

A.F. FERGUSON & CO
CHARTERED ACCOUNTANTS
State Life Building No.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 balance sheet of United Bank Limited as at December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixty-one branches which have been audited by us and fifteen branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing 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 and after due verification, which in the case of loans and advances covered more than sixty percent of the total domestic loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2006 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

A.F. Ferguson & Co

A. F. FERGUSON & Co.
Chartered Accountants
A.F. & Co

Karachi

Dated: February 17, 2007

KPMG Taseer Hadi & Co

KPMG TASEER HADI & CO.
Chartered Accountants
KPMGTH

BALANCE SHEET AS AT DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
ASSETS			
Cash and balances with treasury banks	6	48,939,840	34,074,786
Balances with other banks	7	14,034,476	12,717,100
Lendings to financial institutions	8	29,572,070	17,867,552
Investments	9	67,260,338	63,026,944
Advances			
Performing	10	243,237,819	201,152,095
Non-performing	10	4,072,074	3,658,375
		247,309,893	204,810,470
Fixed assets	11	5,234,463	4,449,324
Deferred tax asset - net	12	906,661	2,273,005
Other assets	13	10,062,466	7,829,770
		423,320,207	347,048,951
LIABILITIES			
Bills payable	15	4,560,649	4,159,964
Borrowings	16	38,544,920	21,790,480
Deposits and other accounts	17	335,077,873	289,226,299
Sub-ordinated loans	18	5,998,344	3,999,192
Liabilities against assets subject to finance lease		-	-
Other liabilities	19	9,275,034	6,204,746
		393,456,820	325,380,681
NET ASSETS		<u>29,863,387</u>	<u>21,668,270</u>
REPRESENTED BY:			
Share capital	20	6,475,000	5,180,000
Reserves		8,298,873	6,225,461
Unappropriated profit		12,429,853	7,350,813
		27,203,726	18,756,274
Surplus on revaluation of assets - net	21	2,659,661	2,911,996
		<u>29,863,387</u>	<u>21,668,270</u>
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 47 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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
Mark-up / return / interest earned	24	32,991,603	20,158,860
Mark-up / return / interest expensed	25	12,126,809	6,045,948
Net mark-up / interest income		20,864,794	14,112,912
Provision against loans and advances - net	10.3	1,972,936	1,277,002
Provision for diminution in value of investments - net	9.3	74,573	112,666
Bad debts written off directly	10.4	269,349	38,140
		2,316,858	1,427,808
Net mark-up / return / interest income after provisions		18,547,936	12,685,104
Non Mark-up / Interest Income			
Fee, commission and brokerage income		3,876,799	2,543,739
Dividend income		837,338	202,343
Income from dealing in foreign currencies		659,726	675,109
Gain on sale of securities	26	280,864	382,419
Unrealized gain/ (loss) on revaluation of investments classified as held for trading	9.4	(3,335)	(780)
Other income	27	1,296,996	1,210,202
Total non mark-up / return / interest income		6,948,388	5,013,032
		25,496,324	17,698,136
Non Mark-up / Interest Expenses			
Administrative expenses	28	10,952,275	7,874,013
Other provisions / write offs	29	226,313	335,409
Other charges	30	25,980	7,066
Total non mark-up / interest expenses		11,204,568	8,216,488
Extraordinary items		-	-
Profit before taxation		14,291,756	9,481,648
Taxation - Current	31	3,412,791	498,748
- Prior year	31	45,225	78,614
- Deferred	31	1,365,508	2,955,254
		4,823,524	3,532,616
Profit after taxation		9,468,232	5,949,032
Unappropriated profit brought forward		7,350,813	3,274,439
		16,819,045	9,223,471
Transfer from surplus on revaluation of fixed assets - net of tax		94,454	94,148
Profit available for appropriation		16,913,499	9,317,619

(Rupees)

Basic and diluted earnings per share	32	14.62	9.19
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The annexed notes 1 to 47 and annexures form an integral part of these financial statements.

