>
</tr>
<tr>
<td>Closing net assets</td>
<td>5,408</td>
<td>4,791</td>
</tr>
</tbody>
</table>

37 OTHER EMPLOYEE BENEFITS

37.1 Defined contribution plan

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

37.2 Employee Motivation and Retention Scheme

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

37.3 Benazir Employees' Stock Option Scheme

The Government of Pakistan (GoP), being one of the shareholders of the Bank, decided to launch the Benazir Employees’ Stock Option Scheme on August 14, 2009, whereby the GoP intends to transfer free of cost 26,931,483 shares of the Bank, including 26,025,533 shares held by the SBP as at December 31, 2010, to UBL Employees Empowerment Trust [the “Trust”].

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

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

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

<table>
<thead>
<tr>
<th></th>
<th>President / Chief Executive</th>
<th>Directors</th>
<th>Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>Fees</td>
<td>-</td>
<td>-</td>
<td>42,993</td>
</tr>
<tr>
<td>Managerial remuneration</td>
<td>61,349</td>
<td>61,287</td>
<td>-</td>
</tr>
<tr>
<td>Charge for defined benefit plan</td>
<td>1,001</td>
<td>1,001</td>
<td>-</td>
</tr>
<tr>
<td>Charge for defined contribution plan</td>
<td>1,880</td>
<td>1,880</td>
<td>-</td>
</tr>
<tr>
<td>Rent and house maintenance</td>
<td>4,750</td>
<td>2,375</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>269</td>
<td>148</td>
<td>-</td>
</tr>
<tr>
<td>Medical</td>
<td>65</td>
<td>56</td>
<td>-</td>
</tr>
<tr>
<td>Conveyance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reimbursement of children's education fees</td>
<td>1,106</td>
<td>5,928</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>3,133</td>
<td>1,880</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>73,553</td>
<td>74,555</td>
<td>42,993</td>
</tr>
<tr>
<td>Number of persons</td>
<td>1</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

For the year ended December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Corporate Finance</th>
<th>Trading and Sales</th>
<th>Retail Banking</th>
<th>Commercial Banking</th>
<th>Asset Management</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>471,169</td>
<td>2,647,783</td>
<td>32,132,512</td>
<td>9,208,767</td>
<td>370,918</td>
<td>764,339</td>
</tr>
<tr>
<td>Total expenses</td>
<td>(102,405)</td>
<td>(600,072)</td>
<td>(21,703,896)</td>
<td>(4,291,011)</td>
<td>(315,443)</td>
<td>(804,042)</td>
</tr>
<tr>
<td>Profit / (loss) before tax</td>
<td>368,767</td>
<td>1,957,711</td>
<td>10,428,617</td>
<td>4,917,756</td>
<td>55,475</td>
<td>(39,703)</td>
</tr>
<tr>
<td>Segment return on assets (ROA) (%)</td>
<td>5.4%</td>
<td>0.7%</td>
<td>1.1%</td>
<td>1.8%</td>
<td>7.4%</td>
<td>-</td>
</tr>
<tr>
<td>Segment cost of funds (%)</td>
<td>0.3%</td>
<td>8.0%</td>
<td>4.0%</td>
<td>10.7%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

For the year ended December 31, 2009

<table>
<thead>
<tr>
<th></th>
<th>Corporate Finance</th>
<th>Trading and Sales</th>
<th>Retail Banking</th>
<th>Commercial Banking</th>
<th>Asset Management</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>187,140</td>
<td>3,980,120</td>
<td>30,605,367</td>
<td>9,456,908</td>
<td>464,019</td>
<td>1,609,080</td>
</tr>
<tr>
<td>Total expenses</td>
<td>(641,566)</td>
<td>(831,738)</td>
<td>(21,643,892)</td>
<td>(7,302,410)</td>
<td>(300,779)</td>
<td>(1,070,066)</td>
</tr>
<tr>
<td>Profit / (loss) before tax</td>
<td>(454,426)</td>
<td>3,028,382</td>
<td>8,961,475</td>
<td>2,154,946</td>
<td>163,240</td>
<td>539,014</td>
</tr>
<tr>
<td>Segment return on assets (ROA) (%)</td>
<td>-5.4%</td>
<td>1.4%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>21.6%</td>
<td>-</td>
</tr>
<tr>
<td>Segment cost of funds (%)</td>
<td>6.8%</td>
<td>9.3%</td>
<td>4.9%</td>
<td>10.0%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

As at December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Corporate Finance</th>
<th>Trading and Sales</th>
<th>Retail Banking</th>
<th>Commercial Banking</th>
<th>Asset Management</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment assets (gross of NPL provisions)</td>
<td>5,004,302</td>
<td>257,667,931</td>
<td>199,958,760</td>
<td>265,008,433</td>
<td>483,062</td>
<td>30,811,271</td>
</tr>
<tr>
<td>Segment non performing loans (NPL)</td>
<td>-</td>
<td>2,002,017</td>
<td>21,787,039</td>
<td>24,610,869</td>
<td>-</td>
<td>13,153</td>
</tr>
<tr>
<td>Segment provision required against NPL</td>
<td>-</td>
<td>10,105</td>
<td>16,691,950</td>
<td>16,828,908</td>
<td>-</td>
<td>13,153</td>
</tr>
</tbody>
</table>

As at December 31, 2009

<table>
<thead>
<tr>
<th></th>
<th>Corporate Finance</th>
<th>Trading and Sales</th>
<th>Retail Banking</th>
<th>Commercial Banking</th>
<th>Asset Management</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment assets (gross of NPL provisions)</td>
<td>7,166,859</td>
<td>166,715,474</td>
<td>219,950,038</td>
<td>247,434,473</td>
<td>495,052</td>
<td>28,360,866</td>
</tr>
<tr>
<td>Segment non performing loans (NPL)</td>
<td>-</td>
<td>-</td>
<td>19,342,444</td>
<td>20,709,293</td>
<td>-</td>
<td>13,500</td>
</tr>
<tr>
<td>Segment provision required against NPL</td>
<td>-</td>
<td>13,546,998</td>
<td>14,140,352</td>
<td>-</td>
<td>-</td>
<td>13,500</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>6,410,759</td>
<td>161,934,319</td>
<td>203,523,777</td>
<td>221,518,027</td>
<td>51,050</td>
<td>(20,334,384)</td>
</tr>
</tbody>
</table>

41. TRUST ACTIVITIES

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

42. RELATED PARTY TRANSACTIONS

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key management personnel</strong></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Associates</strong></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Other related parties</strong></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In saving accounts</td>
<td>2,773</td>
<td>-</td>
</tr>
<tr>
<td>Lendings to financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call Money Lendings</td>
<td>350,000</td>
<td>-</td>
</tr>
<tr>
<td>Investments in shares / mutual funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment made during the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment sold / liquidated during the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity method adjustment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Advances</strong></td>
<td>141,762</td>
<td>152,761</td>
</tr>
<tr>
<td>Opening balance</td>
<td>102,750</td>
<td>-</td>
</tr>
<tr>
<td>Addition during the year</td>
<td>170,447</td>
<td>38,092</td>
</tr>
<tr>
<td>Repaid during the year</td>
<td>(131,435)</td>
<td>(84,217)</td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest markup accrued</td>
<td>-</td>
<td>4,656</td>
</tr>
<tr>
<td>Receivable from staff retirement funds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>-</td>
<td>1,368</td>
</tr>
<tr>
<td>Remuneration receivable from management of fund</td>
<td>-</td>
<td>18,759</td>
</tr>
<tr>
<td>Sales load receivable</td>
<td>-</td>
<td>304</td>
</tr>
<tr>
<td>Other receivable</td>
<td>-</td>
<td>108,522</td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowings during the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Settled during the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overdrawn nostros</td>
<td>-</td>
<td>533</td>
</tr>
<tr>
<td><strong>Deposits and other accounts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Received during the year</td>
<td>44,766</td>
<td>-</td>
</tr>
<tr>
<td>Withdrawn during the year</td>
<td>(439,274)</td>
<td>-</td>
</tr>
<tr>
<td>Closing balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest / markup payable on deposits</td>
<td>17,769</td>
<td>1,024</td>
</tr>
<tr>
<td>Interest / markup payable on borrowings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest / markup payable on subordinated loans</td>
<td>-</td>
<td>36,497</td>
</tr>
<tr>
<td>Unrealised loss on derivative transactions</td>
<td>-</td>
<td>618,818</td>
</tr>
<tr>
<td>Provision for employee benefit scheme</td>
<td>-</td>
<td>250,000</td>
</tr>
<tr>
<td>Other payable</td>
<td>-</td>
<td>26,851</td>
</tr>
<tr>
<td><strong>Mark-up / return / interest earned</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividend received</td>
<td>75,321</td>
<td>7,398</td>
</tr>
<tr>
<td>Net gain on sale of investment</td>
<td>1,600</td>
<td>228,516</td>
</tr>
<tr>
<td>Realised gain on derivative transactions</td>
<td>-</td>
<td>2,127,895</td>
</tr>
<tr>
<td>Remuneration received from management of fund</td>
<td>-</td>
<td>376,969</td>
</tr>
<tr>
<td>Sales load received</td>
<td>9,130</td>
<td>18,486</td>
</tr>
<tr>
<td>Other income</td>
<td>528</td>
<td>749</td>
</tr>
<tr>
<td>Mark-up / return / interest paid</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Remuneration paid</td>
<td>9,238</td>
<td>42,993</td>
</tr>
<tr>
<td>Non-executive directors’ fee and allowances</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net charge for defined contribution plans</td>
<td>-</td>
<td>104,035</td>
</tr>
<tr>
<td>Net reversal for the defined benefit plans</td>
<td>-</td>
<td>416,114</td>
</tr>
<tr>
<td>Payment for employee motivation and retention scheme</td>
<td>-</td>
<td>210,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

