

A. F. FERGUSON & CO.
Chartered Accountants
State Life Building 1-C
I. I. Chundrigar Road
Karachi

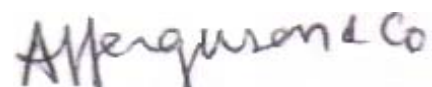
KPMG TASEER HADI & CO.
Chartered Accountants
Sheikh Sultan Trust
Building No. 2
Beaumont Road
Karachi

AUDITORS' REPORT TO THE MEMBERS


We have audited the annexed consolidated financial statements comprising Consolidated Balance Sheet of United Bank Limited and its subsidiary companies (the Group) as at December 31, 2006 and the related Consolidated Profit and Loss Account, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for 61 branches, which have been audited by us and 15 branches audited by auditors abroad. We have also expressed separate opinion on the financial statements of United Bank Limited. The financial statements of subsidiary company UBL Fund Managers Limited were audited by A.F. Ferguson & Co., the financial statements of the subsidiary companies United Executors and Trustees Company Limited and United Bank Financial Services (Private) Limited were audited by KPMG Taseer Hadi & Co. while the financial statements of the remaining subsidiary companies were audited by other firms of chartered accountants and our opinion in so far as it relates to the amounts included for such companies, is based solely on the report of such auditors. These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements examined by us, based on 61 branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of United Bank Limited and its subsidiary companies as at December 31, 2006 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.



A. F. FERGUSON & CO.
Chartered Accountants
Karachi *AFCo*



KPMG TASEER HADI & CO.
Chartered Accountants
Karachi *KPMGTH*

Dated: February 17, 2007

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2006**

	Note	2006 (Rupees in '000)	2005
ASSETS			
Cash and balances with treasury banks	6	49,023,540	34,155,235
Balances with other banks	7	19,418,278	18,676,576
Lendings to financial institutions	8	29,572,070	17,867,552
Investments	9	65,735,128	61,558,826
Advances			
Performing	10	250,334,663	206,296,460
Non-performing	10	4,335,829	3,856,169
		254,670,492	210,152,629
Fixed assets	11	6,362,492	5,439,818
Deferred tax asset - net	12	907,575	2,272,814
Other assets	13	10,200,122	7,932,696
		435,889,697	358,056,146
LIABILITIES			
Bills payable	15	4,627,769	4,181,026
Borrowings	16	38,679,808	22,751,015
Deposits and other accounts	17	343,804,830	296,499,113
Sub-ordinated loans	18	5,998,344	3,999,192
Liabilities against assets subject to finance lease	19	6,966	4,345
Other liabilities	20	9,594,496	6,347,853
		402,712,213	333,782,544
NET ASSETS		33,177,484	24,273,602
REPRESENTED BY:			
Share capital	21	6,475,000	5,180,000
Reserves		9,329,564	6,820,234
Unappropriated profit		12,930,344	7,790,148
		28,734,908	19,790,382
Minority Interest		1,772,168	1,561,005
		30,507,076	21,351,387
Surplus on revaluation of assets - net	22	2,670,408	2,922,215
		33,177,484	24,273,602
CONTINGENCIES AND COMMITMENTS	23		

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

Atif R. Bokhari

Atif R. Bokhari
President and
Chief Executive Officer

Abdul Rauf Malik
Director

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	2006 (Rupees in '000)	2005
Mark-up / return / interest earned	25	33,627,533	20,687,373
Mark-up / return / interest expensed	26	12,260,240	6,156,066
Net mark-up / interest income		21,367,293	14,531,307
Provision against loans and advances - net	10.3	1,895,487	1,283,646
Provision for diminution in value of investments - net	9.3	74,790	112,666
Bad debts written off directly	10.4	269,349	38,140
		2,239,626	1,434,452
Net mark-up / return / interest income after provisions		19,127,667	13,096,855
Non Mark-up / Interest Income			
Fee, commission and brokerage income		4,240,795	2,821,174
Dividend income		693,366	172,375
Income from dealing in foreign currencies		720,337	719,222
Gain on sale of securities	27	282,567	381,136
Unrealized gain/ (loss) on revaluation of investments classified as held for trading	9.4	(3,335)	(1,038)
Other income	28	1,352,011	1,266,228
Total non mark-up / return / interest income		7,285,741	5,359,097
		26,413,408	18,455,952
Non Mark-up / Interest Expenses			
Administrative expenses	29	11,637,865	8,417,472
Other provisions / write offs	30	226,313	335,868
Other charges	31	25,980	7,066
Total non mark-up / interest expenses		11,890,158	8,760,406
Extraordinary items		-	-
Share of (loss) / income of associates		(23,468)	13,120
Profit before taxation		14,499,782	9,708,666
Taxation - Current	32	3,423,276	505,155
- Prior year	32	45,225	79,804
- Deferred	32	1,364,403	2,955,445
		4,832,904	3,540,404
Profit after taxation		9,666,878	6,168,262
Attributable to:			
Equity shareholders of the Bank		9,529,388	6,077,704
Minority Interest		137,490	90,558
		9,666,878	6,168,262
(Rupees)			
Basic and diluted earnings per share	33	14.72	9.39

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

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Chairman

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	2006	2005
Rupees in '000			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		14,499,782	9,708,666
Dividend income		(693,366)	(172,375)
Share of loss / (profit) of associate:		23,468	(13,120)
		<u>13,829,884</u>	<u>9,523,171</u>
Adjustments:			
Depreciation		593,274	456,068
Amortization		53,031	23,381
Provision for retirement benefits:		578,458	134,830
Provision against loans and advances:		1,895,487	1,283,646
Provision for diminution in value of investment:		74,790	112,666
Provision against off- balance sheet item:		52,663	239,171
(Gain) on sale of fixed asset:		(14,391)	(13,246)
Finance charges on leased asset:		615	233
Bad debts written-off directly		269,349	38,140
Unrealized loss on revaluation of investments classified as held for trading		3,335	2,081
Provision against other assets:		173,650	87,998
Exchange loss on cash and cash equivalent		36,672	209,350
		<u>3,716,933</u>	<u>2,574,318</u>
		<u>17,546,817</u>	<u>12,097,489</u>
(Increase)/ Decrease in operating asset			
Lendings to financial institutions		(11,704,518)	493,081
Held-for-trading securities		1,383,828	987,572
Advances		(46,682,699)	(63,249,335)
Other assets (excluding advance taxation)		(2,001,117)	(3,519,792)
		<u>(59,004,506)</u>	<u>(65,288,474)</u>
Increase/ (Decrease) in operating liability			
Bills payable		446,743	345,471
Borrowings		15,928,793	10,113,979
Deposits and other accounts		47,305,717	59,444,673
Other liabilities (excluding current taxation)		2,209,482	(41,522)
		<u>65,890,735</u>	<u>69,862,601</u>
		<u>24,433,046</u>	<u>16,671,616</u>
Staff retirement benefits paid		(860,116)	(122,849)
Income taxes paid		(2,644,861)	(337,000)
Net cash flow from operating activities:		<u>20,928,069</u>	<u>16,211,767</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(5,818,243)	(9,957,459)
Dividend income received		695,924	259,937
Investments in operating fixed assets:		(1,573,520)	(823,803)
Sale proceeds from disposal of property and equipment		22,725	23,317
Net cash flow on investing activities:		<u>(6,673,114)</u>	<u>(10,498,008)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipt of sub-ordinated loan		2,000,000	500,000
Repayments of principal of sub-ordinated loan		(848)	(808)
Payments in respect of lease obligation:		(1,785)	(1,075)
Dividends paid		(1,295,000)	(777,000)
Net cash flow from / (used in) financing activities:		<u>702,367</u>	<u>(278,883)</u>
Exchange adjustment on translation of net assets attributable to minority shareholders		73,673	(162,905)
Exchange differences on translation of net investment on foreign branches and subsidiaries		615,684	(350,020)
		<u>15,646,679</u>	<u>4,921,951</u>
Increase in cash and cash equivalents		<u>15,646,679</u>	<u>4,921,951</u>
Cash and cash equivalents at beginning of the year as previously reported		52,831,811	48,119,210
Effects of exchange rate changes on cash and cash equivalents:		(36,672)	(209,350)
Cash and cash equivalents at beginning of the year as restated		<u>52,795,139</u>	<u>47,909,860</u>
Cash and cash equivalents at end of the year	34	<u><u>68,441,818</u></u>	<u><u>52,831,811</u></u>

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

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Atif R. Bokhari
President and
Chief Executive Officer

Abdul Rauf Malik
Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman

Nahayan Mabarak Al Nahay
Chairman

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006**

	Attributable to ordinary shareholders of the Bank						Minority interest	Total	
	Share Capital	General reserve	-----Capital reserves-----			Unappropriated Profit			Sub Total
			Statutory Reserve	Exchange Translation Reserve	Reserve for issue of bonus shares				
------(Rupees in '000)-----									
Balance as at December 31, 2004	5,180,000	3,000	3,952,439	2,025,009	-	3,585,102	14,745,550	1,633,352	16,378,902
Final dividend for the year ended December 31, 2004 at Rs. 1.50 per share	-	-	-	-	-	(777,000)	(777,000)	-	(777,000)
Changes in equity for 2005									
Profit after taxation for the year ended December 31, 2005	-	-	-	-	-	6,077,704	6,077,704	90,558	6,168,262
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	94,148	94,148	-	94,148
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	(350,020)	-	-	(350,020)	(162,905)	(512,925)
Net expense recognised directly in equity	-	-	-	(350,020)	-	94,148	(255,872)	(162,905)	(418,777)
Total recognised income and expense for the year	-	-	-	(350,020)	-	6,171,852	5,821,832	(72,347)	5,749,485
Transfer to statutory reserve	-	-	1,189,806	-	-	(1,189,806)	-	-	-
Balance as at December 31, 2005	5,180,000	3,000	5,142,245	1,674,989	-	7,790,148	19,790,382	1,561,005	21,351,387
Final dividend for the year ended December 31, 2005 at Rs. 2.50 per share	-	-	-	-	-	(1,295,000)	(1,295,000)	-	(1,295,000)
Transfer to reserves for issue of bonus shares	-	-	-	-	1,295,000	(1,295,000)	-	-	-
Issue of bonus shares	1,295,000	-	-	-	(1,295,000)	-	-	-	-
Changes in equity for 2006									
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	9,529,388	9,529,388	137,490	9,666,878
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	94,454	94,454	-	94,454
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	615,684	-	-	615,684	189,657	805,341
Net income recognised directly in equity	-	-	-	615,684	-	94,454	710,138	189,657	899,795
Total recognised income and expense for the year	-	-	-	615,684	-	9,623,842	10,239,526	327,147	10,566,673
Preferred dividend - Prior year	-	-	-	-	-	-	-	(71,255)	(71,255)
- Current year	-	-	-	-	-	-	-	(44,729)	(44,729)
Transfer to statutory reserve	-	-	1,893,646	-	-	(1,893,646)	-	-	-
Balance as at December 31, 2006	6,475,000	3,000	7,035,891	2,290,673	-	12,930,344	28,734,908	1,772,168	30,507,076

Appropriations made by the directors subsequent to the year ended December 31, 2006 are disclosed in note 46 of these financial statements.

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

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Atif R. Bokhari
President and
Chief Executive Officer

Abdul Rauf Malik
Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

1. STATUS AND NATURE OF BUSINESS

1.1 The "Group" consists of:

Holding Company

United Bank Limited, Pakistan (the Bank)

Subsidiary Companies

- United National Bank Limited (UNBL), United Kingdom - 55 percent holding
- United Bank AG Zurich, Switzerland - 100 percent holding
- United Executors and Trustees Company Limited, Pakistan - 100 percent holding
- United Bank Financial Services (Private) Limited, Pakistan - 100 percent holding
- UBL Fund Managers Limited, Pakistan - 100 percent holding

The Group is engaged in commercial banking, modaraba management, asset management, mutual funds and trustee services.

United Bank Limited is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank is listed on all three Stock Exchanges in Pakistan. The Bank's registered office and principal office is situated at State Life Building No. 1, I. I. Chundrigar Road, Karachi. The Bank operates 1,044 (2005: 1,043) branches inside Pakistan including the Karachi Export Processing Zone Branch (KEPZ) and 15 (2005: 15) branches outside Pakistan. The domestic branch network includes one Islamic Banking Branch which has been opened in December 2006.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. 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 these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
4. BASIS OF MEASUREMENT
4.1 Accounting convention

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

4.2 Critical accounting estimates and judgements

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

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

- i) classification of investments (notes 5.4 and 9)
- ii) provision against investments (notes 5.4 and 9) and advances (notes 5.5 and 10.3)
- iii) income taxes (notes 5.8, 12, 20.2 and 32)
- iv) staff retirement benefits (note 36)
- v) fair value of derivatives (note 20.4)

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 consolidated from the date on which more than 50% of voting rights are transferred to the Group or power to control the company is established and are excluded from consolidation from the date of disposal.
- The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investments held by the Bank is eliminated against the subsidiaries' share capital and pre acquisition reserves in the consolidated financial statements.
- Minority interest are that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the Bank.
- Material intra-group balances and transactions have been eliminated.

5.2 Cash and cash equivalents

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

5.3 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:

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006****(a) Sale under repurchase agreements**

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

(b) Purchase under resale agreements

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

Securities borrowed are not recognized in these 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.

5.4 Investments

The Group classifies its investments as follows:

(a) Held for trading

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

(b) 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.

(c) Available for sale

These are investments that do not fall under the held for trading or held to maturity categories.

(d) Associates

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

Investments in associates where the Group has significant influence are accounted for using the equity method of accounting. Under the equity method, the investment in 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 after the date of acquisition. Increase / decrease in share of profit and loss of associates is accounted for in the consolidated profit and loss account.

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

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

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost.

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

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

5.5 Advances

Advances are stated net of specific and general provisions. Specific provision against domestic advances (other than the Group's consumer financing portfolio comprising of auto loans, personal loans and cash line) is determined on the basis of Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Specific provision against the Group's domestic consumer financing portfolio comprising of auto loans, personal loans and cash line is determined keeping in view the Group's internal guidelines subject to the minimum requirements set out by the Prudential Regulations issued by the State Bank of Pakistan. General provision against consumer loans is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. General and specific provisions pertaining to overseas advances are made in accordance with the requirements of monetary agencies and regulatory authorities of the respective countries. Advances are written off when there is no realistic prospect of recovery.

5.6 Fixed assets and depreciation**Owned**

Property and equipment, other than freehold land which is not depreciated and capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Freehold land is carried at revalued amount less impairment losses while capital work-in-progress is stated at cost less impairment losses. Cost of property and equipment of foreign branches 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 balance sheet date.

Depreciation on additions is charged from the month the asset is available for use and on disposals upto the month of disposal.

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

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

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

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
Leased

Assets held under finance lease are stated at lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Group.

Intangible assets

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

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

5.7 Impairment

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

5.8 Taxation
Current

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

Deferred

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

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

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

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

5.9 Provisions

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

5.10 Staff retirement and other benefits

5.10.1 United Bank Limited (UBL)

Staff retirement benefit schemes

- a) The Bank operates the following staff retirement schemes for its employees
- approved funded pension scheme, introduced in 1986 (defined benefit scheme); and
 - approved non-contributory provident fund in lieu of the contributory provident fund.
- b) For new employees and for those who opted for the new scheme introduced in 1991, the Bank operates
- approved contributory provident fund (defined contribution scheme); and
 - approved gratuity scheme (defined benefit scheme).