Attested by KPMG TH

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

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		14,291,756	9,481,648
Less: Dividend income		684,961	(202,343)
		<u>13,606,795</u>	<u>9,279,305</u>
Adjustments:			
Depreciation		550,674	412,541
Amortization		52,251	23,381
Provision for retirement benefits		225,172	117,772
Provision against loans and advances		1,972,936	1,277,002
Provision for diminution in value of investments		74,573	112,666
Provision against off- balance sheet items		52,663	238,712
(Gain) on sale of fixed assets		(14,393)	(12,771)
Finance charges on leased assets		-	3
Bad debts written-off directly		269,349	38,140
Unrealized loss on revaluation of investments classified as held for trading		3,335	780
Provision against other assets		173,650	87,998
Exchange loss on cash and cash equivalents		1,067,593	209,350
		<u>4,427,803</u>	<u>2,505,574</u>
		18,034,598	11,784,879
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		(11,704,518)	493,081
Held-for-trading securities		1,376,349	996,353
Advances		(44,741,708)	(61,974,557)
Other assets (excluding advance taxation)		(1,963,795)	(3,523,015)
		<u>(57,033,672)</u>	<u>(64,008,138)</u>
Increase/ (Decrease) in operating liabilities			
Bills payable		400,685	348,680
Borrowings		16,754,440	9,814,796
Deposits and other accounts		45,851,574	58,969,672
Other liabilities (excluding current taxation)		2,073,336	(37,510)
		<u>65,080,035</u>	<u>69,095,638</u>
		26,080,961	16,872,379
Staff retirement benefits paid		(548,153)	(110,323)
Income taxes paid		(2,635,945)	(328,751)
Net cash flow from operating activities		<u>22,896,863</u>	<u>16,433,305</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(5,844,696)	(9,203,902)
Dividend income received		687,609	289,905
Investments in operating fixed assets		(1,396,396)	(925,175)
Sale proceeds from disposal of property and equipment		22,725	21,706
Net cash flow on investing activities		<u>(6,530,758)</u>	<u>(9,817,466)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipt of sub-ordinated loan		2,000,000	500,000
Repayments of principal of sub-ordinated loans		(848)	(808)
Payments in respect of lease obligations		-	(291)
Dividends paid		(1,295,000)	(777,000)
Net cash flow from / (used in) financing activities		704,152	(278,099)
Exchange differences on translation of net investment on foreign branches		179,766	(880,273)
Increase in cash and cash equivalents		<u>17,250,023</u>	<u>5,457,467</u>
Cash and cash equivalents at beginning of the year as previously reported		46,791,886	41,543,769
Effects of exchange rate changes on cash and cash equivalents		(1,067,593)	(209,350)
Cash and cash equivalents at beginning of the year as restated		45,724,293	41,334,419
Cash and cash equivalents at end of the year	33	<u><u>62,974,316</u></u>	<u><u>46,791,886</u></u>

The annexed notes 1 to 47 and annexures form an integral part of these financial statement

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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 Nahaya
Chairman

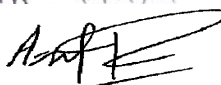
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006


	-----Capital reserves-----					Total
	Share Capital	Statutory Reserve	Exchange Translation Reserve	Reserve for issue of bonus shares	Unappropriated Profit	
------(Rupees in '000)-----						
Balance as at December 31, 2004	5,180,000	3,945,781	1,970,147	-	3,274,439	14,370,367
Final dividend for the year ended December 31, 2004 at Rs. 1.50 per share	-	-	-	-	(777,000)	(777,000)
Changes in equity for 2005						
Profit after taxation for the year ended December 31, 2005	-	-	-	-	5,949,032	5,949,032
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	94,148	94,148
Exchange differences on translation of net investment in foreign branches	-	-	(880,273)	-	-	(880,273)
Net expense recognised directly in equity	-	-	(880,273)	-	94,148	(786,125)
Total recognised income and expense for the year	-	-	(880,273)	-	6,043,180	5,162,907
Transfer to statutory reserve	-	1,189,806	-	-	(1,189,806)	-
Balance as at December 31, 2005	5,180,000	5,135,587	1,089,874	-	7,350,813	18,756,274
Final dividend for the year ended December 31, 2005 at Rs. 2.50 per share	-	-	-	-	(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	-	-	-	-	9,468,232	9,468,232
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	94,454	94,454
Exchange differences on translation of net investment in foreign branches	-	-	179,766	-	-	179,766
Net income recognised directly in equity	-	-	179,766	-	94,454	274,220
Total recognised income and expense for the year	-	-	179,766	-	9,562,686	9,742,452
Transfer to statutory reserve	-	1,893,646	-	-	(1,893,646)	-
Balance as at December 31, 2006	<u>6,475,000</u>	<u>7,029,233</u>	<u>1,269,640</u>	<u>-</u>	<u>12,429,853</u>	<u>27,203,726</u>