45. Other related parties
43. CAPITAL ADEQUACY

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

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

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

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

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

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

43.2 Capital Management

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

Statutory minimum capital and capital adequacy requirements

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

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

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

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

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

Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the SBP that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of credit risk, market risk and operational risk.
The capital adequacy ratio, calculated in accordance with the SBP’s guidelines on capital adequacy was as follows:

### Regulatory capital base

#### Tier I Capital
- Fully paid up capital
  - 2010: 12,241,798
  - 2009: 11,128,907
- Statutory and general reserves as disclosed on the balance sheet
  - 2010: 14,465,696
  - 2009: 12,354,984
- Unappropriated profits
  - 2010: 27,576,333
  - 2009: 23,617,874
- Non-controlling interest
  - 2010: 2,207,241
  - 2009: 2,279,691

Total eligible Tier I Capital
- 2010: 56,491,068
- 2009: 49,381,456

#### Deductions:
- Book value of intangibles
  - 2010: 1,460,661
  - 2009: 491,511
- Shortfall in provisions irrespective of relaxation provided
  - 2010: 261,637
  - 2009: -
- Reciprocal cross holdings by banks
  - 2010: 5,999
  - 2009: -
- 50% of Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position
  - 2010: (198,695)
  - 2009: (317,562)

Total eligible Tier I Capital
- 2010: 54,655,198
- 2009: 48,856,153

### Supplementary Capital

#### Tier II Capital
- General provisions or general reserves for loan losses up to maximum of 1.25% of risk weighted assets
  - 2010: 1,425,496
  - 2009: 569,195
- Revaluation reserves up to 45%
  - 2010: 5,882,008
  - 2009: 5,980,110
- Foreign exchange translation reserve
  - 2010: 9,765,294
  - 2009: 9,019,387
- Subordinated debt up to maximum of 50% of total eligible Tier 1 capital
  - 2010: 7,852,176
  - 2009: 8,300,938
- Cash flow hedge reserve
  - 2010: 107,573
  - 2009: 33,792

Total eligible Tier II Capital
- 2010: 24,726,279
- 2009: 23,552,068

#### Deductions:
- 50% of Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position
  - 2010: 107,573
  - 2009: 33,792

Total eligible Tier II Capital
- 2010: 24,618,706
- 2009: 23,518,276

### Total Eligible Capital
- 2010: 79,273,904
- 2009: 72,374,429

### Risk weighted exposures

#### Capital requirements

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal and Provincial Government, SBP and Other</td>
<td>1,910,721</td>
<td>1,304,341</td>
</tr>
<tr>
<td>Public Sector Enterprises</td>
<td>1,285,319</td>
<td>1,197,023</td>
</tr>
<tr>
<td>Banks</td>
<td>3,568,852</td>
<td>2,591,925</td>
</tr>
<tr>
<td>Corporate</td>
<td>23,688,885</td>
<td>25,181,850</td>
</tr>
<tr>
<td>Retail portfolio</td>
<td>3,428,589</td>
<td>4,033,906</td>
</tr>
<tr>
<td>Secured by residential property</td>
<td>174,425</td>
<td>196,697</td>
</tr>
<tr>
<td>Past due loans</td>
<td>1,945,383</td>
<td>1,197,023</td>
</tr>
<tr>
<td>Listed equity investments</td>
<td>932,518</td>
<td>908,622</td>
</tr>
<tr>
<td>Unlisted equity investments</td>
<td>83,345</td>
<td>66,274</td>
</tr>
<tr>
<td>Investments in fixed assets</td>
<td>2,322,391</td>
<td>2,324,257</td>
</tr>
<tr>
<td>Other assets</td>
<td>673,872</td>
<td>682,561</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40,034,300</td>
<td>40,566,963</td>
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</table>

#### Risk weighted assets

<table>
<thead>
<tr>
<th>Note</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal and Provincial Government, SBP and Other</td>
<td>1,304,341</td>
<td>1,304,341</td>
</tr>
<tr>
<td>Public Sector Enterprises</td>
<td>1,197,023</td>
<td>1,197,023</td>
</tr>
<tr>
<td>Banks</td>
<td>2,591,925</td>
<td>2,591,925</td>
</tr>
<tr>
<td>Corporate</td>
<td>25,181,850</td>
<td>25,181,850</td>
</tr>
<tr>
<td>Retail portfolio</td>
<td>4,033,906</td>
<td>4,033,906</td>
</tr>
<tr>
<td>Secured by residential property</td>
<td>196,697</td>
<td>196,697</td>
</tr>
<tr>
<td>Past due loans</td>
<td>1,197,023</td>
<td>1,197,023</td>
</tr>
<tr>
<td>Listed equity investments</td>
<td>908,622</td>
<td>908,622</td>
</tr>
<tr>
<td>Unlisted equity investments</td>
<td>66,274</td>
<td>66,274</td>
</tr>
<tr>
<td>Investments in fixed assets</td>
<td>2,324,257</td>
<td>2,324,257</td>
</tr>
<tr>
<td>Other assets</td>
<td>682,561</td>
<td>682,561</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40,566,963</td>
<td>40,566,963</td>
</tr>
</tbody>
</table>

### Capital adequacy ratio

- **Total eligible regulatory capital held**: 79,273,904
- **Total risk weighted assets**: 527,032,530
- **Capital adequacy ratio**: 15.04%
43.4. Credit Risk - General Disclosures

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

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

Mapping to SBP Rating Grades

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

Long – Term Rating Grades Mapping

<table>
<thead>
<tr>
<th>SBP Rating grade</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>S &amp; P</th>
<th>PACRA</th>
<th>JCR-VIS</th>
<th>ECA Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA</td>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>AA+</td>
<td>Aa1</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>AA</td>
<td>Aa2</td>
<td>AA</td>
<td>AA</td>
<td>AA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AA-</td>
<td>Aa3</td>
<td>AA-</td>
<td>AA-</td>
<td>AA-</td>
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<tr>
<td>2</td>
<td>A+</td>
<td>A1</td>
<td>A+</td>
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<tr>
<td></td>
<td>A</td>
<td>A2</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A-</td>
<td>A3</td>
<td>A-</td>
<td>A-</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>BBB+</td>
<td>Baa1</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB+</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>BBB</td>
<td>Baa2</td>
<td>BBB</td>
<td>BBB</td>
<td>BBB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BBB-</td>
<td>Baa3</td>
<td>BBB-</td>
<td>BBB-</td>
<td>BBB-</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>BB+</td>
<td>Ba1</td>
<td>BB+</td>
<td>BB+</td>
<td>BB+</td>
<td>4</td>
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<tr>
<td></td>
<td>BB</td>
<td>Ba2</td>
<td>BB</td>
<td>BB</td>
<td>BB</td>
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<tr>
<td></td>
<td>BB-</td>
<td>Ba3</td>
<td>BB-</td>
<td>BB-</td>
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<tr>
<td>5</td>
<td>B+</td>
<td>B1</td>
<td>B+</td>
<td>B+</td>
<td>B+</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>B2</td>
<td>B</td>
<td>B</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B-</td>
<td>B3</td>
<td>B-</td>
<td>B-</td>
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</tr>
<tr>
<td>6</td>
<td>CCC+ and below</td>
<td>Caa1 and below</td>
<td>CCC+ and below</td>
<td>CC</td>
<td>CC</td>
<td>7</td>
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</tbody>
</table>

Short – Term Rating Grades Mapping

<table>
<thead>
<tr>
<th>SBP Rating Grade</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>S &amp; P</th>
<th>PACRA</th>
<th>JCR-VIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>F1</td>
<td>P-1</td>
<td>A-1+</td>
<td>A-1+</td>
<td>A-1+</td>
</tr>
<tr>
<td>S2</td>
<td>F2</td>
<td>P-2</td>
<td>A-2</td>
<td>A-2</td>
<td>A-2</td>
</tr>
<tr>
<td>S3</td>
<td>F3</td>
<td>P-3</td>
<td>A-3</td>
<td>A-3</td>
<td>A-3</td>
</tr>
<tr>
<td>S4</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
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</table>
### Credit exposures subject to Standardized Approach