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

The Bank also operates a contributory benevolent fund for all its 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 recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction on 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 employees on the basis of actuarial advice under the Projected Unit Credit Method.

b) Post retirement medical benefits (defined benefit scheme)

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

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 recognised immediately.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
5.10.2 United National Bank Limited (UNBL)

UNBL operates a pension scheme (defined benefit scheme) for certain staff. This scheme is closed for new members. The assets of the scheme are held separately from those of UNBL in independently administered funds. Pension costs are assessed in accordance with the advice of the independent qualified actuary to recognize the cost of pensions on a systematic basis over employees' service lives.

For defined contribution schemes, the amount charged to the profit and loss account is the contribution payable in the year. Difference between the contribution payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

5.10.3 UBL Fund Managers Limited (UFML)
Defined benefit plan

UFML operates a gratuity fund covering eligible employees whose period of employment with UFML is three years or more. A provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits, irrespective of the qualifying period. Gratuity, however, is payable only on completion of the prescribed qualifying period of service. Actuarial gains and losses are recognised in accordance with the recommendation of the actuary.

Defined contribution plan

UFML operates a provident fund covering all permanent employees. Equal contributions are made to the Fund by the UFML and the employees in accordance with the rules of the scheme. However, UFML's contribution starts after completion of one year of service.

5.11 Borrowings / deposits and their cost

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

5.12 Revenue Recognition

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

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

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

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

5.13 Derivative financial instruments

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
5.14 Foreign Currencies
a) Functional and presentation currency

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

b) Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date except that certain deposits, which are covered by forward foreign exchange contracts, are translated at contracted rates. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

c) Foreign operations

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

d) Translation gains and losses

Translation gains and losses are included in 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).

e) Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these 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 ruling on the date of transaction.

5.15 Segment Reporting

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

Business segments
Corporate finance

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

Trading and sales

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

Retail Banking

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
Commercial banking

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

Asset Management

It includes pooled, segregated, retail, institutional, closed, open and private equity.

Geographical segments

The Group operates in four geographical regions being:

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

5.16 Dividend and appropriation to reserves

Dividend and appropriation to reserves, except appropriations which are required by the law after the balance sheet date, are recognised as liability in the Group's consolidated financial statements in the year in which these are approved.

5.17 Off setting

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

5.18 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 Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

	Note	2006	2005
(Rupees in '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		5,041,678	4,606,028
Foreign currency		1,760,911	1,174,970
		6,802,589	5,780,998
With State Bank of Pakistan in			
Local currency current account	6.1	17,840,637	13,032,322
Local currency deposit account		3,864	3,864
Foreign currency current account	6.2	77,487	12,107
Foreign currency deposit account	6.3	2,841,756	2,556,535
		20,763,744	15,604,828
With other central banks in foreign currency current account	6.4	18,403,170	9,155,206
With National Bank of Pakistan in local currency current account		2,994,861	3,571,650
National Prize Bonds		59,176	42,553
		49,023,540	34,155,235

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

- 6.2** This represents US Dollar Settlement Account maintained with SBP.
- 6.3** This represents foreign currency cash reserve maintained with SBP equivalent to atleast 20% of the Bank's foreign currency deposits. The foreign currency cash reserve comprises of an amount equivalent to atleast 5% of the bank's foreign currency deposits which is kept in a non-remunerative account. The balance reserve equivalent to atleast 15% of the bank's foreign currency deposits is maintained in a remunerative account on which the Bank is entitled to earn a return which is declared by SBP on a monthly basis.
- 6.4** Deposits with other central banks are maintained to meet the minimum cash reserves and capital requirements pertaining to the foreign branches and subsidiaries of the Group.

	Note	2006 (Rupees in '000)	2005
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		5,935	9,454
In deposit accounts		55,525	-
		61,460	9,454
Outside Pakistan			
In current accounts		1,247,384	5,404,947
In deposit accounts	7.1	18,109,434	13,262,175
		19,356,818	18,667,122
		19,418,278	18,676,576

- 7.1** These carry mark-up at rates ranging from 5.07% to 5.28% (2005: 4.40% to 4.45%) per annum.

	Note	2006 (Rupees in '000)	2005
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	447,360	1,199,534
Repurchase agreement lendings	8.3	21,950,095	11,769,693
Lendings to banks / financial institutions	8.4	7,174,615	4,898,325
		29,572,070	17,867,552

8.1 Particulars of lendings to financial institutions

In local currency	25,981,155	17,068,392
In foreign currencies	3,590,915	799,160
	29,572,070	17,867,552

- 8.2** These call money lendings carry mark-up at rates ranging from 6.70% to 10.35% per annum (2005: 1.0% to 12.75% per annum) and are due to mature latest by January 2007.

8.3 Securities held as collateral against repurchase agreement lendings

	2006			2005		
	Held by Group	Further given as collateral / sold	Total	Held by Group	Further given as collateral / sold	Total
------(Rupees in '000)-----						
Market Treasury Bills	15,504,830	920,265	16,425,095	8,019,693	-	8,019,693
Pakistan Investment Bonds	4,334,500	1,190,500	5,525,000	2,180,000	1,570,000	3,750,000
	19,839,330	2,110,765	21,950,095	10,199,693	1,570,000	11,769,693

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	2006	2005
		(Rupees in '000)	
9.2 Investments by segments			
Federal Government Securities			
Market Treasury Bills		32,594,095	29,193,297
Pakistan Investment Bonds		7,848,875	7,190,650
Foreign currency bonds		1,382,986	1,694,788
Government of Pakistan - US Dollar / Euro Bonds		1,247,217	279,575
Government of Pakistan Islamic Bonds		694,271	833,386
Federal Investment Bonds		13,906	32,725
		43,781,350	39,224,421
Provincial Government Securities		-	1,207
Overseas Governments' Securities			
Foreign securities		2,354,287	933,346
Market Treasury Bills		705,937	197,204
		3,060,224	1,130,550
Other Overseas Securities			
Foreign securities		85,697	264,233
CDC SAARC Fund		505	65,501
		86,202	329,734
Fully Paid-up Ordinary Shares			
Listed companies		2,500,295	2,141,105
Unlisted companies	9.7	497,318	432,680
Cumulative preference shares		8,120	8,120
		3,005,733	2,581,905
Units of Mutual Funds		1,246,338	582,779
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Term Finance Certificates			
Unlisted		7,629,656	8,332,720
Listed		1,199,530	1,082,830
		8,829,186	9,415,550
Bonds		5,310,415	8,094,854
Debentures		11,289	169,351
Participation Term Certificates		55,169	70,087
		14,206,059	17,749,842
Investments in associates		586,633	270,101
Total investments		65,972,539	61,870,539
Provision for diminution in value of investments	9.3	(400,886)	(634,002)
Investments (net of provisions)		65,571,653	61,236,537
Surplus on revaluation of available for sale securities	22.2	166,810	323,327
Deficit on revaluation of held for trading securities	9.4	(3,335)	(1,038)
Total investments at market value		65,735,128	61,558,826

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

		2006	2005
		(Rupees in '000)	
9.3	Particulars of provision for diminution in value of investments:		
9.3.1	Opening balance	634,002	540,402
	Charged during the year	82,185	112,666
	Reversed during the year	(7,395)	-
		74,790	112,666
	Transfers	(30,133)	4,355
	Written off during the year	(277,773)	(23,421)
	Closing balance	400,886	634,002
9.3.2	Particulars of provision for diminution in value of investments by type		
	Available for sale securities		
	Ordinary shares of listed companies	33,247	33,000
	Ordinary shares of unlisted companies	123,217	73,913
		156,464	106,913
	Held to maturity securities		
	Term Finance Certificates	177,964	286,271
	Debentures	11,289	170,090
	Participation Term Certificates	55,169	70,728
		244,422	527,089
		400,886	634,002
9.3.3	Particulars of provision for diminution in value of investments by segment		
	Fully Paid-up Ordinary Shares		
	Listed companies	33,247	33,000
	Unlisted companies	123,217	73,913
		156,464	106,913
	Term Finance Certificates, Debentures, Bonds and Participation Term Certificates		
	Term Finance Certificates	177,964	286,271
	Debentures	11,289	170,090
	Participation Term Certificates	55,169	70,728
		244,422	527,089
		400,886	634,002
9.4	Unrealized gain/ (loss) on revaluation of held for trading securities		
	Market Treasury Bills	(12)	(1,914)
	Ordinary shares of listed companies	(3,323)	876
		(3,335)	(1,038)
9.5	Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.		
9.6	Investments include Rs. 282 million (2005: Rs. 282 million) held by the State Bank of Pakistan and National Bank of Pakistan as pledge against demand loan, TT / DD discounting facilities and foreign exchange exposure limit sanctioned to the Bank and Rs. 5 million (2005: Rs. 5 million) held by the Controller of Military Accounts (CMA) under Regimental Fund Arrangements.		
9.7	This includes the Group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs. 200 million (2005: Rs. 200 million). Pursuant to Section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the Group cannot sell or transfer their investment before a period of five years that has expired in October 2005, from the date of subscription. Thereafter, such sale/ transfer would be subject to the prior approval of SBP. In addition, profit, if any, and other income of Khushhali Bank Limited, shall not be used to pay any dividend to the members, and shall be utilized to promote the objectives of Khushhali Bank Limited.		

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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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 these consolidated financial statements under State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006, is given in Annexure 'A'. Details in respect of quality of available for sale securities are also disclosed in Annexure 'A' to these consolidated financial statements.

9.9 Investment in associates

	2006	2005
	(Rupees in '000)	
9.9.1 United Composite Islamic Fund		
Investment during the year	250,000	-
Share of profit	300	-
Dividend distribution	-	-
Balance as at December 31	<u>250,300</u>	<u>-</u>

9.9.1.1 United Composite Islamic Fund is an open ended mutual fund, listed on Islamabad Stock Exchange. 50 percent of units are held by the Group (representing seed capital). 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, 2006 based on reviewed financial statements are as follows:

	Assets	Liabilities	Revenues	Profits
	(-----Rupees in '000-----)			
United Composite Islamic Fund	<u>678,847</u>	<u>179,994</u>	<u>1,407</u>	<u>597</u>

9.9.2 United Stock Advantage Fund

Investment during the year	250,000	-
Share of loss	(11,650)	-
Dividend distribution	-	-
Balance as at December 31	<u>238,350</u>	<u>-</u>

9.9.2.1 United Stock Advantage Fund is an open ended mutual fund, listed on Karachi Stock Exchange. 55 percent units of the fund are held by the Group (representing seed capital). 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, 2006 based on reviewed financial statements are as follows:

	Assets	Liabilities	Revenues	Loss
	(-----Rupees in '000-----)			
United Stock Advantage Fund	<u>438,333</u>	<u>8,182</u>	<u>(10,160)</u>	<u>(21,012)</u>

9.9.3 UBL Insurers Limited

Investment during the year	90,000	-
Share of profit	1,002	-
Dividend distribution	-	-
Balance as at December 31	<u>91,002</u>	<u>-</u>

9.9.3.1 UBL Insurers Limited was incorporated as a public unquoted company on June 29, 2006 and received Certificate of Commencement of Business on December 27, 2006. The Group holds 30 percent of the equity of the company.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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9.9.3.2 The details of assets, liabilities, revenues and profits of the insurance company as of December 31, 2006 based on unaudited financial statements are as follows:

	Assets	Liabilities	Revenues	Profits
	(-----Rupees in '000-----)			
UBL Insurers Limited	305,360	1,265	3,971	3,340

9.9.4 Investment in Oman United Exchange Company has not been accounted for using equity method as the Group does not have significant influence over the entity.

10. ADVANCES
Note
Performing
Non-performing
2006
2005
2006
2005

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

Loans, cash credits, running finances, etc.

In Pakistan	200,080,279	169,599,106	9,273,198	9,831,330
Outside Pakistan	38,934,073	26,302,862	5,261,513	5,942,046
	239,014,352	195,901,968	14,534,711	15,773,376

**Bills discounted and purchased
(excluding government treasury bills)**

Payable in Pakistan	5,661,421	2,686,883	876,300	417,400
Payable outside Pakistan	5,612,897	7,837,933	1,334,780	1,171,427
	11,274,318	10,524,816	2,211,080	1,588,827
	250,288,670	206,426,784	16,745,791	17,362,203

**Financing in respect of continuous
funding system (CFS)**
Advances - gross

	1,462,242	1,094,002	-	-
	251,750,912	207,520,786	16,745,791	17,362,203

Provision against advances

- Specific

- General

10.3

	-	-	(12,409,962)	(13,506,034)
	(1,416,249)	(1,224,326)	-	-
	(1,416,249)	(1,224,326)	(12,409,962)	(13,506,034)

Advances - net of provision

	250,334,663	206,296,460	4,335,829	3,856,169
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10.1 Particulars of advances - gross
10.1.1 In local currency

In foreign currencies

	202,929,515	173,904,897	11,693,905	10,248,729
	48,821,397	33,615,889	5,051,886	7,113,474
	251,750,912	207,520,786	16,745,791	17,362,203

Performing
Non-performing
2006
2005
2006
2005

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

10.1.2 Short term

Long term

	156,428,147	150,905,723	-	-
	95,322,765	56,615,063	16,745,791	17,362,203
	251,750,912	207,520,786	16,745,791	17,362,203

10.1.3 Non-performing advances include

- a) Advances having Gross Book Value of Rs.199.770 million (2005: Rs. 298.568 million) and Net Book Value of Rs. 144.793 million (2005: Rs. 284.115 million) though restructured and performing have been placed under non-performing status as required by the revised Prudential Regulations issued by the State Bank of Pakistan, which requires monitoring for at least one year before any upgradation is considered.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

10.2 Advances include Rs.16,746 million (2005: Rs. 17,362 million) which have been placed under non-performing status as detailed below:-

Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)									
Other Assets Especially									
Mentioned *	363,819	-	363,819	-	-	-	-	-	-
Substandard	1,583,124	175,597	1,758,721	222,278	158,901	381,179	222,278	158,901	381,179
Doubtful	1,612,613	68,730	1,681,343	438,416	61,967	500,383	438,416	61,967	500,383
Loss	7,907,722	5,034,186	12,941,908	6,757,969	4,770,431	11,528,400	6,757,969	4,770,431	11,528,400
	<u>11,467,278</u>	<u>5,278,513</u>	<u>16,745,791</u>	<u>7,418,663</u>	<u>4,991,299</u>	<u>12,409,962</u>	<u>7,418,663</u>	<u>4,991,299</u>	<u>12,409,962</u>

Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)									
Other Assets Especially									
Mentioned *	257,811	-	257,811	-	-	-	-	-	-
Substandard	997,226	50,087	1,047,313	111,660	11,892	123,552	111,660	11,892	123,552
Doubtful	687,047	143,913	830,960	95,762	71,958	167,720	95,762	71,958	167,720
Loss	8,306,645	6,919,474	15,226,119	6,503,740	6,711,022	13,214,762	6,503,740	6,711,022	13,214,762
	<u>10,248,729</u>	<u>7,113,474</u>	<u>17,362,203</u>	<u>6,711,162</u>	<u>6,794,872</u>	<u>13,506,034</u>	<u>6,711,162</u>	<u>6,794,872</u>	<u>13,506,034</u>

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

10.3 Particulars of provision against advances

Note	2006			2005		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	13,506,034	1,224,326	14,730,360	15,847,345	318,391	16,165,736
Exchange adjustments	193,206	8,018	201,224	(3,070)	(6,094)	(9,164)
Charge for the year	1,993,426	633,682	2,627,108	904,947	662,857	1,567,804
Reversals	(681,048)	(50,573)	(731,621)	(284,158)	-	(284,158)
	1,312,378	583,109	1,895,487	620,789	662,857	1,283,646
Transfers	287,614	(352,292)	(64,678)	(295,036)	272,958	(22,078)
Amounts written off	(2,889,270)	(46,912)	(2,936,182)	(2,663,994)	(23,786)	(2,687,780)
Closing balance	<u>12,409,962</u>	<u>1,416,249</u>	<u>13,826,211</u>	<u>13,506,034</u>	<u>1,224,326</u>	<u>14,730,360</u>

10.3.1 General provision represents provision amounting to Rs. 1,163,019 million (2005: Rs. 699,420 million) against consumer finance portfolio as required by the revised Prudential Regulations issued by State Bank of Pakistan and Rs. 253,230 million (2005: Rs. 524,906 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries in which the overseas branches operate.