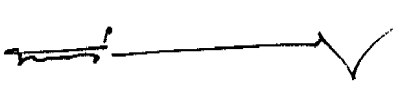
Appropriations made by the directors subsequent to the year ended December 31, 2006 are disclosed in note 45 of these financial statements.


The annexed notes 1 to 47 and annexures form an integral part of these financial statements.

AMC/KPMG/TH


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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
1. STATUS AND NATURE OF BUSINESS

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 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 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 financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

4. BASIS OF MEASUREMENT
4.1 Accounting convention

These 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 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.

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

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

- i) classification of investments (notes 5.3 and 9)
- ii) provision against investments (notes 5.3 and 9) and advances (notes 5.4 and 10.3)
- iii) income taxes (notes 5.7, 12, 19.2 and 31)
- iv) staff retirement benefits (note 35)
- v) fair value of derivatives (note 19.4)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
5.1 Cash and cash equivalents

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

5.2 Lendings to / borrowings from financial institutions

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

(a) Sale under repurchase agreements

Securities sold subject to a re-purchase agreement (repo) are retained in the 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 the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

5.3 Investments

The Bank classifies its investments as follows:

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

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

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

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 bank commits to purchase or sell the investment.

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

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

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.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision against domestic advances (other than the Bank'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 Bank's domestic consumer financing portfolio comprising of auto loans, personal loans and cash line is determined keeping in view the Bank'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.

5.5 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 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 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.

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

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.

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 Bank.

Intangible assets

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

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.

5.6 Impairment

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

5.7 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.

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

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

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

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

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

5.8 Provisions

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

5.9 Staff retirement and other benefits
5.9.1 Staff retirement benefit schemes

- 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
5.9.2 Other benefits
a) Employees' compensated absences

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

b) Post retirement medical benefits (defined benefit scheme)

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

5.9.3 Actuarial gains and losses

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

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

5.10 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.

5.11 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 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.

5.12 Derivative financial instruments

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

5.13 Foreign Currencies
a) Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
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 which are taken to capital reserve (Exchange Translation Reserve).

e) Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of transaction.

5.14 Segment Reporting

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

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.

Commercial banking

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
Geographical segments

The Bank operates in three geographical regions being:

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

5.15 Dividend and appropriation to reserves

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

5.16 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

5.17 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

	Note	2006 (Rupees in '000)	2005
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		5,041,667	4,606,016
Foreign currency		1,691,757	1,107,634
		6,733,424	5,713,650
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	18,388,635	9,142,105
With National Bank of Pakistan in local currency current account		2,994,861	3,571,650
National Prize Bonds		59,176	42,553
		<u>48,939,840</u>	<u>34,074,786</u>

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

6.2 This represents US Dollar Settlement Account maintained with SBP.

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

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 of the Bank.

	Note	2006 (Rupees in '000)	2005
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		5,935	9,454
In deposit accounts		48,000	-
		53,935	9,454
Outside Pakistan			
In current accounts		895,782	4,850,101
In deposit accounts	7.1	13,084,759	7,857,545
		13,980,541	12,707,646
		14,034,476	12,717,100

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 Bank	Further given as collateral / sold	Total	Held by Bank	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

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

These carry mark-up at rates ranging from 7.99% to 9.40% per annum (2005: 3.5% to 8.75% per annum) and are due to mature latest by March 2007.