<table>
<thead>
<tr>
<th>Exposures</th>
<th>Rating category</th>
<th>Amount outstanding</th>
<th>Deduction CRM</th>
<th>Net amount</th>
<th>Amount outstanding</th>
<th>Deduction CRM</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
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<td>14,472,104</td>
<td>13,813,277</td>
<td>13,813,277</td>
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<td></td>
</tr>
<tr>
<td>Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR</td>
<td></td>
<td>121,556,124</td>
<td>12,686,226</td>
<td>108,869,898</td>
<td>62,121,705</td>
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<td>55,892,754</td>
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<td>Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan</td>
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<td>5,043,830</td>
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<td>4,487,971</td>
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<tr>
<td>Claims on other sovereigns and on governments other than PKR</td>
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<td>207,144</td>
<td>1,946,332</td>
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<td>3,063,371</td>
<td>-</td>
<td>3,063,371</td>
<td>12,669,156</td>
<td>-</td>
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<td></td>
<td>4,5</td>
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<td>2,332</td>
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<td></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>26,338</td>
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<td>26,338</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20,780,455</td>
<td>2,332</td>
<td>20,778,123</td>
<td>23,838,325</td>
<td>(22,570)</td>
<td>23,860,895</td>
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<tr>
<td>Corporate</td>
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<td>5,550,763</td>
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<td>576</td>
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<td>14,559,116</td>
<td>-</td>
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<td>158,346</td>
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<tr>
<td>Unrated</td>
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<td>80,319,445</td>
<td>22,975,949</td>
<td>57,343,496</td>
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<tr>
<td>Claims on banks with maturity less than 3 months and denominated in foreign currency</td>
<td>1,2,3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>4,5</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td></td>
<td>1</td>
<td>89,861</td>
<td>193</td>
<td>89,668</td>
<td>6,656,459</td>
<td>589,581</td>
<td>6,066,878</td>
</tr>
<tr>
<td></td>
<td>2,3</td>
<td>4,666</td>
<td>2,678</td>
<td>1,988</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>4,5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Unrated</td>
<td>81,359,035</td>
<td>55,690,508</td>
<td>25,668,527</td>
<td>66,982,129</td>
<td>45,468,416</td>
</tr>
<tr>
<td>Retail</td>
<td>75%</td>
<td>36,894,320</td>
<td>2,179,715</td>
<td>34,714,605</td>
<td>65,120,344</td>
<td>5,266,265</td>
<td>62,424,079</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>4,983,571</td>
<td>-</td>
<td>4,983,571</td>
<td>5,619,903</td>
<td>-</td>
<td>5,619,903</td>
</tr>
<tr>
<td>Equity Investments</td>
<td>- Listed</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>- Unlisted</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>9,325,181</td>
<td>-</td>
<td>9,325,181</td>
<td>9,086,220</td>
<td>-</td>
<td>9,086,220</td>
</tr>
<tr>
<td></td>
<td>150%</td>
<td>555,632</td>
<td>-</td>
<td>555,632</td>
<td>441,824</td>
<td>-</td>
<td>441,824</td>
</tr>
<tr>
<td></td>
<td>1,991,725</td>
<td>1,460,016</td>
<td>18,521,709</td>
<td>40,822,026</td>
<td>27,701,387</td>
<td>13,070,639</td>
<td></td>
</tr>
<tr>
<td>Past due loans</td>
<td>- Less than 20%</td>
<td>4,903,887</td>
<td>1,450,172</td>
<td>3,453,715</td>
<td>3,576,454</td>
<td>212,420</td>
<td>3,364,034</td>
</tr>
<tr>
<td></td>
<td>- Between 20% to 50%</td>
<td>11,380,748</td>
<td>9,844</td>
<td>11,370,904</td>
<td>11,399,342</td>
<td>4,191,246</td>
<td>7,208,096</td>
</tr>
<tr>
<td></td>
<td>- More than 50%</td>
<td>3,677,090</td>
<td>-</td>
<td>3,677,090</td>
<td>25,846,230</td>
<td>23,347,721</td>
<td>2,498,509</td>
</tr>
<tr>
<td>Past due loans secured against mortgage of residential property:</td>
<td>- past due for more than 90 days</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>- past due by 90 days</td>
<td>50%</td>
<td>560,433</td>
<td>-</td>
<td>560,433</td>
<td>628,676</td>
<td>80,912</td>
</tr>
<tr>
<td></td>
<td></td>
<td>496,757</td>
<td>-</td>
<td>496,757</td>
<td>891,713</td>
<td>400,312</td>
<td>491,401</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,501,190</td>
<td>-</td>
<td>1,501,190</td>
<td>1,518,589</td>
<td>481,224</td>
<td>1,037,365</td>
</tr>
<tr>
<td></td>
<td></td>
<td>All Fixed Assets</td>
<td>100%</td>
<td>23,223,905</td>
<td>-</td>
<td>23,223,905</td>
<td>23,242,572</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others</td>
<td>6,738,724</td>
<td>-</td>
<td>6,738,724</td>
<td>8,372,309</td>
<td>1,546,703</td>
</tr>
<tr>
<td>Total</td>
<td>742,226,344</td>
<td>114,824,345</td>
<td>633,401,999</td>
<td>708,012,667</td>
<td>136,689,587</td>
<td>571,323,080</td>
<td></td>
</tr>
</tbody>
</table>
44. RISK MANAGEMENT

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

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is the risk of loss arising from adverse movements in market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk
- Equity position risk is the risk that arises due to changes in prices of individual stocks or levels of equity indices.

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

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

- Determining guidelines relating to Bank’s appetite for risk.
- Recommending risk management policies in accordance with the Basel-II framework and international best practices.
- Reviewing policies/ manuals and ensuring that these are in accordance with the risk management policies.
- Developing systems and resources to review the key risk exposures of the Group.
- Approving credits.
- Granting approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Group.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