10.3.2 Particulars of provision against advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	7,418,663	1,163,019	8,581,682	6,711,162	699,420	7,410,582
In foreign currencies	4,991,299	253,230	5,244,529	6,794,872	524,906	7,319,778
	<u>12,409,962</u>	<u>1,416,249</u>	<u>13,826,211</u>	<u>13,506,034</u>	<u>1,224,326</u>	<u>14,730,360</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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	Note	2006 (Rupees in '000)	2005
10.4 Particulars of write-offs			
10.4.1 Against provisions	10.3	2,936,182	2,687,780
Directly charged to profit and loss account		<u>269,349</u>	<u>38,140</u>
		<u><u>3,205,531</u></u>	<u><u>2,725,920</u></u>
10.4.2 Write-offs of Rs. 500,000 and above	10.5	2,906,736	1,233,732
Write-offs of below Rs. 500,000		<u>298,795</u>	<u>1,492,188</u>
		<u><u>3,205,531</u></u>	<u><u>2,725,920</u></u>
10.5 Details of loan write-offs of Rs. 500,000/- and above			

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended December 31, 2006 is given in Annexure-B to these financial statements. These loans are written off as a book entry without prejudice to the Group's right of recovery against the customers.

	Note	2006 (Rupees in '000)	2005
10.6 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			
Balance at beginning of year		471,621	35,693
Loans granted during the year		313,544	454,145
Repayments		<u>(175,762)</u>	<u>(18,217)</u>
Balance at end of year		<u><u>609,403</u></u>	<u><u>471,621</u></u>
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		1,818,141	2,542,969
Given during the year		-	1,863,892
Repaid during the year		<u>(817,576)</u>	<u>(2,588,720)</u>
Balance at end of year		<u><u>1,000,565</u></u>	<u><u>1,818,141</u></u>

11. FIXED ASSETS

Capital work-in-progress	11.1	415,522	386,852
Property and equipment	11.2	5,767,889	4,939,180
Intangible assets	11.3	179,081	113,786
		<u><u>6,362,492</u></u>	<u><u>5,439,818</u></u>

11.1 Capital work-in-progress

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

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11.2 Property and equipment

	2006									
	COST/ REVALUATION				ACCUMULATED DEPRECIATION				Net book value at December 31, 2006	Annual rate of depreciation %
	At January 1, 2006	Additions/ (deletions)	Other adjust-ments*	At December 31, 2006	At January 1, 2006	Charge for the year/ (depreciation on deletions)	Reversal due to other adjust-ments*	At December 31, 2006		
	(Rupees in '000)									
Owned										
Freehold land	408,194	17,520	-	425,714	-	-	-	-	425,714	-
Leasehold land	2,274,006	75,174	-	2,349,180	192,388	91,788	(11,249)	272,927	2,076,253	1 - 3.33
Buildings on freehold land	973,175	2,748	145,599	1,121,522	29,880	16,167	4,674	50,721	1,070,801	5
Buildings on leasehold land	565,380	219,487	1,243	786,110	96,156	52,264	12,137	160,557	625,553	5
Furniture and fixtures	616,715	122,388 (3,449)	(25,579)	710,075	419,118	44,029 (3,274)	(31,966)	427,907	282,168	10
Electrical, office and computer equipment	1,663,200	634,331 (3,715)	(16,002)	2,277,814	1,015,048	308,244 (3,707)	1,800	1,321,385	956,429	20-25
Vehicles	383,141	279,771 (55,919)	(73,942)	533,051	196,508	79,603 (47,768)	(19,058)	209,285	323,766	20
Assets held under finance lease										
Vehicles	5,033	-	3,943	8,976	566	1,177	28	1,771	7,205	20
2006	6,888,844	1,351,419 (63,083)	35,262	8,212,442	1,949,664	593,272 (54,749)	(43,634)	2,444,553	5,767,889	
	2005									
	COST / REVALUATION				ACCUMULATED DEPRECIATION				Net book value at December 31, 2005	Annual rate of depreciation %
	At January 1, 2005	Additions/ (deletions)	Other adjust-ments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (depreciation on deletions)	Reversal due to other adjust-ments*	At December 31, 2005		
	(Rupees in '000)									
Owned										
Freehold land	408,194	-	-	408,194	-	-	-	-	408,194	-
Leasehold land	2,285,608	-	(11,602)	2,274,006	151,209	90,082	(48,903)	192,388	2,081,618	1 - 3.33
Buildings on freehold land	1,142,068	6,233	(175,126)	973,175	22,158	15,106	(7,384)	29,880	943,295	5
Buildings on leasehold land	460,737	104,420	223	565,380	72,042	33,709	(9,595)	96,156	469,224	5
Furniture and fixtures	523,777	63,325 (6,694)	36,609 (302)	616,715	459,934	35,618 (5,645)	(70,789)	419,118	197,597	10
Electrical, office and computer equipment	1,414,136	328,945 (13,715)	(66,166)	1,663,200	837,922	250,385 (13,510)	(59,749)	1,015,048	648,152	20-25
Vehicles	329,850	121,796 (34,569)	(33,936)	383,141	204,179	30,266 (25,752)	(12,185)	196,508	186,633	20
Assets held under finance lease										
Vehicles	5,367	1,881	(2,215)	5,033	1,320	552	(1,306)	566	4,467	20
2005	6,569,737	626,600 (54,978)	(252,515)	6,888,844	1,748,764	455,718 (44,907)	(209,911)	1,949,664	4,939,180	

* This represents write - off / reclassification of fixed assets based on an exercise being carried out by the management to reconcile their subsidiary records of fixed assets with the ledger balances. This exercise is expected to be completed shortly.

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11.3 Intangible assets

	2006									
	Cost				Accumulated Amortization				Net book value at December 31, 2006	Annual rate of amortisation %
	At January 1, 2006	Additions/ (deletions)	Other adjustments*	At December 31, 2006	At January 1, 2006	Charge for the year/ (amortisation on deletion)	Other adjustments	At December 31, 2006		
	(Rupees in '000)									
Software	147,510	119,226	-	266,736	33,724	53,031	900	87,655	179,081	25

	2005									
	Cost				Accumulated Amortization				Net book value at December 31, 2005	Annual rate of amortisation %
	At January 1, 2005	Additions/ (deletions)	Other adjustments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (amortisation on deletion)	Other adjustments	At December 31, 2005		
	(Rupees in '000)									
Software	48,271	99,239	-	147,510	9,993	23,731	-	33,724	113,786	25

11.4 Revaluation of domestic properties

The properties of the Bank were last revalued by independent professional valuers as at December 31, 2003. The revaluation was carried out by M/s. Pirsons Chemicals Engineering (Private) Limited and M/s. Consultancy Support Services on the basis of professional assessment of present market values and resulted in a surplus of Rs. 991 million. Had there been no revaluation, the carrying amount of revalued assets of the bank would have been as follows:

	Rupees in '000
Freehold land	21,974
Leasehold land	107,966
Buildings on freehold land	15,560
Buildings on leasehold land	494,171
11.5 Carrying amount of temporarily idle property of the Bank.	19,382
11.6 The gross carrying amount of fully depreciated assets of the Bank that are still in use	
Furniture and fixtures	11,847
Electrical, office and computer equipment	21,315
Vehicles	37,718
IT Hardware	136,636

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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11.7 Disposals of fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
------(Rupees in '000)-----						
Furniture and fixtures						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	3,449	3,274	175	979	Auction	Various
Electrical, office and computer equipment						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	3,715	3,707	8	62	Auction	Various
Vehicles						
Toyota Corolla	849	552	297	509	Negotiation	Mr. Abrar Mir (Ex-employee)
Toyota Corolla	939	626	313	329	Employee benefit	Dr. Khalid Aslam (Ex-employee)
Toyota Corolla	849	524	325	524	Negotiation	Mr. Mir Akbar Ali (SVP)
Toyota Corolla	849	524	325	496	Negotiation	Mr. Arif Rasheed (SVP)
Toyota Corolla	939	610	329	407	Employee benefit	Mr. M.A Mannan (Ex-employee)
Toyota Corolla	939	563	376	376	Employee benefit	Mr. Najmul Hassan (EVP)
Toyota Corolla	849	453	396	665	Insurance claim	Adamjee Insurance Company Ltd.
Honda Civic	939	563	376	548	Negotiation	Mr. Khawaja Asif (SEVP)
Suzuki Cultus	555	102	453	453	Insurance claim	Adamjee Insurance Company Ltd.
Items having book value of more than Rs. 250,000 and cost of more than Rs. 1,000,000						
Honda Civic	1,245	726	519	519	Employee benefit	Mr. Noman Hussain (Ex-employee)
Honda Civic	1,245	726	519	560	Negotiation	Mr. Muhammad Asghar (SEVP)
Honda Civic	1,245	726	519	560	Negotiation	Mr. Muhammad Ejazuddin (SEVP)
Honda Civic	1,245	726	519	560	Negotiation	Mr. Ali Sameer (SEVP)
Honda Civic	1,245	726	519	560	Negotiation	Mr. Aameer Karachiwalla (SEVP)
Honda Civic	1,245	706	539	642	Employee benefit	Mr. M.A Mannan (Ex-employee)
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000	40,742	38,915	1,827	13,976		
	55,919	47,768	8,151	21,684		
Total	63,083	54,749	8,334	22,725		

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	Note	2006	2005
		(Rupees in '000)	
12. DEFERRED TAX ASSET - NET			
Deferred tax asset - net	12.1	<u>907,575</u>	<u>2,272,814</u>
12.1 The balance of deferred taxation comprises:			
Deductible temporary differences on recognized tax losses		2,082	1,511,888
deficit on revaluation of investments	22.2	18,849	19,685
other deductible differences		<u>1,028,589</u>	<u>805,508</u>
		1,049,520	2,337,081
Taxable temporary differences on surplus on revaluation of fixed assets	22.1	<u>(60,697)</u>	<u>(64,267)</u>
accelerated tax depreciation		<u>(81,248)</u>	<u>-</u>
		(141,945)	(64,267)
		<u>907,575</u>	<u>2,272,814</u>
13. OTHER ASSETS			
Income / mark-up accrued in local currency		<u>7,918,507</u>	<u>7,622,512</u>
Income / mark-up accrued in foreign currency		<u>1,503,888</u>	<u>2,838,916</u>
		9,422,395	10,461,428
Suspense accounts		452,492	457,946
Hajj refund		558,407	826,068
Stationery and stamps on hand		88,581	79,524
Non banking assets acquired in satisfaction of claims	13.2	68,571	-
Advances, deposits, advance rent and other prepayments		1,052,018	711,664
Receivable from staff retirement funds		1,289,559	847,042
Due from other banks against telegraphic and demand drafts		699,967	95,468
Unrealized gain on forward foreign exchange contracts		103,489	120,544
Unrealized gain on securities not yet purchased		54,334	41,726
Others		<u>573,470</u>	<u>813,586</u>
		14,363,283	14,454,996
Provision held against other assets	13.1	(1,794,691)	(2,280,212)
Unrealized mark-up held in suspense account		<u>(2,368,470)</u>	<u>(4,242,088)</u>
Other Assets (Net of Provisions)		<u>10,200,122</u>	<u>7,932,696</u>
13.1 Provision against other assets			
Opening balance		2,280,212	3,052,803
Exchange adjustments		-	230
		<u>2,280,212</u>	<u>3,053,033</u>
Charge for the year		<u>181,249</u>	<u>87,998</u>
Reversals		<u>(7,599)</u>	<u>-</u>
	30	173,650	87,998
Transfers		33,029	49,028
Amounts written off		<u>(692,200)</u>	<u>(909,847)</u>
Closing balance		<u>1,794,691</u>	<u>2,280,212</u>
13.2			
These are carried at carrying value of amount due from the customers. Market value of these assets as determined by management of the Group was higher than the carrying amount.			

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14. CONTINGENT ASSETS

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

	Note	2006	2005
		(Rupees in '000)	
15. BILLS PAYABLE			
In Pakistan		3,723,994	4,080,008
Outside Pakistan		903,775	101,018
		4,627,769	4,181,026

16. BORROWINGS

In Pakistan		37,428,708	21,676,489
Outside Pakistan		1,251,100	1,074,526
		38,679,808	22,751,015

16.1 Particulars of borrowings with respect to currencies

In local currency		37,428,708	21,676,489
In foreign currencies		1,251,100	1,074,526
		38,679,808	22,751,015

16.2 Details of borrowings from financial institutions
Secured

Borrowings from the State Bank of Pakistan under

- Export refinance scheme	16.3	9,414,812	7,453,261
- Long-term financing under export oriented projects	16.4	5,333,691	303,410
- Locally manufactured machinery refinance scheme	16.5	3,382	5,195
		14,751,885	7,761,866
Repurchase agreement borrowings	16.6	17,527,738	8,434,771
		32,279,623	16,196,637

Unsecured

Call borrowings	16.7	4,604,999	4,027,253
Overdrawn nostro accounts		567,880	118,689
Trading liabilities		1,123,135	1,479,852
Others		104,171	928,584
		6,400,185	6,554,378
		38,679,808	22,751,015

16.3 The Bank has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of finances by directly debiting the current account maintained by the Group with SBP. These borrowings are repayable within six months upto June 2007.

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

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

16.6 These repurchase agreement borrowings are secured against market treasury bills and carry mark-up at rates ranging from 8.19% to 8.82% per annum (2005: 6.50% to 8.45% per annum). These borrowings are repayable latest by March 2007.

16.7 These call borrowings carry mark-up at rates ranging from 8.1% to 10.1% per annum (2005: 1% to 9.25% per annum) and are repayable latest by March 2007.