8.4 These carry mark-up at rates ranging from 5.45% to 12.63% per annum and are due to mature latest by March 2011.

9. INVESTMENTS
9.1 Investments by types

Note	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
------(Rupees in '000)-----						
Held for trading securities						
Market Treasury Bills	46,438	-	46,438	600,734	460,807	1,061,541
Ordinary shares of listed companies	91,007	-	91,007	453,033	-	453,033
	137,445	-	137,445	1,053,767	460,807	1,514,574
Available for sale securities						
Market Treasury Bills	15,304,284	16,743,707	32,047,991	16,004,567	3,898,511	19,903,078
Ordinary shares of listed companies	2,403,691	-	2,403,691	1,675,518	-	1,675,518
Pakistan Investment Bonds	3,157,602	-	3,157,602	1,317,980	205,469	1,523,449
Government of Pakistan Islamic Bonds	694,271	-	694,271	833,386	-	833,386
Term Finance Certificates	693,116	-	693,116	749,170	-	749,170
Foreign currency bonds	1,705,045	-	1,705,045	593,782	-	593,782
Ordinary shares of unlisted companies	497,288	-	497,288	432,680	-	432,680
Euro Bonds	1,247,217	-	1,247,217	279,575	-	279,575
Units of mutual funds	1,222,338	-	1,222,338	550,000	-	550,000
	26,924,852	16,743,707	43,668,559	22,436,658	4,103,980	26,540,638
Held to maturity securities						
Term Finance Certificates	8,134,206	-	8,134,206	8,661,187	-	8,661,187
Market Treasury Bills	1,205,603	-	1,205,603	4,830,400	3,595,482	8,425,882
Pakistan Investment Bonds	4,691,273	-	4,691,273	5,331,699	335,502	5,667,201
CIRC Bonds	2,900,000	-	2,900,000	4,054,883	-	4,054,883
Government of Pakistan - Guaranteed Bonds	2,410,415	-	2,410,415	4,039,971	-	4,039,971
Foreign currency bonds	1,382,986	-	1,382,986	1,694,788	-	1,694,788
Foreign securities	639,064	-	639,064	492,795	-	492,795
Debentures	11,289	-	11,289	169,351	-	169,351
Participation Term Certificates	55,169	-	55,169	70,087	-	70,087
CDC SAARC Fund	505	-	505	65,501	-	65,501
Federal Investment Bonds	13,906	-	13,906	32,725	-	32,725
Provincial Government Securities	-	-	-	1,207	-	1,207
	21,444,416	-	21,444,416	29,444,594	3,930,984	33,375,578
Associates						
United Growth and Income Fund	-	-	-	250,000	-	250,000
United Stock Advantage Fund	250,000	-	250,000	-	-	-
United Islamic Composite Fund	250,000	-	250,000	-	-	-
UBL Insurers Limited	90,000	-	90,000	-	-	-
Oman United Exchange Company, Muscat	6,981	-	6,981	6,981	-	6,981
	596,981	-	596,981	256,981	-	256,981
Subsidiaries						
United National Bank, UK	1,482,011	-	1,482,011	1,482,011	-	1,482,011
United Bank AG Zurich, Switzerland	86,237	-	86,237	86,237	-	86,237
Domestic subsidiaries						
United Executors and Trustees Company Limited	30,100	-	30,100	30,100	-	30,100
United Bank Financial Services (Pvt) Limited	2,500	-	2,500	2,500	-	2,500
UBL Fund Managers Limited	60,000	-	60,000	60,000	-	60,000
	1,660,848	-	1,660,848	1,660,848	-	1,660,848
	50,764,542	16,743,707	67,508,249	54,852,848	8,495,771	63,348,619
Provision for diminution in value of investments	(400,639)	-	(400,639)	(634,003)	-	(634,003)
Investments (net of provisions)	50,363,903	16,743,707	67,107,610	54,218,845	8,495,771	62,714,616
Surplus / (deficit) on revaluation of available for sale securities						
	163,003	(6,940)	156,063	312,372	736	313,108
Surplus/ (deficit) on revaluation of held for trading securities						
	(3,335)	-	(3,335)	(1,070)	290	(780)
Total investments at market value	50,523,571	16,736,767	67,260,338	54,530,147	8,496,797	63,026,944