44.1 Credit risk

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

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

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

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

#### 44.2.1 Segments by class of business

<table>
<thead>
<tr>
<th>Class of Business</th>
<th>2010 Rupees '000</th>
<th>2010 Percent</th>
<th>2010 Rupees '000</th>
<th>2010 Percent</th>
<th>2010 Rupees '000</th>
<th>2010 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical and pharmaceuticals</td>
<td>6,217,583</td>
<td>1.65%</td>
<td>8,389,268</td>
<td>1.48%</td>
<td>6,082,131</td>
<td>1.12%</td>
</tr>
<tr>
<td>Agri business</td>
<td>53,034,196</td>
<td>14.09%</td>
<td>33,824,201</td>
<td>5.96%</td>
<td>315,807</td>
<td>0.06%</td>
</tr>
<tr>
<td>Textile spinning</td>
<td>17,497,654</td>
<td>4.65%</td>
<td>1,289,002</td>
<td>0.23%</td>
<td>5,058,213</td>
<td>0.93%</td>
</tr>
<tr>
<td>Textile weaving</td>
<td>6,722,278</td>
<td>1.79%</td>
<td>2,477,437</td>
<td>0.44%</td>
<td>4,289,442</td>
<td>0.79%</td>
</tr>
<tr>
<td>Textile composite</td>
<td>23,145,685</td>
<td>6.15%</td>
<td>330,764</td>
<td>0.06%</td>
<td>814,737</td>
<td>0.15%</td>
</tr>
<tr>
<td>Textile others</td>
<td>13,780,445</td>
<td>3.66%</td>
<td>2,182,465</td>
<td>0.38%</td>
<td>3,740,450</td>
<td>0.69%</td>
</tr>
<tr>
<td>Cement</td>
<td>6,803,468</td>
<td>1.81%</td>
<td>908,802</td>
<td>0.34%</td>
<td>2,801,403</td>
<td>0.52%</td>
</tr>
<tr>
<td>Sugar</td>
<td>8,153,681</td>
<td>2.17%</td>
<td>3,078,292</td>
<td>0.54%</td>
<td>358,817</td>
<td>0.07%</td>
</tr>
<tr>
<td>Shoes and leather garments</td>
<td>2,447,523</td>
<td>0.65%</td>
<td>2,216,787</td>
<td>0.39%</td>
<td>298,515</td>
<td>0.06%</td>
</tr>
<tr>
<td>Automobile and transportation equipment</td>
<td>4,516,043</td>
<td>1.20%</td>
<td>3,077,700</td>
<td>0.53%</td>
<td>4,940,641</td>
<td>0.91%</td>
</tr>
<tr>
<td>Financial</td>
<td>4,989,842</td>
<td>1.33%</td>
<td>16,853,440</td>
<td>2.97%</td>
<td>299,486,924</td>
<td>55.26%</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>0.00%</td>
<td>22,443,630</td>
<td>0.39%</td>
<td>43,143</td>
<td>0.01%</td>
</tr>
<tr>
<td>Electronics and electrical appliances</td>
<td>2,399,152</td>
<td>0.64%</td>
<td>3,265,744</td>
<td>0.58%</td>
<td>1,541,579</td>
<td>0.28%</td>
</tr>
<tr>
<td>Production and transmission of energy</td>
<td>39,057,078</td>
<td>10.37%</td>
<td>17,157,862</td>
<td>3.02%</td>
<td>58,716,619</td>
<td>10.83%</td>
</tr>
<tr>
<td>Paper and allied</td>
<td>789,310</td>
<td>0.21%</td>
<td>2,189,563</td>
<td>0.39%</td>
<td>660,772</td>
<td>0.12%</td>
</tr>
<tr>
<td>Surgical and metal</td>
<td>2,265,932</td>
<td>0.60%</td>
<td>1,450,750</td>
<td>0.26%</td>
<td>335,306</td>
<td>0.06%</td>
</tr>
<tr>
<td>Contractors</td>
<td>4,263,223</td>
<td>1.13%</td>
<td>16,640,821</td>
<td>2.93%</td>
<td>19,463,140</td>
<td>3.59%</td>
</tr>
<tr>
<td>Wholesale traders</td>
<td>20,811,787</td>
<td>5.53%</td>
<td>36,074,167</td>
<td>6.36%</td>
<td>1,319,555</td>
<td>0.24%</td>
</tr>
<tr>
<td>Fertilizer dealers</td>
<td>6,823,565</td>
<td>1.81%</td>
<td>8,494,701</td>
<td>1.50%</td>
<td>677,458</td>
<td>0.12%</td>
</tr>
<tr>
<td>Sports goods</td>
<td>803,919</td>
<td>0.21%</td>
<td>840,738</td>
<td>0.15%</td>
<td>17,885</td>
<td>0.00%</td>
</tr>
<tr>
<td>Food industries</td>
<td>6,858,339</td>
<td>1.82%</td>
<td>3,931,436</td>
<td>0.69%</td>
<td>3,699,826</td>
<td>0.68%</td>
</tr>
<tr>
<td>Airlines</td>
<td>6,033,039</td>
<td>1.60%</td>
<td>308,457</td>
<td>0.05%</td>
<td>108,106</td>
<td>0.02%</td>
</tr>
<tr>
<td>Cables</td>
<td>661,900</td>
<td>0.18%</td>
<td>96,185</td>
<td>0.02%</td>
<td>744,510</td>
<td>0.14%</td>
</tr>
<tr>
<td>Construction</td>
<td>21,866,860</td>
<td>5.81%</td>
<td>6,675,833</td>
<td>1.15%</td>
<td>10,260,326</td>
<td>1.89%</td>
</tr>
<tr>
<td>Containers and ports</td>
<td>1,813,903</td>
<td>0.48%</td>
<td>1,543,051</td>
<td>0.27%</td>
<td>2,974,909</td>
<td>0.55%</td>
</tr>
<tr>
<td>Engineering</td>
<td>1,531,426</td>
<td>0.41%</td>
<td>3,472,111</td>
<td>0.61%</td>
<td>1,618,692</td>
<td>0.30%</td>
</tr>
<tr>
<td>Glass and Allied</td>
<td>301,653</td>
<td>0.08%</td>
<td>385,593</td>
<td>0.07%</td>
<td>220,958</td>
<td>0.04%</td>
</tr>
<tr>
<td>Hotels</td>
<td>2,708,633</td>
<td>0.72%</td>
<td>1,223,853</td>
<td>0.22%</td>
<td>438,627</td>
<td>0.08%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2,273,671</td>
<td>0.60%</td>
<td>4,285,714</td>
<td>0.76%</td>
<td>31,461,991</td>
<td>5.81%</td>
</tr>
<tr>
<td>Media</td>
<td>620,575</td>
<td>0.16%</td>
<td>365,056</td>
<td>0.06%</td>
<td>40,879</td>
<td>0.01%</td>
</tr>
<tr>
<td>Polyester and fibre</td>
<td>1,980,509</td>
<td>0.53%</td>
<td>623,175</td>
<td>0.11%</td>
<td>78,234</td>
<td>0.01%</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>11,333,927</td>
<td>3.01%</td>
<td>3,894,923</td>
<td>0.69%</td>
<td>1,167,952</td>
<td>0.22%</td>
</tr>
<tr>
<td>Individuals</td>
<td>68,881,652</td>
<td>18.30%</td>
<td>276,129,372</td>
<td>49.00%</td>
<td>18,590,080</td>
<td>3.43%</td>
</tr>
<tr>
<td>Others</td>
<td>28,091,573</td>
<td>7.66%</td>
<td>76,540,295</td>
<td>13.48%</td>
<td>59,604,206</td>
<td>11.00%</td>
</tr>
</tbody>
</table>

Total: 376,480,024 | 100.00% | 567,611,258 | 100.00% | 541,971,833 | 100.00% |
### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

**Gross Advances**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2009 Rupees in '000</th>
<th>2009 Percent</th>
<th>2010 Rupees in '000</th>
<th>2010 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chemical and pharmaceuticals</strong></td>
<td>6,081,931</td>
<td>1.56%</td>
<td>11,971,327</td>
<td>2.38%</td>
</tr>
<tr>
<td><strong>Agri business</strong></td>
<td>50,894,347</td>
<td>13.03%</td>
<td>21,026,267</td>
<td>4.17%</td>
</tr>
<tr>
<td><strong>Textile spinning</strong></td>
<td>19,541,766</td>
<td>5.00%</td>
<td>1,225,983</td>
<td>0.24%</td>
</tr>
<tr>
<td><strong>Textile weaving</strong></td>
<td>7,788,745</td>
<td>1.99%</td>
<td>804,049</td>
<td>0.16%</td>
</tr>
<tr>
<td><strong>Textile composite</strong></td>
<td>21,246,034</td>
<td>5.44%</td>
<td>965,467</td>
<td>0.19%</td>
</tr>
<tr>
<td><strong>Textile others</strong></td>
<td>13,090,077</td>
<td>3.35%</td>
<td>1,981,459</td>
<td>0.39%</td>
</tr>
<tr>
<td><strong>Cement</strong></td>
<td>6,508,094</td>
<td>1.67%</td>
<td>988,097</td>
<td>0.20%</td>
</tr>
<tr>
<td><strong>Sugar</strong></td>
<td>7,068,609</td>
<td>1.81%</td>
<td>2,360,348</td>
<td>0.47%</td>
</tr>
<tr>
<td><strong>Shoes and leather garments</strong></td>
<td>2,200,397</td>
<td>0.56%</td>
<td>1,827,377</td>
<td>0.36%</td>
</tr>
<tr>
<td><strong>Automobile and transportation equipment</strong></td>
<td>5,574,069</td>
<td>1.43%</td>
<td>4,318,840</td>
<td>0.86%</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>5,679,937</td>
<td>1.45%</td>
<td>11,835,140</td>
<td>2.35%</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>5,862,715</td>
<td>1.50%</td>
<td>2,448,443</td>
<td>0.49%</td>
</tr>
<tr>
<td><strong>Production and transmission of energy</strong></td>
<td>41,179,308</td>
<td>10.55%</td>
<td>19,932,300</td>
<td>3.96%</td>
</tr>
<tr>
<td><strong>Paper and allied</strong></td>
<td>1,125,589</td>
<td>0.29%</td>
<td>1,016,292</td>
<td>0.20%</td>
</tr>
<tr>
<td><strong>Surgical and metal</strong></td>
<td>567,366</td>
<td>0.15%</td>
<td>1,553,961</td>
<td>0.31%</td>
</tr>
<tr>
<td><strong>Contractors</strong></td>
<td>2,600,466</td>
<td>0.67%</td>
<td>18,104,119</td>
<td>0.35%</td>
</tr>
<tr>
<td><strong>Wholesale traders</strong></td>
<td>11,749,311</td>
<td>3.01%</td>
<td>26,658,663</td>
<td>5.29%</td>
</tr>
<tr>
<td><strong>Fertilizer dealers</strong></td>
<td>5,729,029</td>
<td>1.47%</td>
<td>9,516,985</td>
<td>1.89%</td>
</tr>
<tr>
<td><strong>Sports goods</strong></td>
<td>432,121</td>
<td>0.11%</td>
<td>868,470</td>
<td>0.17%</td>
</tr>
<tr>
<td><strong>Food industries</strong></td>
<td>7,470,504</td>
<td>1.91%</td>
<td>3,231,634</td>
<td>0.64%</td>
</tr>
<tr>
<td><strong>Airlines</strong></td>
<td>5,569,645</td>
<td>1.43%</td>
<td>1,621,206</td>
<td>0.32%</td>
</tr>
<tr>
<td><strong>Cables</strong></td>
<td>379,600</td>
<td>0.10%</td>
<td>225,097</td>
<td>0.04%</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>26,087,924</td>
<td>6.68%</td>
<td>7,793,699</td>
<td>1.55%</td>
</tr>
<tr>
<td><strong>Containers and ports</strong></td>
<td>95,855</td>
<td>0.24%</td>
<td>1,223,696</td>
<td>0.24%</td>
</tr>
<tr>
<td><strong>Engineering</strong></td>
<td>1,496,050</td>
<td>0.38%</td>
<td>3,124,994</td>
<td>0.62%</td>
</tr>
<tr>
<td><strong>Glass and Allied</strong></td>
<td>444,982</td>
<td>0.11%</td>
<td>914,092</td>
<td>0.18%</td>
</tr>
<tr>
<td><strong>Hotels</strong></td>
<td>2,747,484</td>
<td>0.70%</td>
<td>1,018,965</td>
<td>0.20%</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>2,507,584</td>
<td>0.64%</td>
<td>4,547,147</td>
<td>0.90%</td>
</tr>
<tr>
<td><strong>Media</strong></td>
<td>-</td>
<td>-</td>
<td>448,233</td>
<td>0.09%</td>
</tr>
<tr>
<td><strong>Polyester and fibre</strong></td>
<td>3,403,956</td>
<td>0.87%</td>
<td>409,196</td>
<td>0.08%</td>
</tr>
<tr>
<td><strong>Telecommunication</strong></td>
<td>8,557,307</td>
<td>2.19%</td>
<td>3,526,634</td>
<td>0.70%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>39,105,533</td>
<td>10.01%</td>
<td>47,933,446</td>
<td>9.51%</td>
</tr>
</tbody>
</table>