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	2006	2005
	(Rupees in '000)	
17. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	118,250,882	82,230,051
Savings deposits	123,454,103	124,033,403
Sundry deposits	4,942,064	4,148,275
Margin deposits	2,710,848	2,226,835
Current accounts - remunerative	1,999,555	1,891,832
Current accounts - non-remunerative	91,673,844	81,659,966
	<u>343,031,296</u>	<u>296,190,362</u>
Financial Institutions		
Remunerative deposits	549,862	26,157
Non-remunerative deposits	223,672	282,594
	<u>773,534</u>	<u>308,751</u>
	<u><u>343,804,830</u></u>	<u><u>296,499,113</u></u>

17.1 Particulars of deposits and other accounts

In local currency	256,314,804	235,690,501
In foreign currencies	87,490,026	60,808,612
	<u>343,804,830</u>	<u>296,499,113</u>

18. SUB-ORDINATED LOANS - UNSECURED

Note	Issue Date	Tenor	Rate % per annum	Maturity	Frequency of principal redemption	2006	2005
						(Rupees in '000)	
Term Finance Certificates - I	August 2004	8 years	8.45%	August 2012	Semi Annual	1,998,464	1,999,232
Term Finance Certificates - II	March 2005	8 years	9.49%	March 2013	Semi Annual	1,999,880	1,999,960
Term Finance Certificates - III	September 2006	8 years	Kibor+1.70%	September 2014	Semi Annual	2,000,000	-
						<u>5,998,344</u>	<u>3,999,192</u>

18.1 These represent listed Term Finance Certificates (TFCs) issued by the Bank in the year 2004, 2005 and 2006 having tenor of eight years. The liability of the Bank is subordinated as to the payment of principal and profit to all other indebtedness of the Bank (including deposits) and is not redeemable before maturity without approval of the State Bank of Pakistan.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

These represent finance leases entered into with leasing companies for lease of vehicles. The rates of interest used as discounting factor range from 11.5% to 14.5% (2005: 11.5% to 14%) per annum. There is no financial restriction in the lease agreements. The amount of future minimum lease payments, present value of minimum lease payments and periods during which they become due are as follows:

	2006		
	Minimum lease payments	Finance charges for future period	Principal outstanding
	(Rupees in '000)		
Not later than one year	2,367	661	1,706
Later than one year and not later than five years	5,944	684	5,260
	<u>8,311</u>	<u>1,345</u>	<u>6,966</u>
	2005		
	Minimum lease payments	Finance charges for future period	Principal outstanding
	(Rupees in '000)		
Not later than one year	1,201	441	760
Later than one year and not later than five years	4,283	698	3,585
	<u>5,484</u>	<u>1,139</u>	<u>4,345</u>

At the end of lease period, the ownership of assets shall be transferred to the Group on payment of residual value. The cost of operating and maintaining the leased assets is borne by the Group. These are secured by demand promissory notes and security deposits and the vehicles which have been obtained under leasing arrangements.

	Note	2006	2005
		(Rupees in '000)	
20. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		2,432,041	1,775,186
Mark-up / return / interest payable in foreign currency		248,513	144,499
Accrued expenses	20.1	1,545,509	798,740
Branch adjustment account		(414,734)	38,015
Payable under severance scheme		35,227	37,060
Unearned commission		352,081	55,513
Provision for taxation - net	20.2	1,038,993	215,352
Provision against off - balance sheet obligations	20.3	652,339	612,939
Unrealized loss on derivative financial instruments - net	20.4	153,174	160,574
Deferred liabilities	20.5	2,448,408	2,287,551
Others		1,102,945	222,424
		<u>9,594,496</u>	<u>6,347,853</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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20.1 This includes an accrual of Rs. 559 million in respect of a new employee bonus scheme introduced by the Bank in the current year. The accrual represents benefits for the years 2005 (Rs 270 million) and 2006 as the scheme is effective from 2005. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of UBL. The liability of the Bank in respect of this scheme is fixed and is approved each year by the Board of Directors of the Bank. The scheme will be managed by a separate trust for which the trust deed and rules are currently in the process of finalization.

20.2 The income tax assessments of the United Bank Limited for domestic branches have been finalized under normal law upto the assessment year 2002-2003 and tax years 2004 to 2006 under the provisions of section 120 (1) of the Income Tax Ordinance, 2001 which are deemed to be assessed unless selected for audit. The case of the tax year 2003 was selected for audit under section 177 of the Income Tax Ordinance, 2001 and the proceedings are pending before the taxation officer. In respect of Azad Kashmir Branches, assessment for the tax years 2003 and 2004 have been finalized in the light of agreement reached between the banks and Azad Kashmir Council in May 2005. The returns for the tax year 2005 and 2006 have also been filed as per the terms of the said agreement.

20.3 Provision against off - balance sheet obligations	Note	2006	2005
		(Rupees in '000)	
Opening balance		612,939	370,544
Charge during the year	30	52,663	239,171
Transfers during the year		(13,263)	3,224
		<u>652,339</u>	<u>612,939</u>

20.4 Unrealized loss on derivative financial instruments

	2006		2005	
	Contract/ Notional amount	Fair values	Contract/ Notional amount	Fair values
	----- (Rupees in '000) -----			
Unrealized loss on:				
Interest rate swaps	7,825,419	152,645	7,826,415	156,272
Equity futures	382,026	731	43,765	(2,125)
Forward purchase and sale contracts of government securities	8,468,302	(202)	598,194	6,427
	<u>16,675,747</u>	<u>153,174</u>	<u>8,468,374</u>	<u>160,574</u>

20.5 Deferred liabilities	2006	2005
	(Rupees in '000)	
Provision for post retirement medical benefits	1,226,331	1,154,400
Provision for gratuity	109,985	95,651
Provision for pension - overseas	37,834	-
Provision for compensated absences	1,074,258	1,037,500
	<u>2,448,408</u>	<u>2,287,551</u>

21. SHARE CAPITAL
21.1 Authorized Capital

2006	2005		2006	2005
Number of shares			(Rupees in '000)	
<u>1,030,000,000</u>	<u>1,030,000,000</u>	Ordinary shares of Rs 10 each	<u>10,300,000</u>	<u>10,300,000</u>

21.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs 10 each

2006	2005		2006	2005
Number of shares			(Rupees in '000)	
518,000,000	518,000,000	Fully paid-up ordinary shares of Rs 10 each		
129,500,000	-	Issued for cash	5,180,000	5,180,000
<u>647,500,000</u>	<u>518,000,000</u>	Issued as bonus shares	1,295,000	-
			<u>6,475,000</u>	<u>5,180,000</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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21.3 Major shareholders (holding more than 5% of total paid-up capital)

Name of shareholder	2006	
	Number of shares held	Percentage of shareholding
State Bank of Pakistan	287,908,654	44.46%
Abu Dhabi Group	165,112,500	25.50%
Best Way Group	165,112,500	25.50%
	<u>618,133,654</u>	<u>95.46%</u>

22. SURPLUS ON REVALUATION OF ASSETS

	Note	2006	2005
(Rupees in '000)			
Surplus arising on revaluation of assets - net of tax :			
Fixed assets	22.1	2,484,749	2,579,203
Securities	22.2	<u>185,659</u>	<u>343,012</u>
		<u>2,670,408</u>	<u>2,922,215</u>

22.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets at January 1		2,643,470	2,741,494
Transferred to unappropriated profit in respect of incremental depreciation charged during the year		(94,454)	(94,148)
Related deferred tax liability of incremental depreciation charged during the year		<u>(3,570)</u>	<u>(3,876)</u>
		2,545,446	2,643,470
Less: Related deferred tax liability on:			
Revaluation as on January 1		64,267	68,143
Incremental depreciation charged on related assets		<u>(3,570)</u>	<u>(3,876)</u>
		60,697	64,267
		<u>2,484,749</u>	<u>2,579,203</u>

22.2 Surplus on revaluation available-for-sale securities

Market Treasury Bills		(10,437)	(11,405)
Pakistan Investment Bonds		(58,140)	(60,063)
Quoted securities		<u>235,387</u>	<u>394,795</u>
		166,810	323,327
Related deferred tax asset/ (liability)		<u>18,849</u>	<u>19,685</u>
		<u>185,659</u>	<u>343,012</u>

22.3 Deferred tax liability on surplus on revaluation of quoted securities amounting to Rs. 35.940 million has not been recognised by the Group in the financial statements as the management is confident that the existing tax exemption on sale of listed securities will be extended by the Government of Pakistan beyond tax year 2007.

23. CONTINGENCIES AND COMMITMENTS
23.1 Direct credit substitutes

	2006	2005
(Rupees in '000)		
Contingent liabilities in respect of guarantees given favouring		
Government	9,658,487	1,723,733
Banking companies and other financial institutions	2,450,816	775,064
Others	<u>4,120,475</u>	<u>2,427,256</u>
	<u>16,229,778</u>	<u>4,926,053</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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	2006	2005
	(Rupees in '000)	
23.2 Transaction-related contingent liabilities		
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
Government	27,269,975	14,640,161
Banking companies and other financial institutions	1,387,386	785,981
Others	4,585,391	5,287,560
	<u>33,242,752</u>	<u>20,713,702</u>
23.3 Trade-related contingent liabilities		
Contingent liabilities in respect of letters of credit opened favouring		
Government	50,491,386	1,628,389
Banking companies and other financial institutions	365,045	693,229
Others	43,357,420	71,300,730
	<u>94,213,851</u>	<u>73,622,348</u>
23.4 Other contingencies		
Claims against the Group not acknowledged as debts	<u>13,732,499</u>	<u>6,054,243</u>
23.5 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.		
23.6 Commitments in respect of forward foreign exchange contracts	2006	2005
	(Rupees in '000)	
Sale	<u>58,556,959</u>	<u>42,020,795</u>
Purchase	<u>56,461,145</u>	<u>38,156,440</u>
23.7 Other commitments		
Forward purchase contracts of government securities	<u>5,634,902</u>	<u>598,194</u>
Forward sale contracts of government securities	<u>2,833,400</u>	<u>-</u>
Interest rate swaps	<u>7,825,419</u>	<u>7,826,415</u>
Equity futures	<u>382,026</u>	<u>43,765</u>
Sale of securities not yet purchased	<u>1,067,735</u>	<u>1,479,279</u>
Commitments in respect of capital expenditure	<u>95,307</u>	<u>217,112</u>

24. DERIVATIVE INSTRUMENTS

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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United Bank Limited as an Authorized Derivative Dealer (ADD) is an active participant in the derivatives' market of Pakistan. Though the ADD license covers the below mentioned transactions only (permitted under Financial Derivatives Business Regulations issued by SBP), but the Bank offers a wide variety of derivative products to satisfy customers' needs (specific approval for which is sought from SBP on transaction basis):

- a. Foreign Currency Options
- b. Forward Rate Agreements
- c. Interest Rate Swaps

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

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

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

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

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

Derivative Risk Management

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

Credit Risk

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

Market Risk

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

Liquidity Risk

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

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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The other aspect of liquidity refers to the availability of certain instrument or hedge in the market, which is very much true in the local market, as interest rate derivatives have a unidirectional demand, and no perfect hedge is available. The Group mitigates its risk, on one side, by limiting the portfolio in terms of tenor, notional, and sensitivity limits, and on the other side its running a short position in fixed income securities to partially cover the unfavorable movement in interest rates.

Operational Risk

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

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

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

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

24.1 Product Analysis

----- 2006 -----						
Interest Rate Swaps		Forward Rate Agreements		FX Options		
No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	
(Rupees in '000)		(Rupees in '000)		(Rupees in '000)		
With Banks for						
Hedging	2	702,529	-	-	3	621,571
Market Making	3	941,072	-	-	-	-
With FIs other than banks						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities						
Hedging	-	-	-	-	-	-
Market Making	20	6,181,818	-	-	3	621,571
Total						
Hedging	2	702,529	-	-	3	621,571
Market Making	23	7,122,890	-	-	3	621,571

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

----- 2005 -----						
	Interest Rate Swaps		Forward Rate Agreements		FX Options	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
With Banks for						
Hedging	2	618,637	-	-	8	545,100
Market Making	-	-	-	-	-	-
With FIs other than banks						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities						
Hedging	-	-	-	-	-	-
Market Making	18	7,207,778	-	-	8	545,100
Total						
Hedging	2	618,637	-	-	8	545,100
Market Making	18	7,207,778	-	-	8	545,100

24.2 Maturity Analysis
Interest Rate Swaps

Remaining Maturity	No. of Contracts	Notional Principal	2006		
			Mark to Market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	-	-	-	-	-
1 to 3 Month	-	-	-	-	-
3 to 6 Month	1	300,000	(155)	-	(155)
6 Month to 1 Year	1	500,000	(4,927)	-	(4,927)
1 to 2 Year	3	1,900,000	(16,880)	-	(16,880)
2 to 3 Year	10	2,536,072	(59,726)	-	(59,726)
3 to 5 Year	10	2,589,347	(73,751)	2,794	(70,957)
5 to 10 Year	-	-	-	-	-
Above 10 Year	-	-	-	-	-
	<u>25</u>	<u>7,825,419</u>	<u>(155,439)</u>	<u>2,794</u>	<u>(152,645)</u>

Remaining Maturity	No. of Contracts	Notional Principal	2005		
			Mark to Market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	-	-	-	-	-
1 to 3 Month	-	-	-	-	-
3 to 6 Month	-	-	-	-	-
6 Month to 1 Year	-	-	-	-	-
1 to 2 Year	1	1,000,000	(18,381)	-	(18,381)
2 to 3 Year	3	2,500,000	(23,646)	-	(23,646)
3 to 5 Year	14	3,976,415	(115,879)	7,156	(108,723)
5 to 10 Year	2	350,000	(6,179)	657	(5,522)
Above 10 Year	-	-	-	-	-
	<u>20</u>	<u>7,826,415</u>	<u>(164,085)</u>	<u>7,813</u>	<u>(156,272)</u>

24.3 In addition the Group enters into transactions relating to equity futures. The contract amount and fair values of equity futures outstanding at December 31, 2006 are stated in note 20.4 of these consolidated financial statements.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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	2006	2005
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	25,540,527	14,641,173
- Financial institutions	1,326,283	874,498
	26,866,810	15,515,671
On investments in		
- Available for sale securities	3,542,960	2,554,113
- Held to maturity securities	1,612,477	1,271,105
- Associates and subsidiaries	31,513	26,457
	5,186,950	3,851,675
On deposits with financial institutions	114,605	205,887
On securities purchased under resale agreements	1,442,904	1,103,566
Discount income	16,264	10,574
	<u>33,627,533</u>	<u>20,687,373</u>
26. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	9,955,462	5,105,843
On securities sold under repurchase agreements	1,020,155	295,952
On other short - term borrowings	751,385	699,743
On long - term borrowings	471,851	24,088
Discount expense	61,387	30,440
	<u>12,260,240</u>	<u>6,156,066</u>
27. GAIN / (LOSS) ON SALE OF SECURITIES		
Federal Government Securities		
Market Treasury Bills	(3,607)	1,918
Pakistan Investment Bonds	(98,397)	49,077
	<u>(102,004)</u>	<u>50,995</u>
Fully paid - up ordinary shares		
Listed companies	391,678	232,681
Unlisted companies	-	-
	391,678	232,681
Other securities	(7,107)	97,510
	<u>282,567</u>	<u>381,186</u>
28. OTHER INCOME		
Charges recovered from customers	1,143,592	1,088,465
Rent on properties	119,484	115,681
Liabilities no longer required written back	-	25,000
Income from non-banking assets and profit from sale of or dealing with such assets	14,391	13,246
Others	74,544	23,836
	<u>1,352,011</u>	<u>1,266,228</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	2006	2005
		(Rupees in '000)	
29. ADMINISTRATIVE EXPENSES			
Personnel Cost			
Salaries, allowances etc.		5,515,126	4,073,218
Medical expenses		269,293	233,424
Charge for compensated absences		201,501	140,589
Contribution to defined contribution plan		107,664	95,520
Reversal in respect of defined benefit obligations		(31,460)	(101,279)
		6,062,124	4,441,472
Premises Cost			
Rent, taxes, insurance, electricity etc.		993,366	722,331
Depreciation	11.2	167,755	139,536
Repairs and maintenance		76,580	32,246
		1,237,701	894,113
Other Operating Cost			
Outsourced service charges including sales commission		1,044,641	627,551
Communications		512,215	406,081
Advertisement and publicity		491,613	364,975
Depreciation	11.2	425,517	316,182
Stationery and printing		258,886	204,714
Banking service charge		244,423	154,697
Legal and professional charges		216,845	147,188
Travelling		145,668	91,334
Cash transportation charges		144,165	120,493
Repairs and maintenance		110,322	96,272
Vehicle expenses		89,673	56,305
Training and seminar		84,981	36,802
Office running expenses		64,230	49,064
Entertainment		55,728	49,253
Amortization	11.3	53,031	23,731
Cartage, freight and conveyance		50,625	37,105
Auditors' remuneration	29.2	41,296	36,591
Sub-ordinated debt issuance costs		27,804	1,909
Computer expenses		27,144	32,550
Subscriptions		22,859	19,938
Brokerage expenses		19,142	15,366
Donations	29.1	11,350	63,361
Non-executive directors' fee and allowances		6,326	5,284
Finance charges on leased assets		615	233
Miscellaneous expenses		188,941	124,908
		4,338,040	3,081,887
		<u>11,637,865</u>	<u>8,417,472</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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29.1 Donations were not made to any donee in which the Group or a director or his spouse had any interest.