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NOTES TO THE 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 Islamic Bonds		694,271	833,386
Government of Pakistan - US Dollar / Euro Bonds		1,247,217	279,575
Federal Investment Bonds		13,906	32,725
		43,781,350	39,224,421
Provincial Government Securities		-	1,207
Overseas Governments' Securities			
Foreign securities		2,344,109	924,001
Market Treasury Bills		705,937	197,204
		3,050,046	1,121,205
Other Overseas Securities			
Foreign securities		-	162,576
CDC SAARC Fund		505	65,501
		505	228,077
Fully Paid-up Ordinary Shares			
Listed companies		2,494,698	2,128,551
Unlisted companies	9.7	497,288	432,680
		2,991,986	2,561,231
Units of Mutual Funds		1,222,338	550,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Term Finance Certificates			
Unlisted		7,629,656	8,332,720
Listed		1,197,666	1,077,637
		8,827,322	9,410,357
Bonds		5,310,415	8,094,854
Debentures		11,289	169,351
Participation Term Certificates		55,169	70,087
		14,204,195	17,744,649
Investments in subsidiaries and associates		2,257,829	1,917,829
Total investments at cost		67,508,249	63,348,619
Provision for diminution in value of investments	9.3	(400,639)	(634,003)
Investments (net of provisions)		67,107,610	62,714,616
Surplus on revaluation of available for sale securities	21.2	156,063	313,108
Deficit on revaluation of held for trading securities	9.4	(3,335)	(780)
Total investments at market value		67,260,338	63,026,944

AKK 60 KPMSTH

NOTES TO THE 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	634,003	540,402
Charged during the year	81,968	112,666
Reversed during the year	(7,395)	-
	74,573	112,666
Transfers	(30,164)	4,355
Written off during the year	(277,773)	(23,420)
Closing balance	400,639	634,003
9.3.2 Particulars of provision for diminution in value of investments by type		
Available for sale securities		
Ordinary shares of listed companies	33,000	33,000
Ordinary shares of unlisted companies	123,217	73,913
	156,217	106,913
Held to maturity securities		
Term Finance Certificates	177,964	286,272
Debentures	11,289	170,090
Participation Term Certificates	55,169	70,728
	244,422	527,090
	400,639	634,003
9.3.3 Particulars of provision for diminution in value of investments by segment		
Fully Paid-up Ordinary Shares		
Listed companies	33,000	33,000
Unlisted companies	123,217	73,913
	156,217	106,913
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates		
Term Finance Certificates	177,964	286,272
Debentures	11,289	170,090
Participation Term Certificates	55,169	70,728
	244,422	527,090
	400,639	634,003
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)	1,134
	(3,335)	(780)
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 Bank'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 Bank 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.		

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

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

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	33,369,281	21,867,208	4,771,131	5,540,208
	233,449,560	191,466,314	14,044,329	15,371,538
Bills discounted and purchased (excluding government treasury bills)				
Payable in Pakistan	5,661,421	2,686,883	876,300	417,400
Payable outside Pakistan	4,080,845	7,067,883	1,334,780	1,171,427
	9,742,266	9,754,766	2,211,080	1,588,827
	243,191,826	201,221,080	16,255,409	16,960,365
Financing in respect of continuous funding system (CFS)	1,462,242	1,094,002	-	-
Advances - gross	244,654,068	202,315,082	16,255,409	16,960,365
Provision against advances				
- Specific	-	-	(12,183,335)	(13,301,990)
- General	(1,416,249)	(1,162,987)	-	-
	(1,416,249)	(1,162,987)	(12,183,335)	(13,301,990)
Advances - net of provision	243,237,819	201,152,095	4,072,074	3,658,375

10.1 Particulars of advances - gross

10.1.1 In local currency	202,945,510	173,843,558	11,467,278	10,248,730
In foreign currencies	41,708,558	28,471,524	4,788,131	6,711,635
	244,654,068	202,315,082	16,255,409	16,960,365

	Performing		Non-performing	
	2006	2005	2006	2005
----- (Rupees in '000) -----				

10.1.2 Short term	153,182,946	145,700,019	-	-
Long term	91,471,122	56,615,063	16,255,409	16,960,365
	244,654,068	202,315,082	16,255,409	16,960,365

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.