**Total**                                        | 390,493,953          | 100.00%      | 503,831,672          | 100.00%      |

### 44.2.2 Segment by Sector

**Gross Advances**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2010 Rupees in '000</th>
<th>2010 Percent</th>
<th>2009 Rupees in '000</th>
<th>2009 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public / Government</strong></td>
<td>64,910,148</td>
<td>17.24%</td>
<td>73,257,674</td>
<td>12.91%</td>
</tr>
<tr>
<td><strong>Private</strong></td>
<td>311,569,876</td>
<td>82.76%</td>
<td>494,353,584</td>
<td>87.09%</td>
</tr>
</tbody>
</table>

**Total**                                        | 376,480,024         | 100.00%      | 567,611,258         | 100.00%      |

### 2009

<table>
<thead>
<tr>
<th>Segment</th>
<th>2009 Rupees in '000</th>
<th>2009 Percent</th>
<th>2009 Rupees in '000</th>
<th>2009 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public / Government</strong></td>
<td>66,948,105</td>
<td>17.14%</td>
<td>50,369,132</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Private</strong></td>
<td>323,545,848</td>
<td>82.86%</td>
<td>453,462,540</td>
<td>90.00%</td>
</tr>
</tbody>
</table>

**Total**                                        | 390,493,953         | 100.00%      | 503,831,672         | 100.00%      |
### 44.2.3 Details of non performing advances and specific provisions by class of business segment

<table>
<thead>
<tr>
<th>Class</th>
<th>Classified Advances</th>
<th>Specific Provision Held</th>
<th>Classified Advances</th>
<th>Specific Provision Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical and pharmaceuticals</td>
<td>226,502</td>
<td>196,114</td>
<td>309,349</td>
<td>177,596</td>
</tr>
<tr>
<td>Agri business</td>
<td>1,430,020</td>
<td>903,057</td>
<td>1,508,525</td>
<td>862,526</td>
</tr>
<tr>
<td>Textile spinning</td>
<td>5,417,208</td>
<td>4,479,514</td>
<td>5,017,860</td>
<td>3,927,267</td>
</tr>
<tr>
<td>Textile weaving</td>
<td>910,470</td>
<td>873,022</td>
<td>888,722</td>
<td>867,460</td>
</tr>
<tr>
<td>Textile composite</td>
<td>5,210,214</td>
<td>2,337,315</td>
<td>998,902</td>
<td>765,271</td>
</tr>
<tr>
<td>Textile others</td>
<td>2,282,350</td>
<td>1,937,098</td>
<td>2,935,380</td>
<td>2,365,528</td>
</tr>
<tr>
<td>Cement</td>
<td>-</td>
<td>-</td>
<td>4,450</td>
<td>4,450</td>
</tr>
<tr>
<td>Sugar</td>
<td>33,638</td>
<td>33,638</td>
<td>33,638</td>
<td>33,638</td>
</tr>
<tr>
<td>Shoes and leather garments</td>
<td>226,903</td>
<td>224,110</td>
<td>241,948</td>
<td>180,321</td>
</tr>
<tr>
<td>Automobile and transportation equipment</td>
<td>726,577</td>
<td>650,422</td>
<td>1,019,508</td>
<td>704,676</td>
</tr>
<tr>
<td>Financial</td>
<td>2,166,734</td>
<td>64,132</td>
<td>59,305</td>
<td>22,348</td>
</tr>
<tr>
<td>Electronics and electrical appliances</td>
<td>365,354</td>
<td>345,164</td>
<td>542,892</td>
<td>428,957</td>
</tr>
<tr>
<td>Production and transmission of energy</td>
<td>3,049,109</td>
<td>2,981,719</td>
<td>2,927,748</td>
<td>1,942,137</td>
</tr>
<tr>
<td>Paper and allied</td>
<td>179,264</td>
<td>113,240</td>
<td>173,212</td>
<td>116,438</td>
</tr>
<tr>
<td>Surgical and metal</td>
<td>-</td>
<td>-</td>
<td>1,775</td>
<td>1,775</td>
</tr>
<tr>
<td>Wholesale traders</td>
<td>1,167,377</td>
<td>881,274</td>
<td>1,024,613</td>
<td>648,018</td>
</tr>
<tr>
<td>Fertilizer dealers</td>
<td>7,490</td>
<td>6,878</td>
<td>6,182</td>
<td>4,364</td>
</tr>
<tr>
<td>Sports goods</td>
<td>128,325</td>
<td>128,325</td>
<td>280,675</td>
<td>279,310</td>
</tr>
<tr>
<td>Food industries</td>
<td>1,258,725</td>
<td>964,667</td>
<td>795,442</td>
<td>781,194</td>
</tr>
<tr>
<td>Construction</td>
<td>3,885,120</td>
<td>1,134,507</td>
<td>4,106,175</td>
<td>1,249,378</td>
</tr>
<tr>
<td>Engineering</td>
<td>440,297</td>
<td>12,264</td>
<td>29,796</td>
<td>14,899</td>
</tr>
<tr>
<td>Glass and Allied</td>
<td>24,527</td>
<td>12,264</td>
<td>29,796</td>
<td>14,899</td>
</tr>
<tr>
<td>Hotels</td>
<td>485,993</td>
<td>113,086</td>
<td>488,493</td>
<td>116,586</td>
</tr>
<tr>
<td>Polyester and fibre</td>
<td>1,751,479</td>
<td>1,743,679</td>
<td>1,702,376</td>
<td>1,668,561</td>
</tr>
<tr>
<td>Individuals</td>
<td>13,241,553</td>
<td>9,817,528</td>
<td>11,145,588</td>
<td>8,073,785</td>
</tr>
<tr>
<td>Others</td>
<td>3,997,849</td>
<td>3,193,224</td>
<td>3,468,229</td>
<td>2,110,913</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>48,613,078</td>
<td>33,544,116</td>
<td>40,065,237</td>
<td>27,700,850</td>
</tr>
</tbody>
</table>

### 44.2.4 Details of non performing advances and specific provision by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Classified Advances</th>
<th>Specific Provision Held</th>
<th>Classified Advances</th>
<th>Specific Provision Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public / Government</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Private</td>
<td>48,613,078</td>
<td>33,544,116</td>
<td>40,065,237</td>
<td>27,700,850</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>48,613,078</td>
<td>33,544,116</td>
<td>40,065,237</td>
<td>27,700,850</td>
</tr>
</tbody>
</table>
### 44.2.5 Geographical segment analysis

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profit before taxation</td>
<td>Total assets employed</td>
<td>Net assets employed</td>
<td>Contingencies &amp; commitments</td>
</tr>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td>Pakistan operations</td>
<td>14,702,642</td>
<td>553,501,773</td>
<td>39,841,245</td>
<td>428,490,945</td>
</tr>
<tr>
<td>Middle East</td>
<td>2,655,182</td>
<td>138,860,848</td>
<td>24,430,003</td>
<td>108,368,163</td>
</tr>
<tr>
<td>United States of America</td>
<td>173,800</td>
<td>3,158,076</td>
<td>331,686</td>
<td>2,586,153</td>
</tr>
<tr>
<td>Karachi Export Processing Zone</td>
<td>34,109</td>
<td>487,149</td>
<td>232,152</td>
<td>12,152</td>
</tr>
<tr>
<td>Europe</td>
<td>122,890</td>
<td>29,381,797</td>
<td>9,209,030</td>
<td>2,294,420</td>
</tr>
<tr>
<td></td>
<td>2,985,981</td>
<td>171,887,870</td>
<td>35,292,935</td>
<td>113,480,888</td>
</tr>
<tr>
<td></td>
<td>17,688,623</td>
<td>725,389,643</td>
<td>75,134,180</td>
<td>541,971,833</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profit before taxation</td>
<td>Total assets employed</td>
<td>Net assets employed</td>
<td>Contingencies &amp; commitments</td>
</tr>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td>Pakistan operations</td>
<td>11,804,300</td>
<td>484,433,342</td>
<td>32,231,500</td>
<td>368,991,478</td>
</tr>
<tr>
<td>Middle East</td>
<td>2,322,795</td>
<td>130,479,211</td>
<td>25,356,043</td>
<td>77,206,577</td>
</tr>
<tr>
<td>United States of America</td>
<td>111,414</td>
<td>2,138,970</td>
<td>1,259,785</td>
<td>166,269</td>
</tr>
<tr>
<td>Karachi Export Processing Zone</td>
<td>58,448</td>
<td>708,459</td>
<td>321,518</td>
<td>16,269</td>
</tr>
<tr>
<td>Europe</td>
<td>95,224</td>
<td>22,661,929</td>
<td>8,149,517</td>
<td>3,702,120</td>
</tr>
<tr>
<td></td>
<td>2,587,881</td>
<td>155,988,569</td>
<td>35,086,863</td>
<td>81,395,836</td>
</tr>
<tr>
<td></td>
<td>14,392,181</td>
<td>640,421,911</td>
<td>67,318,363</td>
<td>450,387,314</td>
</tr>
</tbody>
</table>