29.2 Auditors' remuneration

	2006		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)		
Audit fee	5,100	5,100	10,200
Fee for audit of EPZ branch	60	-	60
Special certifications and sundry advisory services	200	-	200
Fee for audit of overseas branches and subsidiaries			28,721
Fee for audit of domestic subsidiaries	212	45	257
Out of pocket expenses	968	890	1,858
	<u>6,540</u>	<u>6,035</u>	<u>41,296</u>

	2005		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)		
Audit fee	4,730	4,730	9,460
Fee for audit of EPZ branch	56	-	56
Special certifications and sundry advisory services	725	725	1,450
Fee for audit of overseas branches and subsidiaries	-	-	22,272
Out of pocket expenses	1,677	1,676	3,353
	<u>7,188</u>	<u>7,131</u>	<u>36,591</u>

Note **2006** **2005**
(Rupees in '000)

30. OTHER PROVISIONS / WRITE OFFS

Provision against other assets - net	13.1	173,650	87,998
Provision against off - balance sheet obligations	20.3	52,663	239,171
Other provisions / write offs		-	8,699
		<u>226,313</u>	<u>335,868</u>

31. OTHER CHARGES

Penalties imposed by State Bank of Pakistan		<u>25,980</u>	<u>7,066</u>
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32. TAXATION

	2006			
	Overseas	Azad Kashmir	Domestic	Total
	(Rupees in '000)			
Current tax	601,550	354,752	2,466,974	3,423,276
Prior year tax	19,058	17,626	8,541	45,225
Deferred taxation	274,554	111,043	978,806	1,364,403
	<u>895,162</u>	<u>483,421</u>	<u>3,454,321</u>	<u>4,832,904</u>

	2005			
	Overseas	Azad Kashmir	Domestic	Total
	(Rupees in '000)			
Current tax	261,940	223,366	19,849	505,155
Prior year tax	8,043	71,025	736	79,804
Deferred taxation	617,100	188,634	2,149,711	2,955,445
	<u>887,083</u>	<u>483,025</u>	<u>2,170,296</u>	<u>3,540,404</u>

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
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	2006	2005
	(Rupees in '000)	
32.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	<u>14,499,782</u>	<u>9,708,666</u>
Tax on income @ 35% (2005: 38%)	5,074,924	3,689,293
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates	(232,865)	454,250
Deferred tax liability / (asset) recognized on assessed losses / temporary differences	(50,810)	(679,067)
Reversal of deferred tax liability on incremental depreciation	(3,570)	(3,876)
Prior year tax charge	45,225	79,804
Tax charge	<u>4,832,904</u>	<u>3,540,404</u>
33. BASIC / DILUTED EARNINGS PER SHARE		
Profit after taxation for the year attributable to the shareholders of the holding company	<u>9,529,388</u>	<u>6,077,704</u>
	(Number of shares)	
Weighted average number of ordinary shares	<u>647,500,000</u>	<u>647,500,000</u>
	(Rupees)	
Basic / diluted earnings per share	<u>14.72</u>	<u>9.39</u>
	(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	49,023,540	34,155,235
Balances with other banks	19,418,278	18,676,576
	<u>68,441,818</u>	<u>52,831,811</u>
35. STAFF STRENGTH	(Number)	
Permanent	9,860	9,444
Contractual basis	11	1
Bank's own staff strength at the end of the year	<u>9,871</u>	<u>9,445</u>
Outsourced	5,631	4,125
Total number of employees at the end of the year	<u>15,502</u>	<u>13,570</u>
36. EMPLOYEE BENEFITS		
36.1 United Bank Limited		
36.1.1 Defined benefit plan		

United Bank Limited operates a funded pension scheme established in 1986. The Bank also operates a funded gratuity scheme for new employees and those employees who have not opted for the pension scheme. Further, the Bank also operates a contributory benevolent fund scheme and provides post retirement medical benefits to eligible retired employees. The benevolent fund plan and post retirement medical plan cover all the regular employees of the Bank. Actuarial valuation of the defined benefit plan / scheme is carried out every year and the latest valuation was carried out as at December 31, 2006.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
36.1.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2006. Projected unit credit actuarial cost method, using following significant assumptions was used for the valuation of the defined benefit plans:

	2006	2005
Discount rate	9%	9%
Expected rate of return on plan assets	9%	9%
Expected rate of salary increase	9%	9%
Expected rate of pension increase	4%	4%

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

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----							
Present value of funded obligations	4,433,583	437,373	670,979	-	4,184,487	381,983	665,686	-
Fair value of plan assets	(7,116,577)	(335,449)	(917,522)	-	(6,349,249)	(345,484)	(773,365)	-
	(2,682,994)	101,924	(246,543)	-	(2,164,762)	36,499	(107,679)	-
Present value of unfunded obligation	-	-	-	1,298,048	-	-	-	1,263,750
Net actuarial gains or (losses) not recognized	2,175,323	(103,944)	188,256	(71,717)	1,818,703	(39,872)	98,124	(109,350)
(Receivable) / payable	(507,671)	(2,020)	(58,287)	1,226,331	(346,059)	(3,373)	(9,555)	1,154,400

36.1.4 Movement in defined benefit obligation

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----							
Obligation at the beginning of the year	4,184,487	381,983	665,686	1,263,750	4,027,184	292,738	719,317	1,256,633
Current service cost	19,626	46,838	17,758	15,511	21,416	40,895	18,345	19,922
Interest cost	376,604	34,378	59,912	113,738	322,175	23,419	57,545	100,531
Benefits paid by the fund	(629)	-	(597)	-	(117,022)	(25,766)	(56,439)	-
Benefits paid by the bank	(385,005)	(59,373)	(60,716)	(57,318)	(11,580)	-	(8,456)	(48,863)
Actuarial (gain)/ loss on obligation	238,500	33,547	(11,064)	(37,633)	(57,686)	50,697	(64,626)	(64,473)
Obligation at the end of the year	4,433,583	437,373	670,979	1,298,048	4,184,487	381,983	665,686	1,263,750

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36.1.5 Movement in fair value of plan assets

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
----- (Rupees in '000) -----								
Fair value at the beginning of the year	6,349,249	345,484	773,365	-	6,496,932	278,261	698,839	-
Expected return on plan assets	571,432	31,094	69,603	-	523,293	25,938	55,907	-
Contribution by the bank	-	51,259	10,000	-	-	41,749	10,541	-
Contribution by the employees	-	-	10,290	-	-	-	10,541	-
Amount paid by the fund to the bank	(516,973)	(61,696)	(26,129)	-	(360,000)	(1,309)	(612)	-
Benefits paid by the fund	(629)	-	(597)	-	(117,022)	(25,766)	(56,439)	-
Actuarial gain/ (loss) on plan assets	713,498	(30,692)	80,990	-	(193,954)	26,611	54,588	-
Fair value at the end of the year	<u>7,116,577</u>	<u>335,449</u>	<u>917,522</u>	<u>-</u>	<u>6,349,249</u>	<u>345,484</u>	<u>773,365</u>	<u>-</u>

36.1.6 Movement in (receivable) / payable to defined benefit plans

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
----- (Rupees in '000) -----								
Opening balance	(346,059)	(3,373)	(9,555)	1,154,400	(384,854)	(1,309)	(612)	1,076,874
Charge/ (reversal) for the year	(293,580)	50,289	(4,113)	129,249	(309,773)	38,376	9,442	125,269
Contribution to / (refund from) fund made during the year	516,973	10,437	16,129	-	360,000	(40,440)	(9,929)	-
Benefits paid	(385,005)	(59,373)	(60,748)	(57,318)	(11,432)	-	(8,456)	(47,743)
Closing balance	<u>(507,671)</u>	<u>(2,020)</u>	<u>(58,287)</u>	<u>1,226,331</u>	<u>(346,059)</u>	<u>(3,373)</u>	<u>(9,555)</u>	<u>1,154,400</u>

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36.1.7 Charge for defined benefit plans

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----							
Current service cost	19,626	46,838	17,758	15,511	21,416	40,895	18,345	19,922
Interest cost	376,604	34,378	59,912	113,738	322,175	23,419	57,545	100,531
Expected return on plan assets	(571,432)	(31,094)	(69,603)	-	(523,293)	(25,938)	(55,907)	-
Actuarial (gains) and losses	(118,378)	167	(1,890)	-	(130,071)	-	-	4,816
Employees' contribution	-	-	(10,290)	-	-	-	(10,541)	-
	<u>(293,580)</u>	<u>50,289</u>	<u>(4,113)</u>	<u>129,249</u>	<u>(309,773)</u>	<u>38,376</u>	<u>9,442</u>	<u>125,269</u>

36.1.8 Actual return on plan assets

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

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----							
Expected return on plan assets	571,432	31,094	69,603	-	523,293	25,938	55,907	-
Actuarial gain/ (loss) on plan assets	713,498	(30,692)	80,990	-	(193,954)	26,611	54,588	-
	<u>1,284,930</u>	<u>402</u>	<u>150,593</u>	<u>-</u>	<u>329,339</u>	<u>52,549</u>	<u>110,495</u>	<u>-</u>

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

	Pension Fund				
	2006	2005	2004	2003	2002
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(4,433,583)	(4,184,487)	(4,027,184)	(3,363,652)	(4,388,718)
Fair value of plan assets	7,116,577	6,349,249	6,541,166	5,985,788	5,256,228
Surplus / (Deficit)	<u>2,682,994</u>	<u>2,164,762</u>	<u>2,513,982</u>	<u>2,622,136</u>	<u>867,510</u>
Experience adjustments on plan liabilities [loss/(gain)]	238,500	251,108	292,061	(213,654)	(54,125)
Experience adjustments on plan assets [loss/(gain)]	(411,713)	(438,971)	(534,091)	(402,753)	(164,095)

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	Gratuity Fund				
	2006	2005	2004	2003	2002
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(437,373)	(381,983)	(292,738)	(279,509)	(257,955)
Fair value of plan assets	335,449	345,484	324,220	373,367	333,334
Surplus / (Deficit)	(101,924)	(36,499)	31,482	93,858	75,379
Experience adjustments on plan liabilities [loss/(gain)]	33,547	50,697	1,029	(39,872)	(26,482)
Experience adjustments on plan assets [loss/(gain)]	10,979	757	(1,023)	13,931	-

	Benevolent Fund				
	2006	2005	2004	2003	2002
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(670,979)	(665,686)	(719,317)	(582,699)	(607,590)
Fair value of plan assets	917,522	773,365	694,182	607,327	525,797
Surplus / (Deficit)	246,543	107,679	(25,135)	24,628	(81,793)
Experience adjustments on plan liabilities [loss/(gain)]	(11,064)	33,543	286,097	(89,812)	143,160
Experience adjustments on plan assets [loss/(gain)]	(64,187)	(59,679)	(60,667)	(46,803)	(26,378)

	Post retirement medical				
	2006	2005	2004	2003	2002
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	(1,298,048)	(1,263,750)	(1,256,633)	(1,064,831)	(1,065,729)
Experience adjustments on plan liabilities [loss/(gain)]	(37,633)	(12,195)	36,389	160,963	307,721

36.1.10 Effects of a 1% movement in assumed medical cost trend rates

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

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

	2006				2005			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----							
Government securities	88.80%	48.00%	95.00%	-	89.40%	50.00%	94.00%	-
Units of mutual funds	0.01%	23.00%	2.40%	-	0.00%	34.00%	2.90%	-
Ordinary shares of listed companies	0.00%	0.00%	2.50%	-	0.00%	0.00%	2.50%	-
Term finance certificates	0.00%	28.00%	-	-	0.00%	14.00%	0.00%	-
Others (including bank balances)	11.19%	1.00%	0.10%	-	10.60%	2.00%	0.60%	-
	100.00%	100.00%	100.00%	-	100.00%	100.00%	100.00%	-

As per the actuarial recommendations the expected return on plan assets was taken as 9% per annum. The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

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

United Bank Limited 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 estimate that the charge in respect of defined benefit plans for the year ending December 31, 2007 would be as follows:

	2007			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	----- (Rupees in '000) -----			
Expected charge for the year	(384,593)	71,777	(23,689)	131,518

36.2 United National Bank Limited Pension and Life assurance scheme for U.K Employees.

As part of the shareholder agreement (the "agreement") signed on November 9, 2001 between UNBL and the share holders of United Bank Limited and National Bank of Pakistan, it was agreed that the UNBL may participate as an associated employer in the United Bank Limited Pension and Life Assurance Scheme ("The Scheme") with effect from the completion of transfer of the businesses (November 19, 2001) ("The Completion Date"). The scheme provides benefits based on final pensionable salary.

Under the terms of the Agreement, the company is responsible for the funding requirements of the active members whose employment were transferred to the 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 pensioners and deferred members as at the completion date.

No new members have been admitted to the scheme in the year ended December 31, 2005.

The last full actuarial valuation of the scheme was carried at January 1, 2005 and has been updated to December 31, 2006 by a qualified actuary on the basis of triennial valuations using Projected Unit Credit Method. The major assumptions used by the actuary were as follows:

	2006	2005
	Percentage	
- Rate of increase in salaries	4.75	4.25
- Rate of increase of pension	3.00 - 3.55	2.75 - 3.00
- Rate of revaluation of pension in deferment	5.00	5.00
- Discount rate	5.1	4.75
- Price inflation	3.25	2.75

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:

	Percentage	(Rupees '000)	Percentage	(Rupees '000)
Other - insurance policy	4.75	<u>382,517</u>	4.75	<u>296,992</u>
Total market value of assets		382,517		296,992
Actuarial value of liability		(420,351)		(294,523)
Net pension asset / (liability)		<u>(37,834)</u>		<u>2,469</u>

The asset value supplied by the insurance company for 2006 is on an ongoing basis. If the policy had been surrendered at December 31, 2006 the surrender value would have been Rs. 335.117 million. It is not UNBL's intention to surrender the policy.