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

10.2 Advances include Rs.16,255 million (2005: Rs. 16,960 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	4,543,804	12,451,526	6,757,969	4,543,804	11,301,773	6,757,969	4,543,804	11,301,773
	<u>11,467,278</u>	<u>4,788,131</u>	<u>16,255,409</u>	<u>7,418,663</u>	<u>4,764,672</u>	<u>12,183,335</u>	<u>7,418,663</u>	<u>4,764,672</u>	<u>12,183,335</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 *	257,812	-	257,812	-	-	-	-	-	-
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	6,517,635	14,824,280	6,503,740	6,506,978	13,010,718	6,503,740	6,506,978	13,010,718
	<u>10,248,730</u>	<u>6,711,635</u>	<u>16,960,365</u>	<u>6,711,162</u>	<u>6,590,828</u>	<u>13,301,990</u>	<u>6,711,162</u>	<u>6,590,828</u>	<u>13,301,990</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	13,301,990	1,162,987	14,464,977	15,621,718	260,937	15,882,655
Exchange adjustments	115,481	4,252	119,733	12,331	861	13,192
Charge for the year	1,993,064	633,682	2,626,746	904,940	652,017	1,556,957
Reversals	(653,810)	-	(653,810)	(279,955)	-	(279,955)
	1,339,254	633,682	1,972,936	624,985	652,017	1,277,002
Transfers	315,880	(337,760)	(21,880)	(295,036)	272,958	(22,078)
Amounts written off	(2,889,270)	(46,912)	(2,936,182)	(2,662,008)	(23,786)	(2,685,794)
Closing balance	<u>12,183,335</u>	<u>1,416,249</u>	<u>13,599,584</u>	<u>13,301,990</u>	<u>1,162,987</u>	<u>14,464,977</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. 463.567 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	4,764,672	253,230	5,017,902	6,590,828	463,567	7,054,395
	<u>12,183,335</u>	<u>1,416,249</u>	<u>13,599,584</u>	<u>13,301,990</u>	<u>1,162,987</u>	<u>14,464,977</u>

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

	Note	2006	2005
		(Rupees in '000)	
10.4 Particulars of write-offs			
10.4.1 Against provisions	10.3	2,936,182	2,685,794
Directly charged to profit and loss account		<u>269,349</u>	<u>38,140</u>
		<u><u>3,205,531</u></u>	<u><u>2,723,934</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>1,490,202</u>
		<u><u>3,205,531</u></u>	<u><u>2,723,934</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 Bank's right of recovery against the customers.

	Note	2006	2005
		(Rupees in '000)	
10.6 Particulars of loans and advances to executives, directors, associated companies etc.			
Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		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 bank 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	408,617	386,852
Property and equipment	11.2	4,649,179	3,949,865
Intangible assets	11.3	176,667	112,607
		<u><u>5,234,463</u></u>	<u><u>4,449,324</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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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
11.2 Property and equipment

2006										
COST/ REVALUATION				ACCUMULATED DEPRECIATION						
At January 1, 2006	Additions/ (deletions)	Other adjustments*	At December 31, 2006	At January 1, 2006	Charge for the year/ (depreciation on deletions)	Reversal due to other adjustments*	At December 31, 2006	Net book value at December 31, 2006	Annual rate of depreciation %	
(Rupees in '000)										
Owned										
Freehold land	408,194	17,520	-	425,714	-	-	-	425,714	-	
Leasehold land	2,274,007	75,173	-	2,349,180	192,389	91,788	(11,249)	2,076,252	1 - 3.33	
Buildings on freehold land	64,189	2,748	-	66,937	6,108	3,313	(82)	57,598	5	
Buildings on leasehold land	565,380	219,487	1,243	786,110	96,156	52,264	12,137	625,553	5	
Furniture and fixtures	544,586	118,032 (3,447)	(36,204)	622,967	404,539	35,505 (3,274)	(34,683)	402,087	10	
Electrical, office and computer equipment	1,547,433	624,036 (3,715)	(33,774)	2,133,980	939,230	288,661 (3,707)	(11,175)	1,213,009	20-25	
Vehicles	380,703	279,771 (55,919)	(73,796)	530,759	196,205	79,143 (47,768)	(19,032)	208,548	20	
Assets held under finance lease										
Vehicles	-	-	-	-	-	-	-	-	20	
2006	5,784,492	1,336,767 (63,081)	(142,531)	6,915,647	1,834,627	550,674 (54,749)	(64,084)	2,266,468	4,649,179	
2005										
COST / REVALUATION				ACCUMULATED DEPRECIATION						
At January 1, 2005	Additions/ (deletions)	Other adjustments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (depreciation on deletions)	Reversal due to other adjustments*	At December 31, 2005	Net book value at December 31, 2005	Annual rate of depreciation %	
(Rupees in '000)										
Owned										
Freehold land	408,194	-	-	408,194	-	-	-	408,194	-	
Leasehold land	2,285,608	-	(11,601)	2,274,007	151,210	90,082	(48,903)	192,389	1 - 3.33	
Buildings on freehold land	57,956	6,233	-	64,189	2,898	3,210	-	6,108	5	
Buildings on leasehold land	460,737	104,420	223	565,380	72,042	33,709	(9,595)	96,156	5	
Furniture and fixtures	517,163	62,507 (6,694)	(28,390)	544,586	458,307	27,849 (5,645)	(75,972)	404,539	10	
Electrical, office and computer equipment	1,292,192	322,195 (13,245)	(53,709)	1,547,433	775,490	228,044 (13,120)	(51,184)	939,230	20-25	
Vehicles	326,279	119,358 (31,362)	(33,572)	380,703	202,117	29,647 (23,601)	(11,958)	196,205	20	
Assets held under finance lease										
Vehicles	2,215	-	(2,215)	-	1,326	-	(1,326)	-	20	
2005	5,350,344	614,713 (51,301)	(129,264)	5,784,492	1,663,390	412,541 (42,366)	(198,938)	1,834,627	3,949,865	