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

### 44.3 Market Risk

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

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

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

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

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

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

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

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

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

44.3.1 Foreign Exchange Risk

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
<th>Off - balance sheet items</th>
<th>Net foreign currency exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
<td>(Rupees in ‘000)</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>---------</td>
<td>-------------</td>
<td>--------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Pakistan Rupee</td>
<td>544,326,154</td>
<td>477,308,787</td>
<td>(11,086,237)</td>
<td>55,931,130</td>
</tr>
<tr>
<td>US Dollar</td>
<td>33,366,944</td>
<td>33,073,859</td>
<td>(254,997)</td>
<td>(251,912)</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>18,293,044</td>
<td>18,760,474</td>
<td>9,339,081</td>
<td>8,871,651</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>315,278</td>
<td>275,066</td>
<td>(41,117)</td>
<td>(905)</td>
</tr>
<tr>
<td>Euro</td>
<td>1,040,133</td>
<td>4,601,339</td>
<td>3,497,421</td>
<td>(63,785)</td>
</tr>
<tr>
<td>UAE Dirham</td>
<td>3,078,195</td>
<td>2,121,758</td>
<td>(1,061,846)</td>
<td>(105,409)</td>
</tr>
<tr>
<td>Bahrain Dinar</td>
<td>18,850,218</td>
<td>18,874,901</td>
<td>-</td>
<td>(24,683)</td>
</tr>
<tr>
<td>Qatari Riyal</td>
<td>795,762</td>
<td>-</td>
<td>(842,508)</td>
<td>(46,746)</td>
</tr>
<tr>
<td>Other Currencies</td>
<td>20,356,183</td>
<td>18,087,364</td>
<td>740,202</td>
<td>3,009,021</td>
</tr>
<tr>
<td></td>
<td>640,421,911</td>
<td>573,103,548</td>
<td>-</td>
<td>67,318,363</td>
</tr>
</tbody>
</table>
Foreign Exchange Risk is the uncertainty that the Group is exposed to due to changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

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

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

44.3.2 Equity position risk

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

44.3.3 Yield / Interest Rate Risk

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

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

<table>
<thead>
<tr>
<th>2010</th>
<th>Non-interest bearing financial instruments</th>
<th>Effective yield</th>
<th>Total</th>
<th>Exposed to Yield / Interest risk</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upto 1 month</td>
<td>Over 1 month to 3 months</td>
<td>Over 3 months to 6 months</td>
<td>Over 6 months to 1 year</td>
<td>Over 1 year to 2 years</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
<td>(Rupees in '000)</td>
</tr>
<tr>
<td><strong>On-balance sheet financial instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with treasury banks</td>
<td>0.28%</td>
<td>67,687,226</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>0.7%</td>
<td>25,960,928</td>
<td>19,533,240</td>
<td>4,239,239</td>
<td>211,360</td>
</tr>
<tr>
<td>Loans to financial institutions</td>
<td>9.2%</td>
<td>12,384,778</td>
<td>5,179,604</td>
<td>2,679,720</td>
<td>732,223</td>
</tr>
<tr>
<td>Investments</td>
<td>11.0%</td>
<td>231,717,214</td>
<td>14,349,666</td>
<td>75,293,453</td>
<td>82,847,477</td>
</tr>
<tr>
<td>Advances</td>
<td>11.7%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Performing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-Performing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating fixed assets - (Lea assets)</td>
<td>6.55%-25.00%</td>
<td>650,564</td>
<td>346,292</td>
<td>9,765</td>
<td>18,603</td>
</tr>
<tr>
<td>Other assets</td>
<td>0%</td>
<td>14,207,854</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>694,180,996</td>
<td>65,135,328</td>
<td>269,000,469</td>
<td>141,132,792</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bills payable</td>
<td>0%</td>
<td>5,074,700</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowings</td>
<td>11.0%</td>
<td>47,631,814</td>
<td>28,688,736</td>
<td>5,596,168</td>
<td>7,670,247</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>4.0%</td>
<td>567,611,258</td>
<td>113,347,019</td>
<td>129,330,528</td>
<td>63,404,043</td>
</tr>
<tr>
<td>Subordinated loans</td>
<td>11.91%</td>
<td>11,956,748</td>
<td>7,391,228</td>
<td>665,940</td>
<td>1,330,060</td>
</tr>
<tr>
<td>Liabilities against assets subject to finance leases</td>
<td>0.00%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>0%</td>
<td>15,747,885</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>688,851,406</td>
<td>141,050,759</td>
<td>142,917,864</td>
<td>71,674,296</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td></td>
<td>29,364,590</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Effective yield

- **Upto 1 month**: 648,051,405
- **Over 1 month to 3 months**: 141,955,755
- **Over 3 months to 6 months**: 142,917,864
- **Over 6 months to 1 year**: 71,674,296
- **Over 1 year to 2 years**: 52,743,980
- **Over 2 years to 3 years**: 4,707,367
- **Over 3 years to 5 years**: 5,136,813
- **Over 5 years to 10 years**: 2,938,035
- **Over 10 years**: 13,009,118

### Non-interest sensitive instruments

- **Total net assets**: 29,364,590

### On-balance sheet gap

- **Total yield/interest risk sensitivity gap**: 20,915,987
- **Cumulative yield/interest risk sensitivity gap**: (43,864,300)

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.
### Notes to and Forming Part of the Consolidated Financial Statements

#### For the Year Ended December 31, 2010

**Effective Interest Yield: Total and Non-interest Bearing Financial Instruments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Effective Interest Yield</th>
<th>Total</th>
<th>Non-interest Bearing Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Upto 1 month</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

**Off-balance sheet financial instruments**

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Total</th>
<th>Non-interest Bearing Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Upto 1 month</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Interest Rate Derivatives - Short position</td>
<td>11,014,381</td>
<td>257,968</td>
</tr>
<tr>
<td>Cross Currency Swap - Long position</td>
<td>36,372,837</td>
<td>5,712,281</td>
</tr>
<tr>
<td>Cross Currency Swap - Short position</td>
<td>(36,372,837)</td>
<td>(-5,712,281)</td>
</tr>
<tr>
<td>Swaptions - Short position</td>
<td>(2,572,248)</td>
<td>(-2,572,248)</td>
</tr>
<tr>
<td>Equity Index - Long position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity Index - Short position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commodity options - Long position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commodity options - Short position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Forward Rate Agreements - Short position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Forward Rate Agreements - Long position</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Forward Purchase of Govt. Securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Forward Sale of Govt. Securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign currency forward sales</td>
<td>47,499,455</td>
<td>35,327,341</td>
</tr>
<tr>
<td>Foreign currency forward purchases</td>
<td>32,085,590</td>
<td>26,411,068</td>
</tr>
</tbody>
</table>

**Off-balance sheet gap**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Non-interest Bearing Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Upto 1 month</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

**Total Yield/Interest Risk Sensitivity Gap**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Non-interest Bearing Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Upto 1 month</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

**Cumulative Yield Risk Sensitivity Gap**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Non-interest Bearing Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Upto 1 month</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