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	2006	2005		
	(Rupees in '000)			
36.2.1 Movement in defined benefit obligation				
Obligation at the beginning of the year	(2,469)	1,626		
Current Service Cost	(10,115)	(8,455)		
Interest Cost	111	325		
Employer's contribution	8,781	6,612		
Actuarial (gains) / losses	(36,680)	(2,710)		
Exchange Adjustment	2,537	133		
Obligation at the end of the year	<u>(37,834)</u>	<u>(2,469)</u>		
36.2.2 Charged for defined benefit plans				
Current service cost	<u>(10,115)</u>	<u>(8,455)</u>		
36.2.3 Actual return on plan asset				
Expected return on pension scheme assets	<u>15,450</u>	<u>13,116</u>		
36.2.4 Four year data on surplus /deficit of the plans and experience adjustment				
	2006	2005	2004	2003
Difference between expected and actual return on scheme assets	134,322	29,957	14,083	35,208
Experience adjustment on Plan assets	4%	8%	5%	11%
Experience adjustment on Plan liabilities	0%	-5%	14%	-2%
36.3 UBL Fund Managers Limited				
The scheme provides for gratuity benefits for all its eligible employees who attain the minimum qualifying period of three years. Annual charge is based on actuarial valuation carried out as at December 31, 2005 using the Projected Unit Credit Method.				
36.3.1 Principal actuarial assumptions			2006	2005
			(Rupees in 000)	
The key assumptions used for actuarial valuation were as follows:				
Discount rate			10%	9%
Expected rate of return on plan assets			10%	9%
Expected rate of salary increase			10%	9%
Expected withdrawal rate			Moderate	Moderate
Average expected remaining working lives			32.53 years	32.53 years
36.3.2 Reconciliation of payable to defined benefit plan				
Present value of defined benefit obligations			1,820	459
Fair value of plan assets			(469)	-
Unrecognised actuarial gains / (losses)			1,351	-
Unrecognised past service cost			(87)	-
			<u>2,615</u>	<u>459</u>

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	2006	2005
	(Rupees in '000)	
36.3.3 Movement in defined benefit obligation		
Obligation at the beginning of the year	459	-
Current Service Cost	1,250	371
Interest Cost	78	23
Actuarial (gains) / losses	33	-
Recognition of transitional liability	-	65
Obligation at the end of the year	<u>1,820</u>	<u>459</u>
36.3.4 Movement in the fair value of plan assets		
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	64	-
Contributions to the plan	459	-
Benefits paid	-	-
Actuarial gains / (losses)	(54)	-
	<u>469</u>	<u>-</u>
36.3.5 Movement in net liability recognized		
Opening net liability	459	-
Expense recognized	1,264	459
Contribution to the fund made during the year	(459)	-
Closing net liability	<u>1,264</u>	<u>459</u>
36.3.6 Charge for defined benefit plan		
Current service cost	1,250	371
Interest cost	78	23
Expected return on plan assets	(64)	-
Actuarial (gain) / losses recognized	-	-
Recognition of transitional liability	-	65
	<u>1,264</u>	<u>459</u>
36.3.7 Actual Return on Plan Assets	<u>11</u>	<u>-</u>
36.3.8 Details of Surplus in the plan		
Present value of defined benefit obligation	1,820	459
Fair value of plan assets	(469)	-
(Surplus) / Deficit	<u>1,351</u>	<u>459</u>
Experience adjustments on plan liabilities	<u>33</u>	<u>-</u>
Experience adjustments on plan assets	<u>54</u>	<u>-</u>
36.3.9 The expected gratuity expense for the year ending December 31,2007 would be Rs 1.939 million.		

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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.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 5.5 to these consolidated financial statements.

The repricing profile, effective rates and maturity are stated in notes 44.2.3 and 44.3.1 respectively.

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

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2006					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Asset management	Others
	(Rupees in '000)					
Total income	13,985,890	4,184,432	10,755,877	11,749,448	107,887	129,740
Total expenses	11,231,616	3,585,573	8,605,811	2,786,189	116,735	87,568
Net income / (loss)	2,754,274	598,859	2,150,066	8,963,259	(8,848)	42,172
Segment assets (gross of NPL provision)	149,568,054	133,129,302	79,510,755	84,316,660	70,523	1,704,365
Segment non performing loans	7,947,348	265,958	2,262,914	6,269,571	-	-
Segment provision required (NPL)	6,627,909	138,387	1,695,747	3,947,919	-	-
Segment liabilities	132,883,007	128,488,843	78,760,028	61,520,044	15,285	1,045,006
Segment return on assets (ROA) (%)	10%	7%	15%	8%	153%	8%
Segment cost of funds (%)	8%	7%	9%	3%	0%	8%
	2005					
	(Rupees in '000)					
Total income	7,170,360	6,831,120	5,754,630	6,138,740	48,564	116,176
Total expenses	5,213,383	5,130,463	4,596,660	1,227,392	52,107	130,920
Net income / (loss)	1,956,977	1,700,657	1,157,970	4,911,348	(3,543)	(14,744)
Segment assets (gross of NPL provision)	120,906,342	110,637,208	68,147,338	69,942,713	70,202	1,858,377
Segment non performing loans	7,789,630	443,795	2,208,388	6,920,391	-	-
Segment provision required (NPL)	7,249,974	241,386	1,725,969	4,288,705	-	-
Segment liabilities	110,696,378	105,943,368	64,685,496	51,250,367	4,074	1,202,860
Segment return on assets (ROA) (%)	8%	5%	12%	6%	69%	6%
Segment cost of funds (%)	6%	5%	7%	2%	0%	11%

41. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, it acts as security agent 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 relationship with its associated undertakings (refer note 9.1), employee benefit plans (refer note 36) and its directors and executive officers (including their associates).

Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Details of loans and advances to the key management personnel, the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members are given in note 10.6 to these consolidated financial statements.

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Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 36 to these consolidated financial statements for the details of plans). Remuneration to the executives, disclosed in note 38 to these consolidated financial statements are determined in accordance with the terms of their appointment.

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

	2006			2005		
	Key management personnel	Associates	Other related parties	Key management personnel	Associates	Other related parties
	----- (Rupees in '000) -----					
Advances						
At January 01	80,694	-	1,818,141	61,709	-	2,542,969
Given during the year	45,557	-	-	31,112	-	1,863,892
Repaid during the year	(32,603)	-	(817,576)	(12,127)	-	(2,588,720)
At December 31	93,648	-	1,000,565	80,694	-	1,818,141
Deposits						
At January 01	15,542	-	4,327,134	13,415	-	3,594,143
Received during the year	189,638	138,201	149,323,191	121,382	-	30,792,517
Withdrawn during the year	(191,931)	(135,732)	(147,480,585)	(119,255)	-	(30,064,640)
At December 31	13,249	2,469	6,169,740	15,542	-	4,322,020
Placements made during the year	-	500,000	-	-	-	-
Placements settled during the year	-	500,000	-	-	-	-
Mark-up / return / interest earned	3,651	2,349	100,545	-	-	70,002
Mark-up / return / interest expensed	-	-	115,530	-	-	28,975
Reimbursement of liaison office expenses paid to Bestway and Abu Dhabi Group	-	-	36,170	-	-	29,789
Investment made during year	-	590,000	-	-	250,000	180,000
Other receivables	-	-	-	-	-	100
Other expenses paid	-	22,620	-	-	-	-
Remuneration paid	189,407	-	-	66,750	-	-
Post employment benefits	7,506	-	-	3,829	-	-

43. CAPITAL ADEQUACY
43.1 Capital Management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet are:

- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for others stakeholders; and
- To maintain a strong capital base to support the development of its business.

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In accordance with BSD Circular No. 6 dated October 28, 2005 the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by December 31, 2009. The minimum capital requirement to be achieved by December 31, 2006 is Rs. 3 billion. In addition all banking companies carrying on business in Pakistan are required to maintain capital and unencumbered general reserves the amount of which should at least be equivalent to 8% of the risk weighted assets of the banking company.

The adequacy of Group's capital is monitored using, among other measures, the rules and ratios established by the State Bank of Pakistan. The ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs). The Group monitors and reports its capital ratios under SBP rules, which ultimately determine the regulatory capital required to be maintained by Banks and DFIs.

Eligible capital consists of two parts. Tier 1 capital comprises share capital, share premium, reserve for bonus shares, general reserves and retained earnings. Certain adjustments are made to profit and reserves, in line with SBP recommendations, as prescribed by SBP circulars. Tier 2 capital includes general provisions, revaluation reserves, exchange translation reserve and subordinated long-term debt. Total regulatory capital is to be at least 8% of RWAs and Group's capital is well over this requirement as shown in note 43.2. The Group will continue to maintain this requirement either through its risk management strategies or by increasing the capital requirements in line with business and capital needs.

The Group has already successfully issued TFCs in the past and continues to be in a position, if needed, to raise capital in the financial markets.

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

43.2 Capital Adequacy Ratio

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

	2006	2005
	(Rupees in '000)	
Regulatory capital base		
Tier I Capital		
Share capital	6,475,000	5,180,000
Reserves	7,038,891	5,145,245
Unappropriated profits	12,930,344	6,495,148
Minority interest	1,772,168	1,561,005
	28,216,403	18,381,398
Less: Adjustments		
- Deficit on account of revaluation of investments classified as AFS	(157,041)	(59,732)
Total Tier I Capital	28,059,362	18,321,666
Tier II Capital		
Subordinated debt (upto 50% of total Tier I Capital)	5,860,474	3,999,192
General provisions (subject to 1.25% of total risk weighted assets)	1,163,019	-
Exchange translation reserve	2,290,673	1,674,989
Revaluation reserves	1,343,500	1,489,535
Total Tier II Capital	10,657,666	7,163,716
Eligible Tier III Capital	-	-
Total regulatory capital (a)	38,717,028	25,485,382

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Risk weighted exposures	Note	2006		2005	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
----- (Rupees in '000) -----					
Credit risk					
Balance sheet items:					
Cash and balances with treasury banks		46,028,679	-	30,583,585	-
Balances with other banks	43.2.1	22,413,139	4,482,628	22,248,226	4,452,067
Lendings to financial institutions		29,572,070	7,203,011	17,867,552	4,628,859
Investments	43.2.2	65,601,017	9,841,356	60,037,551	8,893,701
Advances	43.2.3	253,278,851	211,528,702	205,816,732	166,028,946
Fixed assets		6,362,492	6,362,492	5,439,818	5,439,818
Deferred tax asset - net		907,575	907,575	2,272,814	2,272,814
Other assets	43.2.4	10,614,856	10,023,507	7,932,696	7,195,893
		434,778,679	250,349,271	352,198,974	198,912,098
Off - balance sheet items:					
Loan repayment guarantees	43.2.5	23,799,320	23,629,080	11,621,834	11,616,864
Performance bonds etc	43.2.6	32,614,417	14,497,855	20,713,703	8,079,153
Stand by letters of credit	43.2.7	84,547,409	15,921,776	64,711,692	12,725,732
Outstanding interest rate swaps		7,825,419	262,692	7,826,415	281,421
Outstanding foreign exchange contracts	43.2.8				
Purchase		51,726,869	316,448	30,761,394	185,106
Sales		51,310,051	300,559	37,167,576	267,123
		103,036,920	617,007	67,928,970	452,229
		251,823,485	54,928,410	172,802,614	33,155,399
Credit risk weighted exposures			305,277,681		232,067,497
Market Risk					
General market risk			160,150		147,685
Specific market risk			37,258		40,263
Foreign exchange risk			683,440		384,646
Total capital charge for market risk (b)			880,848		572,594
Market risk weighted exposures (b x 12.5)			11,010,600		7,157,425
Total risk weighted exposures (c)			316,288,281		239,224,922
Capital Adequacy Ratio (a / c x 100)			12.24%		10.65%

43.2.1 Balances with other banks includes balances with National Bank of Pakistan in local currency current account amounting to Rs 2,994.861 million (2005: Rs 3,571.650 million) classified under cash and balances with treasury banks in these consolidated financial statements.

43.2.2 Investments held-for-trading portfolio amounting to Rs. 134.110 million (2005: Rs 1,521.273 million) . The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

43.2.3 Advances secured against government securities / own deposits / cash margin amounting to Rs 2,554.660 million (2005: Rs 4,335.897 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs 1,163.019 million (2005: Nil). This reserve has been added to supplementary capital.

43.2.4 Other assets include branch adjustment account amounting to Rs. 414.734 million (2005: Nil) classified under other liabilities in these consolidated financial statements.

43.2.5 Cash margin amounting to Rs 1,413.397 million (2005: Rs 1,163.393 million) have been deducted from loan repayment guarantees.

43.2.6 Cash margin amounting to Rs 628.335 million (2005: Nil) have been deducted from performance bonds etc.

43.2.7 Cash margin amounting to Rs 683.503 million (2005: Rs 1,051.483 million) have been deducted from stand by letters of credit.

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43.2.8 Forward foreign exchange contracts with maturity of less than or equal to 14 days amounting to Rs. 11,981.180 million (2005: Rs. 12,248.265 million) have been excluded from the above in accordance with the guidelines for determination of CAR prescribed by SBP.

44. RISK MANAGEMENT

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

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the Group may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

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

44.1 Credit risk

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

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

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Group's overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the Group's risk taking capacity.
- Developing and maintaining Credit Approval Authority structure.
- Approving major credits.
- Granting approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the 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.

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

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

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

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

44.1.1 Segmental information
44.1.1.1 Segments by class of business

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	4,511,482	1.68%	3,386,338	0.98%	3,144,371	1.08%
Agri business	7,094,810	2.64%	16,129,894	4.69%	333,860	0.12%
Textile spinning	15,907,533	5.92%	578,445	0.17%	1,020,821	0.35%
Textile weaving	10,183,090	3.79%	859,102	0.25%	1,427,245	0.49%
Textile composite	14,621,254	5.45%	799,958	0.23%	943,938	0.33%
Textile others	13,043,435	4.86%	1,221,113	0.36%	3,761,165	1.30%
Cement	4,152,150	1.55%	1,307,382	0.38%	1,321,918	0.46%
Sugar	8,724,207	3.25%	1,052,314	0.31%	503,673	0.17%
Shoes and leather garments	2,794,697	1.04%	1,034,507	0.30%	113,422	0.04%
Automobile and transportation equipment	3,011,675	1.12%	3,415,511	0.99%	1,840,308	0.63%
Financial	7,348,432	2.74%	7,227,421	2.10%	145,192,308	50.02%
Insurance	-	0.00%	9,152,038	2.66%	510	0.00%
Electronics and electrical appliances	4,145,485	1.54%	2,331,234	0.68%	1,289,381	0.44%
Production and transmission of energy	13,627,321	5.08%	11,518,679	3.35%	10,220,940	3.52%
Paper and allied	2,232,501	0.83%	1,705,473	0.50%	7,330,271	2.53%
Surgical and metal	430,915	0.16%	409,751	0.12%	443,919	0.15%
Contractors	3,121,222	1.16%	9,130,375	2.66%	2,651,680	0.91%
Wholesale traders	12,358,576	4.60%	20,523,174	5.97%	1,381,908	0.48%
Fertilizer dealers	3,495,328	1.30%	2,742,458	0.80%	856,482	0.30%
Sports goods	600,862	0.22%	189,950	0.06%	25,140	0.01%
Food industries	5,285,073	1.97%	1,316,920	0.38%	982,637	0.34%
Airlines	1,529,443	0.57%	1,028,614	0.30%	16,864	0.01%
Cables	378,700	0.14%	70,630	0.02%	448,706	0.15%
Construction	7,413,068	2.76%	4,224,425	1.23%	18,314,793	6.31%
Containers and ports	678,956	0.25%	335,051	0.10%	11,109	0.00%
Engineering	3,716,097	1.38%	2,349,450	0.68%	1,316,492	0.45%
Glass and Allied	236,206	0.09%	86,001	0.03%	116,763	0.04%
Hotels	1,329,976	0.50%	407,649	0.12%	2,582	0.00%
Infrastructure	3,731,454	1.39%	4,462,439	1.30%	6,268	0.00%
Media	1,163,559	0.43%	774,282	0.23%	267,043	0.09%
Polyester and fibre	5,632,711	2.10%	23,793	0.01%	177,910	0.06%
Telecommunication	4,860,597	1.81%	2,406,121	0.70%	4,358,017	1.50%
Individuals	54,373,659	20.25%	185,313,858	53.90%	3,826,773	1.32%
Others	46,762,229	17.42%	46,290,480	13.46%	76,626,556	26.40%
	<u>268,496,703</u>	<u>100%</u>	<u>343,804,830</u>	<u>100%</u>	<u>290,275,773</u>	<u>100%</u>

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	2005					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
----- (Rupees in '000) -----						
Chemical and pharmaceuticals	4,519,197	2.01%	2,068,372	0.70%	1,858,752	0.95%
Agri business	7,267,123	3.23%	16,148,663	5.45%	1,987,455	1.02%
Textile spinning	20,800,926	9.25%	932,308	0.31%	1,541,572	0.79%
Textile weaving	10,129,530	4.50%	431,727	0.15%	240,840	0.12%
Textile composite	15,323,544	6.81%	793,144	0.27%	1,018,389	0.52%
Textile others	9,084,995	4.04%	1,199,851	0.40%	1,706,837	0.87%
Cement	5,605,446	2.49%	1,388,644	0.47%	727,334	0.37%
Sugar	4,926,779	2.19%	1,003,565	0.34%	19,228	0.01%
Shoes and leather garments	2,959,030	1.32%	1,419,547	0.48%	263,218	0.13%
Automobile and transportation equipment	17,238,727	7.67%	2,387,889	0.81%	2,359,732	1.21%
Financial	5,969,969	2.65%	5,917,150	2.00%	92,098,322	47.07%
Insurance	54,447	0.02%	7,949,837	2.68%	32,989	0.02%
Electronics and electrical appliances	2,712,010	1.21%	1,937,391	0.65%	494,506	0.25%
Production and transmission of energy	2,975,521	1.32%	15,389,571	5.19%	4,786,428	2.45%
Paper and allied	1,232,621	0.55%	880,748	0.30%	316,211	0.16%
Surgical and metal	1,976,967	0.88%	342,919	0.12%	342,823	0.18%
Contractors	1,679,640	0.75%	6,400,646	2.16%	3,175,151	1.62%
Wholesale traders	15,493,758	6.89%	15,744,320	5.31%	3,885,616	1.99%
Fertilizer dealers	906,756	0.40%	4,121,160	1.39%	69,540	0.04%
Sports goods	632,811	0.28%	206,891	0.07%	-	0.00%
Food industries	3,955,460	1.76%	1,657,190	0.56%	392,343	0.20%
Airlines	1,373,927	0.61%	1,072,230	0.36%	385	0.00%
Cables	450,100	0.20%	43,088	0.01%	343,944	0.18%
Construction	13,760,142	6.12%	5,124,897	1.73%	416,141	0.21%
Containers and ports	300,000	0.13%	22,603	0.01%	500	0.00%
Engineering	288,433	0.13%	3,384,066	1.14%	4,954,642	2.53%
Glass and Allied	35,712	0.02%	96,059	0.03%	19,009	0.01%
Hotels	571,470	0.25%	1,071,395	0.36%	2,631,880	1.35%
Infrastructure	2,053,845	0.91%	2,175,662	0.73%	38,406	0.02%
Media	458,746	0.20%	658,451	0.22%	90,208	0.05%
Polyester and fibre	-	0.00%	62,952	0.02%	306,152	0.16%
Telecommunication	5,818,502	2.59%	879,751	0.30%	3,642,497	1.86%
Individuals	23,737,311	10.56%	162,069,603	54.66%	8,740,841	4.47%
Others	40,589,543	18.05%	31,516,823	10.63%	57,156,455	29.21%
	<u>224,882,989</u>	<u>100%</u>	<u>296,499,113</u>	<u>100%</u>	<u>195,658,346</u>	<u>100%</u>

44.1.1.2 Segment by Sector

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	25,566,786	9.52%	55,254,516	16.07%	61,399,347	21.15%
Private	242,929,917	90.48%	288,550,314	83.93%	228,856,386	78.85%
	<u>268,496,703</u>	<u>100%</u>	<u>343,804,830</u>	<u>100%</u>	<u>290,255,733</u>	<u>100%</u>

	2005					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	24,473,422	10.88%	45,116,891	15.22%	52,676,704	26.92%
Private	200,409,567	89.12%	251,382,222	84.78%	142,981,642	73.08%
	<u>224,882,989</u>	<u>100%</u>	<u>296,499,113</u>	<u>100%</u>	<u>195,658,346</u>	<u>100%</u>

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

	2006		2005	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
----- (Rupees in '000) -----				
Chemical and pharmaceuticals	751,726	639,609	794,614	706,876
Agri business	913,266	348,712	965,370	385,385
Textile spinning	1,538,999	1,225,149	1,626,803	1,353,995
Textile weaving	253,351	184,686	267,805	204,109
Textile composite	754,257	617,940	797,289	682,928
Textile others	2,257,048	1,787,406	2,348,718	1,965,688
Cement	24,507	22,037	25,905	24,355
Sugar	37,187	37,187	39,309	41,098
Shoes and leather garments	146,517	89,922	154,876	99,379
Automobile and transportation equipment	144,950	142,581	153,220	157,576
Financial	138,369	69,435	146,263	76,737
Insurance	-	-	-	-
Electronics and electrical appliances	96,467	93,614	101,971	103,459
Production and transmission of energy	154,429	154,429	154,429	154,429
Paper and allied	180,046	53,102	56,132	58,687
Surgical and metal	952	952	1,006	1,052
Contractor	-	-	-	-
Wholesale traders	550,518	370,297	581,927	409,241
Fertilizer dealers	263	263	278	291
Sports goods	180,208	2,552	190,489	2,820
Food industries	769,500	361,644	813,402	399,678
Airlines	-	-	-	-
Cables	-	-	-	-
Construction	451,311	293,529	529,912	307,439
Containers and ports	-	-	-	-
Engineering	23,446	6,953	7,903	7,684
Steel	271,447	254,447	286,934	281,207
Glass and Allied	-	-	-	-
Hotels	245,802	66,992	95,803	71,969
Infrastructure	-	-	-	-
Media	94,004	18,947	103,718	20,940
Polyester and fibre	1,789	1,789	1,891	1,977
Telecommunication	-	-	-	-
Individuals	3,155,992	2,486,333	3,408,530	2,766,510
Others	3,609,440	3,079,455	3,707,706	3,220,525
	<u>16,745,791</u>	<u>12,409,962</u>	<u>17,362,203</u>	<u>13,506,034</u>

44.1.3 Details of non performing advances and specific provision by sector

Public/Government	60,750	-	75,000	-
Private	16,685,041	12,409,962	17,287,203	13,506,034
	<u>16,745,791</u>	<u>12,409,962</u>	<u>17,362,203</u>	<u>13,506,034</u>

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

44.2.1 Foreign Exchange Risk

	2006			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	333,687,527	303,558,352	2,063,995	32,193,170
US Dollar	18,977,663	20,722,646	(5,746,310)	(7,491,293)
Pound Sterling	13,833,951	13,899,109	2,273,882	2,208,724
Euro	263,097	29,133	(256,629)	(22,665)
Japanese Yen	828,009	1,811,213	1,101,851	118,647
Other Currencies	68,299,450	62,691,760	563,211	6,170,901
	<u>435,889,697</u>	<u>402,712,213</u>	<u>-</u>	<u>33,177,484</u>

	2005			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	286,445,709	261,172,230	(4,078,046)	21,195,433
US Dollar	22,223,856	27,449,654	3,495,891	(1,729,907)
Pound Sterling	13,894,228	10,347,411	(1,059,992)	2,486,825
Euro	2,283,430	1,703,452	732,524	1,312,502
Japanese Yen	465,145	1,952	488,031	951,224
Other Currencies	32,743,778	33,107,845	421,592	57,525
	<u>358,056,146</u>	<u>333,782,544</u>	<u>-</u>	<u>24,273,602</u>

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

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

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

44.2.2 Equity position risk

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

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44.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective yield/ Interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial instruments	
		Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years		
%		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.3%	49,023,540	20,522,278	-	-	-	-	-	-	-	-	28,501,262
Balances with other banks	7.0%	19,418,278	16,265,579	-	-	-	-	-	-	-	-	3,152,699
Lendings to financial institutions	8.0%	29,572,070	20,496,941	3,149,180	529,243	2,026,964	1,476,884	1,792,858	100,000	-	-	-
Investments	8.0%	65,735,128	1,710,884	1,202,307	9,768,021	26,157,905	7,307,394	3,443,386	4,524,915	6,478,904	1,764	5,139,648
Advances												
Performing	11.0%	250,334,663	58,658,999	104,193,274	37,116,216	37,123,119	7,421,712	5,013,959	807,384	-	-	-
Non Performing	0%	4,335,829	-	-	-	-	-	-	-	-	-	4,335,829
Other assets	0%	7,807,167	-	-	-	-	-	-	-	-	-	7,807,167
		426,226,675	117,654,681	108,544,761	47,413,480	65,307,988	16,205,990	10,250,203	5,432,299	6,478,904	1,764	48,936,605
Liabilities												
Bills payable	0%	4,627,769	-	-	-	-	-	-	-	-	-	4,627,769
Borrowings	3.0%-14.0%	38,679,808	20,691,627	10,838,746	1,458,543	2,913,596	2,777,296	-	-	-	-	-
Deposits and other accounts	0.2%-10.7%	343,804,830	71,061,776	102,077,250	22,359,063	31,762,714	5,863,229	3,439,807	4,123,586	3,566,977	-	99,550,428
Subordinated loans	10.20%	5,998,344	-	424	2,000,000	424	848	848	666,315	3,329,485	-	-
Liabilities against assets subject to finance lease	11.0%-14.5.0%	6,966	290	581	871	1,742	3,483	-	-	-	-	-
Other liabilities	0%	6,709,698	-	-	-	-	-	-	-	-	-	6,709,698
		399,827,415	91,753,693	112,917,001	25,818,477	34,678,476	8,644,856	3,440,655	4,789,901	6,896,462	-	110,887,895
On-balance sheet gap		26,399,260	25,900,988	(4,372,240)	21,595,003	30,629,513	7,561,134	6,809,548	642,398	(417,558)	1,764	(61,951,290)
Non financial net assets		6,778,224										
Total net assets		33,177,484										
Off-balance sheet financial instruments												
Foreign currency forward purchases		56,461,145	25,051,697	21,643,738	8,973,761	791,949	-	-	-	-	-	-
Foreign currency forward sales		(58,556,959)	(30,365,074)	(17,368,333)	(8,960,479)	(1,863,073)	-	-	-	-	-	-
Derivatives - Long position		7,825,419	-	800,000	300,000	500,000	1,100,000	1,595,000	3,530,419	-	-	-
Derivatives - Short position		(7,825,419)	(1,930,000)	(2,778,333)	(673,485)	-	(800,000)	(1,643,601)	-	-	-	-
Forward Purchase of Govt. Securities		5,634,902	5,634,902	-	48,702	-	-	-	-	-	-	-
Forward Sale of Govt. Securities		(2,833,400)	(2,833,400)	-	-	-	-	-	-	-	-	-
Sale of Govt. Securities not yet purchased		(1,067,735)	-	-	-	-	-	(99,285)	-	(968,450)	-	-
Off-balance sheet gap		(362,047)	(4,441,875)	2,297,072	(311,501)	(571,124)	300,000	(147,886)	3,530,419	(968,450)	-	-
Total Yield/Interest Risk Sensitivity Gap		21,459,113	(2,075,168)	21,283,502	30,058,389	7,861,134	6,661,662	4,172,817	(1,386,008)	1,764	(61,951,290)	
Cumulative Yield/Interest Risk Sensitivity Gap		21,459,113	19,383,945	40,667,448	70,725,836	78,586,970	85,248,632	89,421,449	88,035,441	88,037,205	26,085,915	

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

Effective yield/ Interest rate	Total	2005 Exposed to Yield / Interest risk								Non-interest bearing financial instruments		
		Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years		Over 10 years	
%		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	2.90%	34,155,235	8,655,180	-	-	-	-	-	-	-	-	25,500,055
Balances with other banks	3.80%	18,676,576	13,009,745	-	-	-	-	-	-	-	-	5,666,831
Lendings to financial institutions	6.50%	17,867,552	7,458,465	4,477,823	982,939	347,516	4,600,809	-	-	-	-	-
Investments	5.80%	61,558,826	1,152,292	2,304,584	9,573,682	19,147,365	3,951,100	3,951,100	11,403,301	7,537,732	2,000	2,535,670
Advances												
Performing	8.50%	206,296,460	43,630,888	87,261,775	20,438,238	40,876,475	2,817,817	2,817,817	8,453,450	-	-	-
Non performing	-	3,856,169	-	-	-	-	-	-	-	-	-	3,856,169
Other assets	-	7,547,598	-	-	-	-	-	-	-	-	-	7,547,598
		<u>349,958,416</u>	<u>73,906,570</u>	<u>94,044,182</u>	<u>30,994,859</u>	<u>60,371,356</u>	<u>11,369,726</u>	<u>6,768,917</u>	<u>19,856,751</u>	<u>7,537,732</u>	<u>2,000</u>	<u>45,106,323</u>
Liabilities												
Bills payable	-	4,181,026	-	-	-	-	-	-	-	-	-	4,159,967
Borrowings	8.30%	22,751,015	13,122,108	6,227,906	2,440,466	-	-	-	-	-	-	-
Deposits and other accounts	2.00%	296,499,113	36,508,750	73,017,499	26,383,541	32,516,665	15,656,128	5,718,709	4,718,709	7,984,169	-	86,722,128
Subordinated loans	9.10%	3,999,192	-	414	-	414	-	-	3,312	3,995,052	-	-
Liabilities against assets subject to finance lease	11.5% - 14%	4,345	362	724	1,086	2,173	-	-	-	-	-	-
Other liabilities	-	2,845,273	-	-	-	-	-	-	-	-	-	2,845,273
		<u>330,279,964</u>	<u>49,631,220</u>	<u>79,246,543</u>	<u>28,825,093</u>	<u>32,519,252</u>	<u>15,656,128</u>	<u>5,718,709</u>	<u>4,722,021</u>	<u>11,979,221</u>	<u>-</u>	<u>93,727,368</u>
On-balance sheet gap		<u>19,678,452</u>	<u>24,275,350</u>	<u>14,797,639</u>	<u>2,169,766</u>	<u>27,852,105</u>	<u>(4,286,402)</u>	<u>1,050,208</u>	<u>15,134,730</u>	<u>(4,441,489)</u>	<u>2,000</u>	<u>(48,621,045)</u>
Non financial net assets		<u>4,595,150</u>										
Total net assets		<u>24,273,602</u>										
Off-balance sheet financial instruments												
Foreign currency forward purchases		38,156,440	11,809,953	23,619,905	908,861	1,817,721	-	-	-	-	-	-
Foreign currency forward sales		(42,020,795)	(11,255,339)	(22,510,678)	(2,751,593)	(5,503,185)	-	-	-	-	-	-
Interest rate derivatives - long position		7,826,415	-	-	-	-	1,495,283	5,981,132	350,000	-	-	-
Interest rate derivatives - short position		(7,826,415)	(3,019,319)	(3,498,207)	(1,308,889)	-	-	-	-	-	-	-
Forward purchase of Govt. securities		598,194	598,194	-	-	-	-	-	-	-	-	-
Forward sale of Govt. securities		(1,479,279)	(1,479,279)	-	-	-	-	-	-	-	-	-
Sale of Govt. securities not yet purchased		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		<u>(4,745,440)</u>	<u>(3,345,790)</u>	<u>(2,388,980)</u>	<u>(3,151,621)</u>	<u>(3,685,464)</u>	<u>1,495,283</u>	<u>5,981,132</u>	<u>350,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total yield / interest risk sensitivity gap		<u>20,929,560</u>	<u>12,408,659</u>	<u>(981,855)</u>	<u>24,166,641</u>	<u>(2,791,119)</u>	<u>7,031,340</u>	<u>15,484,730</u>	<u>(4,441,489)</u>	<u>2,000</u>	<u>(48,621,045)</u>	
Cumulative yield / interest risk sensitivity gap		<u>20,929,560</u>	<u>33,338,219</u>	<u>32,356,364</u>	<u>56,523,004</u>	<u>53,731,885</u>	<u>60,763,225</u>	<u>76,247,955</u>	<u>71,806,466</u>	<u>71,808,466</u>	<u>23,187,421</u>	

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
44.3 Liquidity Risk

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 high-grade collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position, and regular liquidity stress testing under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Group's business.