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

**Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.**
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

44.4 Liquidity Risk

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 year to 2 years</th>
<th>Over 2 years to 3 years</th>
<th>Over 3 years to 5 years</th>
<th>Over 5 years to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with treasury banks</td>
<td>67,687,206</td>
<td>62,619,532</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,047,684</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>25,980,928</td>
<td>21,530,259</td>
<td>4,239,309</td>
<td>211,360</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lendings to financial institutions</td>
<td>12,384,778</td>
<td>5,996,233</td>
<td>2,679,728</td>
<td>897,322</td>
<td>1,071,050</td>
<td>1,388,722</td>
<td>145,056</td>
<td>206,665</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>231,717,214</td>
<td>11,853,741</td>
<td>63,448,607</td>
<td>36,103,690</td>
<td>17,925,607</td>
<td>22,700,516</td>
<td>11,281,533</td>
<td>11,826,110</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Advances</td>
<td>341,510,412</td>
<td>11,080,329</td>
<td>33,300,206</td>
<td>27,112,702</td>
<td>9,935,242</td>
<td>47,129,735</td>
<td>40,953,470</td>
<td>10,136,738</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating fixed assets</td>
<td>24,684,566</td>
<td>2,408,336</td>
<td>410,927</td>
<td>883,482</td>
<td>1,414,936</td>
<td>1,970,618</td>
<td>998,142</td>
<td>1,583,020</td>
<td>2,267,867</td>
<td>12,747,238</td>
</tr>
<tr>
<td>Deferral tax asset</td>
<td>1,296,247</td>
<td>-</td>
<td>-</td>
<td>584,125</td>
<td>714,122</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>230,146,272</td>
<td>6,199,723</td>
<td>9,279,214</td>
<td>183,940</td>
<td>4,176,229</td>
<td>297,012</td>
<td>5,047,684</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>725,389,643</td>
<td>221,411,353</td>
<td>109,769,454</td>
<td>98,954,917</td>
<td>70,462,732</td>
<td>32,231,405</td>
<td>37,730,607</td>
<td>59,010,457</td>
<td>56,060,938</td>
<td>39,757,780</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills payable</td>
<td>5,074,700</td>
<td>4,895,421</td>
<td>-</td>
<td>173,279</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowings</td>
<td>47,631,814</td>
<td>29,655,296</td>
<td>4,596,108</td>
<td>7,547,247</td>
<td>544,798</td>
<td>332,891</td>
<td>761,776</td>
<td>524,380</td>
<td>2,669,318</td>
<td>-</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>567,611,208</td>
<td>435,033,340</td>
<td>56,131,986</td>
<td>25,444,292</td>
<td>21,159,934</td>
<td>5,323,709</td>
<td>4,090,718</td>
<td>4,003,809</td>
<td>16,426,470</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated loans</td>
<td>11,985,748</td>
<td>-</td>
<td>2,026</td>
<td>669,640</td>
<td>1,997,816</td>
<td>2,667,136</td>
<td>670,128</td>
<td>5,982,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities against assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>subject to finance leases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>17,951,943</td>
<td>(832,995)</td>
<td>7,150,286</td>
<td>679,457</td>
<td>5,847,004</td>
<td>2,711,842</td>
<td>494,052</td>
<td>1,902,297</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>650,235,463</td>
<td>468,751,062</td>
<td>69,059,687</td>
<td>33,667,996</td>
<td>28,218,376</td>
<td>10,366,258</td>
<td>8,013,682</td>
<td>1,583,020</td>
<td>26,980,085</td>
<td>-</td>
</tr>
<tr>
<td>Net assets</td>
<td>75,134,180</td>
<td>(247,339,709)</td>
<td>40,709,767</td>
<td>65,286,921</td>
<td>42,244,356</td>
<td>21,865,147</td>
<td>29,080,853</td>
<td>39,757,780</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Represented by:

Share capital | 12,241,799 |
Reserves      | 24,101,838 |
Unappropriated profit | 27,576,333 |
Non-controlling interest | 2,207,241 |
Surplus on revaluation of assets | 9,006,970 |

75,134,180
## Company Name

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

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 years to 2 years</th>
<th>Over 2 years to 3 years</th>
<th>Over 3 years to 5 years</th>
<th>Over 5 years to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and balances with treasury banks</strong></td>
<td>61,562,141</td>
<td>48,461,144</td>
<td>-</td>
<td>-</td>
<td>37,672</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,100,997</td>
</tr>
<tr>
<td><strong>Balances with other banks</strong></td>
<td>14,049,990</td>
<td>9,836,577</td>
<td>2,662,509</td>
<td>899,726</td>
<td>37,672</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>433,463</td>
</tr>
<tr>
<td><strong>Lendings to financial institutions</strong></td>
<td>23,162,130</td>
<td>18,323,555</td>
<td>378,185</td>
<td>216,592</td>
<td>1,000,000</td>
<td>165,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33,793,777</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>137,734,578</td>
<td>44,938,461</td>
<td>37,724,332</td>
<td>37,850,760</td>
<td>7,526,873</td>
<td>25,376,341</td>
<td>-</td>
<td>-</td>
<td>8,100,648</td>
<td>-</td>
</tr>
<tr>
<td><strong>Advances</strong></td>
<td>362,079,596</td>
<td>18,323,555</td>
<td>2,319,313</td>
<td>783,185</td>
<td>907,601</td>
<td>1,813,853</td>
<td>2,622,572</td>
<td>-</td>
<td>12,418,486</td>
<td>-</td>
</tr>
<tr>
<td><strong>Deferred tax asset</strong></td>
<td>649,814</td>
<td>40,744</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>17,449,580</td>
<td>1,790,871</td>
<td>1,781,912</td>
<td>9,618,760</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 years to 2 years</th>
<th>Over 2 years to 3 years</th>
<th>Over 3 years to 5 years</th>
<th>Over 5 years to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bills payable</strong></td>
<td>5,166,361</td>
<td>4,972,520</td>
<td>193,841</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Deposits and other accounts</strong></td>
<td>503,831,672</td>
<td>426,804,901</td>
<td>42,046,318</td>
<td>8,488,651</td>
<td>1,997,821</td>
<td>3,334,864</td>
<td>5,984,400</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subordinated loans</strong></td>
<td>11,989,800</td>
<td>2,024</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Liabilities against assets</strong></td>
<td>573,103,548</td>
<td>474,172,117</td>
<td>17,816,916</td>
<td>7,879,672</td>
<td>18,782,975</td>
<td>18,782,975</td>
<td>15,927,957</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td>611</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Represented by:

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

---

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

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

<table>
<thead>
<tr>
<th>2010</th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 year to 2 years</th>
<th>Over 2 year to 3 years</th>
<th>Over 3 year to 5 years</th>
<th>Over 5 year to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
</table>
### Assets

- **Cash and balances with treasury banks**: 67,667,226 (32,630,131 + 5,961,763 + 4,315,224 + 4,895,168 + 5,617,703 + 226,485 + 184,107 + 13,836,645 + -)
- **Balances with other banks**: 25,980,928 (9,725,869 + 6,043,699 + 211,360 + - + - + - + - + -)
- **Lendings to financial institutions**: 12,384,778 (5,096,880 + 3,579,671 + 897,322 + 1,070,458 + 1,388,722 + 21,201,986 + 28,367,635 + 9,718,745 + - + -)
- **Investments**: 231,717,214 (12,854,140 + 42,379,183 + 67,041,417 + 28,460,278 + 9,414,858 + 14,304,419 + 28,789,336 + 26,360,101 + 2,113,482 + -)
- **Advances - Performing**: 326,441,450 (97,158,964 + 50,027,099 + 25,160,493 + 6,804,150 + 12,388,931 + 21,201,986 + 28,367,635 + 9,718,745 + - + -)
- **Other assets**: 20,146,272 (2,009,611 + 1,484,016 + 11,867,123 + 2,905 + 8,556 + 19,364 + 11,620 + 23,240 + 22,424,072 + -)
- **Operating fixed assets**: 24,684,566 (2,192,872 + 1,937 + 2,905 + 8,556 + 19,364 + 11,620 + 23,240 + 22,424,072 + - + -)
- **Deferred tax Assets**: 1,298,247 (1,298,247 + - + - + - + - + - + - + -)

| 725,389,643 | 171,668,467 | 157,943,106 | 111,363,060 | 64,029,970 | 24,375,931 | 27,076,513 | 50,414,840 | 106,685,529 | 11,832,227 |

### Liabilities

- **Bills payable**: 5,074,700 (4,068,123 + 1,006,577 + - + - + - + - + - + -)
- **Borrowing**: 37,631,814 (31,249,685 + 10,138,567 + 5,326,026 + - + - + - + - + - + -)
- **Deposits and other accounts**: 567,611,258 (124,708,489 + 89,810,309 + 63,521,312 + 58,651,534 + 63,173,648 + 4,090,812 + 4,003,812 + 159,651,342 + - + -)
- **Subordinated loan**: 11,985,748 (2,028 + 666,640 + 1,997,816 + 2,667,136 + 670,128 + 5,982,000 + - + - + - + -)
- **Liabilities against assets subject to finance leases**: -
- **Other liabilities**: 17,951,943 (6,908,754 + 2,027,028 + 5,154,457 + 2,711,842 + 494,053 + 10,402,293 + 2,841,691 + 2,088,178 + - + -)


### Net assets

| 75,134,180 | 17,740,924 | 55,713,617 | 43,077,547 | (442,661) | (43,507,375) | 19,824,512 | 34,783,071 | (61,789,504) | 9,734,049 |