44.3.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Group

The above mentioned maturity profile has been prepared on the basis of contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and saving deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The maturity profile disclosed in note 44.3.2 that includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits reflects a more meaningful analysis the liquidity risk of the Group.

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		2006									
		Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	49,023,540	46,181,784	-	-	-	-	-	-	-	-	2,841,756
Balances with other banks	19,418,278	18,478,935	-	-	-	-	-	-	-	-	939,343
Lendings to financial institutions	29,572,070	20,546,941	3,489,135	641,795	1,524,459	1,476,884	1,792,856	100,000	-	-	-
Investments	65,735,128	1,811,401	1,263,012	11,680,877	27,544,233	7,774,349	3,453,749	5,022,524	6,671,288	513,695	-
Advances	254,670,492	43,486,355	72,749,874	20,503,879	19,688,039	33,732,130	13,328,751	21,591,017	21,051,778	8,538,669	-
Fixed assets	6,362,492	95,492	145,988	196,481	347,963	650,925	650,925	970,041	825,180	2,479,497	-
Other assets	10,200,122	164,299	7,732,537	1,264,342	1,222	-	-	-	1,037,722	-	-
Deferred tax assets	907,575	5,749	11,497	18,817	32,923	51,051	50,137	272,474	275,370	189,557	-
	435,889,697	130,770,956	85,392,043	34,306,191	49,138,839	43,685,339	19,276,418	27,956,056	29,861,338	15,502,517	-
Liabilities											
Bills payable	4,627,769	4,627,769	-	-	-	-	-	-	-	-	-
Borrowings	38,679,808	20,823,025	10,835,255	1,451,561	2,903,122	2,666,846	-	-	-	-	-
Deposits and other accounts	343,804,830	206,052,351	39,485,093	19,749,970	18,102,696	40,592	60	17,826,001	42,548,067	-	-
Subordinated loans	5,998,344	-	824	-	824	1,648	1,648	667,915	5,325,485	-	-
Liabilities against assets subject to finance leases	6,966	290	581	871	1,742	3,483	-	-	-	-	-
Other liabilities	9,594,496	544,028	6,184,066	10,514	17,613	-	-	652,339	2,185,936	-	-
	402,712,213	232,047,463	56,505,819	21,212,916	21,025,997	2,712,569	1,708	19,146,255	50,059,488	-	-
Net assets	33,177,484	(101,276,507)	28,886,224	13,093,275	28,112,842	40,972,770	19,274,710	8,809,801	(20,198,150)	15,502,517	-
Represented by:											
Share capital	6,475,000										
Reserves	9,329,564										
Unappropriated profit	12,930,344										
Minority interest	1,772,168										
Surplus on revaluation of assets	2,670,408										
	33,177,484										

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
2005

	Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	34,155,235	32,435,972	-	-	-	-	-	-	-	1,719,263
Balances with other banks	18,676,576	18,173,406	8,317	66,408	428,445	-	-	-	-	-
Lendings to financial institutions	17,867,552	11,936,288	1,330,456	310,152	420,304	1,269,698	2,600,654	-	-	-
Investments	61,558,826	1,911,274	3,822,549	9,785,665	19,571,329	9,789,165	9,789,162	3,444,840	3,444,840	-
Advances	210,152,629	34,034,524	60,356,710	14,093,265	28,186,531	49,871,190	9,837,670	11,805,205	1,967,534	-
Other assets	7,932,696	2,413,987	4,827,974	1,835	1,163	286,557	401,180	-	-	-
Fixed assets	5,439,818	326,942	663,898	531,118	398,339	1,197,880	1,197,880	1,123,761	-	-
Deferred tax assets	2,272,814	131,355	262,709	1,182,002	193,610	209,640	293,498	-	-	-
	358,056,146	101,363,748	71,272,613	25,970,445	49,199,721	62,624,130	24,120,044	16,373,806	5,412,374	1,719,263
Liabilities										
Bills payable	4,181,026	4,181,026	-	-	-	-	-	-	-	-
Borrowings	22,751,015	4,062,110	10,155,275	2,440,465	1,220,233	4,872,932	-	-	-	-
Deposits and other accounts	296,499,113	86,470,346	172,940,692	5,769,238	10,700,962	2,741,308	17,876,567	-	-	-
Subordinated loan	3,999,192	-	414	-	414	828	828	1,656	3,995,052	-
Liabilities against assets subject to finance leases	4,345	362	724	1,086	2,173	-	-	-	-	-
Other liabilities	6,347,853	1,233,274	2,061,050	41,247	211,376	115,360	115,000	230,361	1,040,083	1,300,100
	333,782,544	95,947,118	185,158,155	8,252,036	12,135,158	7,730,428	17,992,395	232,017	5,035,135	1,300,100
Net assets	24,273,602	5,416,630	(113,885,542)	17,718,409	37,064,563	54,893,702	6,127,649	16,141,789	377,239	419,163
Represented by:										
Share capital	5,180,000									
Reserves	6,820,234									
Unappropriated profit	7,790,148									
Minority interest	1,561,005									
Surplus on revaluation of assets	2,922,215									
	24,273,602									

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
44.3.2 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 nine 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.

----- 2006 -----										
Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years	
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	49,023,540	14,584,511	16,019,732	3,036,627	2,623,123	3,437,078	2,068,770	2,078,861	5,088,149	86,689
Balances with other banks	19,418,278	13,161,172	1,904,327	1,225,800	919,729	919,350	612,900	675,000	-	-
Lendings to financial institutions	29,572,070	24,488,971	3,088,209	365,476	776,637	852,777	-	-	-	-
Investments	65,735,128	6,742,446	2,195,081	5,173,673	26,228,752	11,984,863	3,674,593	1,300,724	8,432,996	2,000
Advances - Performing	254,670,492	51,704,687	72,485,704	20,555,252	19,369,472	19,765,777	19,308,028	27,312,919	8,082,791	16,085,862
Other assets	10,200,122	699,967	739,349	7,036,614	137,656	-	-	-	1,007,396	579,140
Fixed assets	6,362,492	75,744	151,488	227,232	454,464	908,927	1,817,855	1,817,855	908,927	-
Deferred tax assets	907,575	-	-	914	407,998	181,332	163,199	154,132	-	-
	435,889,697	111,457,497.95	96,583,890	37,621,588	50,917,831	38,050,104	27,645,345	33,339,491	23,520,259	16,753,691
Liabilities										
Bills payable	4,627,769	3,696,976	930,793	-	-	-	-	-	-	-
Borrowing from financial institutions	38,679,808	20,460,429	13,144,791	4,939,700	134,888	-	-	-	-	-
Deposits and other accounts	343,804,830	82,294,063	52,722,054	35,648,394	33,733,103	37,885,193	1,164,153	2,412,900	97,933,417	11,553
Subordinated loan	5,998,344	-	824	-	824	1,648	1,648	667,915	5,325,485	-
Liabilities against assets subject to finance leases	6,966	290	581	871	1,742	3,483	-	-	-	-
Other liabilities	9,594,496	319,462	4,813,757	16,082	-	-	-	-	4,445,195	-
	402,712,213	106,771,220.25	71,612,800	40,605,047	33,870,557	37,890,324	1,165,801	3,080,815	107,704,097	11,553
Net assets	33,177,483	4,686,278	24,971,090	(2,983,459)	17,047,274	159,780	26,479,544	30,258,676	(84,183,838)	16,742,138
Represented by:										
Share capital	6,475,000									
Reserves	9,329,564									
Unappropriated profit	12,930,344									
Minority interest	1,772,168									
Surplus on revaluation of assets	2,670,408									
	<u>33,177,484</u>									

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

		2005									
		Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
		----- (Rupees in '000) -----									
Assets											
Cash and balances with treasury banks	34,155,235	10,311,360	8,662,667	2,043,761	2,431,177	1,703,134	1,362,507	474,019	7,163,204	3,406	
Balances with other banks	18,676,576	7,001,064	5,411,432	5,947,369	-	-	-	-	316,711	-	
Lendings to financial institutions	17,867,552	9,827,154	2,109,134	536,027	794,428	536,027	536,027	3,528,755	-	-	
Investments	61,558,826	3,151,347	3,392,811	5,042,156	22,649,084	11,344,850	3,151,347	2,993,407	11,301,942	-	
Advances	210,152,629	9,000,534	89,159,329	-	40,912,726	-	-	48,677,366	22,402,674	-	
Other assets	7,932,696	102,926	2,232,779	-	4,567,437	-	-	-	645,924	383,630	
Fixed assets	5,439,818	64,760	129,519	194,279	388,558	777,117	1,554,234	2,331,351	-	-	
Deferred tax assets	2,272,814	-	-	-	1,022,852	454,601	409,141	386,220	-	-	
	358,056,146	39,459,145	111,097,671	13,763,592	72,766,262	14,815,729	7,013,256	58,391,118	41,830,455	387,036	
Liabilities											
Bills payable	4,181,026	3,349,033	831,993	-	-	-	-	-	-	-	
Borrowings	22,751,015	12,945,299	7,365,250	2,440,466	-	-	-	-	-	-	
Deposits and other accounts	296,499,113	70,902,600	28,341,974	31,814,893	28,622,175	17,353,578	14,461,315	13,673,673	88,436,642	2,892,263	
Subordinated loan	3,999,192	-	414	-	414	414	414	2,484	3,995,052	-	
Liabilities against assets subject to finance leases	4,345	362	724	1,086	2,173	-	-	-	-	-	
Other liabilities	6,347,853	143,107	2,333,421	121,730	81,154	-	-	-	3,668,441	-	
	333,782,544	87,340,401	38,873,776	34,378,175	28,705,916	17,353,992	14,461,729	13,676,157	96,100,135	2,892,263	
Net assets	24,273,602	(47,881,256)	72,223,895	(20,614,583)	44,060,347	(2,538,263)	(7,448,473)	44,714,961	(54,269,680)	(2,505,227)	
Represented by:											
Share capital	5,180,000										
Reserves	6,820,234										
Unappropriated profit	7,790,148										
Minority interest	1,561,005										
Surplus on revaluation of assets	2,922,215										
	<u>24,273,602</u>										

**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
44.4 Operational Risk

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

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

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

- Recruiting skilled resources for Operational Risk Management
- Engaging external consultants to assist us in the development of an operational risk management infrastructure.
- In conjunction with the external consultants, determining the current state of key risks and their controls residing in each Business Unit.
- Developing policies, procedures and defining end to end information flow to establish a vigorous governance infrastructure.
- Analyzing current systems for data collection, migration, validation and retention for current and historical reference and calculation. Data warehousing solutions are being assessed for timely availability and storage of data.

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

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and inventorying of risks and controls within the Group. A methodology for Risk and Control Self Assessment is ready to be implemented at all core units of the Group.

45. ISLAMIC BANKING BUSINESS

During the year the Group opened its first Islamic banking branch in Karachi in December 2006. The balance sheet of this branch as at December 31, 2006 is as follows:

	2006	2005
	Rupees in '000	
ASSETS		
Cash and balances with treasury banks	1,087	-
Balances with and due from financial institutions	48,000	-
Other assets	1,951	-
Total Assets	51,038	-
LIABILITIES		
Deposits and other accounts	1,006	-
NET ASSETS	50,032	-
REPRESENTED BY		
Islamic Banking Fund	50,000	-
Unappropriated/ Unremitted profit	32	-
	50,032	-

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**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**
46. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 14, 2007 has proposed a cash dividend in respect of 2006 of Rs. 3.00 per share (2005: cash dividend Rs 2.50 per share). In addition, the directors have also announced a bonus issue of 25 percent. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2006 do not include the effect of these appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2007.

47. DATE OF AUTHORIZATION

These consolidated financial statements were authorized for issue on February 14, 2007 by the Board of Directors of the Group.

48. GENERAL
48.1 Revised forms of annual financial statements

These consolidated financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements prepared by banks for periods commencing from January 1, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect of business activities and capital adequacy and expanded disclosures in respect of the Bank's derivative instruments and risk management.

48.2 Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the Group's accounting period beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosure presentation in these consolidated financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 which are not considered relevant nor have any significant effect on the Group's operations are not detailed in these consolidated financial statements.

48.3 Standards, interpretations and amendments to published approved accounting standard that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 1, 2007 are either not relevant to Group's operations or are not expected to have significant impact on the Group's consolidated financial statements other than certain increased disclosure in certain cases:

IAS 1 - Presentation of financial statements - amendments relating to capital disclosures	effective from accounting period beginning on or after January 1, 2007
IFRS 2 - Share based payment	effective from accounting period beginning on or after January 1, 2007
IFRS 3 - Business combinations	effective from accounting period beginning on or after January 1, 2007

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**UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006**

IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting period beginning on or after January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting period beginning on or after January 1, 2007
IFRIC 8 - Scope of IFRS 2 - share based payments	effective for accounting period beginning on or after May 1, 2006
IFRIC 9 - Reassessment of embedded derivatives	effective for accounting period beginning on or after June 1, 2006
IFRIC 10 - Interim financial reporting and impairment	effective for accounting period beginning on or after November 1, 2006
IFRIC 11 - Group and treasury share transactions	effective for accounting period beginning on or after March 1, 2007
IFRIC 12 - Services concession arrangements	effective for accounting period beginning on or after January 1, 2008

48.4 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these consolidated financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year.

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Atif R. Bokhari
 President and
 Chief Executive Officer

Abdul Rauf Malik
 Director

Sir Mohammed Anwar Pervez, OBE, HPk
 Deputy Chairman

Nahayan Mabarak Al Nahayan
 Chairman