**Represented by:**

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

| 75,134,180 |
### Assets

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 year to 2 years</th>
<th>Over 2 years to 3 years</th>
<th>Over 3 years to 5 years</th>
<th>Over 5 years to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with treasury banks</td>
<td>61,562,141</td>
<td>30,417,709</td>
<td>5,744,339</td>
<td>3,821,791</td>
<td>4,031,174</td>
<td>5,046,748</td>
<td>107,770</td>
<td>294,807</td>
<td>12,097,803</td>
<td>-</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>14,049,990</td>
<td>10,364,189</td>
<td>2,443,990</td>
<td>824,096</td>
<td>180,043</td>
<td>37,672</td>
<td>-</td>
<td>-</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td>Lendings to financial institutions</td>
<td>23,162,130</td>
<td>20,623,296</td>
<td>2,159,149</td>
<td>169,075</td>
<td>-</td>
<td>210,610</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>137,734,578</td>
<td>17,557,963</td>
<td>19,241,497</td>
<td>18,917,627</td>
<td>16,066,142</td>
<td>5,469,278</td>
<td>3,794,038</td>
<td>29,480,465</td>
<td>25,093,085</td>
<td>2,114,483</td>
</tr>
<tr>
<td>Advances - Performing</td>
<td>349,715,209</td>
<td>113,791,821</td>
<td>53,482,143</td>
<td>34,093,945</td>
<td>31,042,626</td>
<td>26,082,159</td>
<td>8,800,873</td>
<td>26,010,075</td>
<td>47,508,041</td>
<td>8,903,526</td>
</tr>
<tr>
<td>- Non Performing</td>
<td>12,364,387</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12,364,387</td>
</tr>
<tr>
<td>Other assets</td>
<td>17,449,580</td>
<td>3,166,659</td>
<td>1,019,732</td>
<td>12,540,173</td>
<td>62,799</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>660,217</td>
<td>-</td>
</tr>
<tr>
<td>Operating fixed assets</td>
<td>23,734,082</td>
<td>1,745,741</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21,925,670</td>
</tr>
<tr>
<td>Deferred tax Assets</td>
<td>649,814</td>
<td>40,744</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>640,421,911</strong></td>
<td><strong>197,708,122</strong></td>
<td><strong>84,090,850</strong></td>
<td><strong>70,366,707</strong></td>
<td><strong>51,656,372</strong></td>
<td><strong>37,244,020</strong></td>
<td><strong>12,702,681</strong></td>
<td><strong>55,785,347</strong></td>
<td><strong>119,849,203</strong></td>
<td><strong>11,018,009</strong></td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Upto 1 month</th>
<th>Over 1 month to 3 months</th>
<th>Over 3 months to 6 months</th>
<th>Over 6 months to 1 year</th>
<th>Over 1 year to 2 years</th>
<th>Over 2 years to 3 years</th>
<th>Over 3 years to 5 years</th>
<th>Over 5 years to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills payable</td>
<td>5,166,361</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowing</td>
<td>37,168,277</td>
<td>15,452,801</td>
<td>13,603,220</td>
<td>6,848,198</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>503,831,672</td>
<td>99,619,122</td>
<td>101,402,301</td>
<td>49,270,259</td>
<td>54,014,009</td>
<td>60,048,963</td>
<td>1,826,977</td>
<td>4,593,456</td>
<td>133,056,585</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>11,989,800</td>
<td>-</td>
<td>2,024</td>
<td>-</td>
<td>2,024</td>
<td>668,667</td>
<td>1,997,821</td>
<td>3,334,864</td>
<td>5,984,400</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities against assets</td>
<td>611</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>subject to finance leases</td>
<td>14,846,827</td>
<td>485,102</td>
<td>12,363,311</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,098,414</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td><strong>573,103,548</strong></td>
<td><strong>119,540,564</strong></td>
<td><strong>128,553,678</strong></td>
<td><strong>56,118,457</strong></td>
<td><strong>54,016,644</strong></td>
<td><strong>60,717,630</strong></td>
<td><strong>3,824,798</strong></td>
<td><strong>9,192,378</strong></td>
<td><strong>141,139,399</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>67,318,363</strong></td>
<td><strong>78,167,558</strong></td>
<td><strong>(44,462,828)</strong></td>
<td><strong>14,248,250</strong></td>
<td><strong>(2,359,672)</strong></td>
<td><strong>(23,473,610)</strong></td>
<td><strong>8,877,883</strong></td>
<td><strong>46,592,969</strong></td>
<td><strong>(21,290,196)</strong></td>
<td><strong>11,018,009</strong></td>
</tr>
</tbody>
</table>

### Represented by:

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

**67,318,363**
44.5 Operational Risk

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

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

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

- Recruiting skilled resources for Operational Risk Management.
- Developing an operational risk management infrastructure.
- Determining the current state of key risks and their controls residing in each business unit.
- Developing policies, procedures and defining end-to-end information flow to establish a vigorous governance infrastructure.
- Implementing systems for data collection, migration, validation and retention for current and historical reference and calculation.

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

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and creating an inventory of risks and controls within the Group. A methodology for Risk and Control Self Assessment has been implemented at all core units of the Group.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

45. ISLAMIC BANKING BUSINESS

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

<table>
<thead>
<tr>
<th></th>
<th>2010 (Rupees in '000)</th>
<th>2009 (Rupees in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with treasury banks</td>
<td>389,582</td>
<td>208,180</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>46,654</td>
<td>93,410</td>
</tr>
<tr>
<td>Lendings to financial institutions</td>
<td>450,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Investments</td>
<td>2,884,260</td>
<td>1,563,953</td>
</tr>
<tr>
<td>Financing and receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Murabaha</td>
<td>203,787</td>
</tr>
<tr>
<td></td>
<td>Musharaka</td>
<td>166,667</td>
</tr>
<tr>
<td></td>
<td>Diminishing Musharaka</td>
<td>90,888</td>
</tr>
<tr>
<td></td>
<td>461,342</td>
<td>638,131</td>
</tr>
<tr>
<td>Operating fixed assets including assets given on Ijara</td>
<td>426,052</td>
<td>598,452</td>
</tr>
<tr>
<td>Due from head office</td>
<td>83,725</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>297,649</td>
<td>548,396</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>5,039,264</td>
<td>3,750,522</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills payable</td>
<td>970</td>
<td>4,522</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current accounts</td>
<td>724,750</td>
</tr>
<tr>
<td></td>
<td>Saving accounts</td>
<td>933,100</td>
</tr>
<tr>
<td></td>
<td>Term deposits</td>
<td>1,456,596</td>
</tr>
<tr>
<td></td>
<td>Deposits from financial institutions - remunerative</td>
<td>1,344,775</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,459,221</td>
</tr>
<tr>
<td>Due to head office</td>
<td>-</td>
<td>948,744</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>101,782</td>
<td>84,544</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>477,291</td>
<td>504,294</td>
</tr>
<tr>
<td><strong>REPRESENTED BY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic Banking Fund</td>
<td>681,000</td>
<td>681,000</td>
</tr>
<tr>
<td>Accumulated losses</td>
<td>(203,000)</td>
<td>(174,404)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>478,000</td>
</tr>
<tr>
<td>Deficit on revaluation of assets</td>
<td>(709)</td>
<td>(2,302)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>477,291</td>
</tr>
</tbody>
</table>
The profit and loss account of the Group's Islamic Banking Branches for the year ended December 31, 2010 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Return earned</strong></td>
<td>623,262</td>
<td>484,098</td>
</tr>
<tr>
<td><strong>Return expensed</strong></td>
<td>(308,015)</td>
<td>(110,927)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>315,247</td>
<td>373,171</td>
</tr>
<tr>
<td><strong>(Provision) / reversal for diminution in value of investment</strong></td>
<td>(69,091)</td>
<td>99,904</td>
</tr>
<tr>
<td><strong>Reversal / (provision) against assets given on Ijarah</strong></td>
<td>2,930</td>
<td>(6,177)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(66,161)</td>
<td>93,727</td>
</tr>
<tr>
<td><strong>Net return after provision</strong></td>
<td>249,086</td>
<td>466,898</td>
</tr>
</tbody>
</table>

**Other Income**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee, commission and brokerage income</td>
<td>5,996</td>
<td>4,444</td>
</tr>
<tr>
<td>Dividend income</td>
<td>9,871</td>
<td>12,169</td>
</tr>
<tr>
<td>Income from dealing in foreign currencies</td>
<td>1,414</td>
<td>2,904</td>
</tr>
<tr>
<td>Loss on sale of securities</td>
<td>(4,750)</td>
<td>(14,969)</td>
</tr>
<tr>
<td>Other income</td>
<td>2,184</td>
<td>4,201</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td>14,715</td>
<td>8,749</td>
</tr>
<tr>
<td><strong>Total Other Expenses</strong></td>
<td>263,801</td>
<td>475,647</td>
</tr>
</tbody>
</table>

**Other Expenses**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>(289,921)</td>
<td>(304,000)</td>
</tr>
<tr>
<td>Other provision / write offs</td>
<td>(2,476)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total other Expenses</strong></td>
<td>(292,397)</td>
<td>(304,000)</td>
</tr>
<tr>
<td><strong>Net (loss) / profit for the year</strong></td>
<td>(28,596)</td>
<td>171,647</td>
</tr>
<tr>
<td><strong>Accumulated losses brought forward</strong></td>
<td>(174,404)</td>
<td>(346,051)</td>
</tr>
<tr>
<td><strong>Accumulated losses carried forward</strong></td>
<td>(203,000)</td>
<td>(174,404)</td>
</tr>
</tbody>
</table>

**Remuneration to Shariah Advisor / Board**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration to Shariah Advisor / Board</td>
<td>2,615</td>
<td>1,924</td>
</tr>
</tbody>
</table>

**Charity Fund**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>20,732</td>
<td>19,609</td>
</tr>
<tr>
<td>Addition during the period</td>
<td>840</td>
<td>6,629</td>
</tr>
<tr>
<td>Payment / utilization during the period</td>
<td>(9,780)</td>
<td>(5,506)</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td>11,792</td>
<td>20,732</td>
</tr>
</tbody>
</table>

**NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

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

**DATE OF AUTHORIZATION**

These financial statements were authorized for issue on February 21, 2011, by the Board of Directors of the Group.
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

48. GENERAL

48.1 Comparatives

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

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

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

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

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

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