* 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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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
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 adjust-ments*	At December 31, 2006	At January 1, 2006	Charge for the year/ (amorti-sation on deletion)	Other adjust-ments	At December 31, 2006		
	(Rupees in '000)									
Software	145,210	116,311	-	261,521	32,603	52,251	-	84,854	176,667	25

	2005									
	Cost				Accumulated Amortization				Net book value at December 31, 2005	Annual rate of amortisation %
	At January 1, 2005	Additions/ (deletions)	Other adjust-ments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (amorti-sation on deletion)	Other adjust-ments	At December 31, 2005		
	(Rupees in '000)									
Software	46,871	98,339	-	145,210	9,222	23,381	-	32,603	112,607	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 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.	19,382
11.6 The gross carrying amount of fully depreciated assets that are still in use	
Furniture and fixtures	11,847
Electrical, office and computer equipment	21,315
Vehicles	37,718
IT Hardware	136,636

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
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	3,447	3,274	173	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	Retirement 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	63,081	54,749	8,332	22,725	

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

	Note	2006	2005
		(Rupees in '000)	
12. DEFERRED TAX ASSET - NET			
Deferred tax asset - net	12.1	<u>906,661</u>	<u>2,273,005</u>
12.1 The balance of deferred taxation comprises:			
Deductible temporary differences on recognized tax losses		-	1,511,888
deficit on revaluation of investments	21.2	18,849	19,685
other deductible differences		<u>1,028,589</u>	<u>805,699</u>
		1,047,438	2,337,272
Taxable temporary differences on surplus on revaluation of fixed assets	21.1	(60,697)	(64,267)
accelerated tax depreciation		(80,080)	-
		(140,777)	(64,267)
		<u>906,661</u>	<u>2,273,005</u>
13. OTHER ASSETS			
Income / mark-up accrued in local currency		7,918,432	7,621,653
Income / mark-up accrued in foreign currency		1,486,652	2,793,121
		9,405,084	10,414,774
Suspense accounts		428,256	449,455
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		1,001,128	687,736
Receivable from staff retirement funds		1,289,559	844,360
Due from other banks against telegraphic and demand drafts		699,967	95,468
Unrealized gain on forward foreign exchange contracts		83,807	120,538
Unrealized gain on securities not yet purchased		54,334	41,726
Others		547,933	792,421
		14,225,627	14,352,070
Provision held against other assets	13.1	(1,794,691)	(2,280,212)
Unrealized mark-up held in suspense account		(2,368,470)	(4,242,088)
Other Assets (Net of Provisions)		<u>10,062,466</u>	<u>7,829,770</u>
13.1 Provision against other assets			
Opening balance		2,280,212	3,052,803
Exchange adjustments		-	230
		2,280,212	3,053,033
Charge for the year		181,249	87,998
Reversals		(7,599)	-
	29	173,650	87,998
Transfers		33,029	49,028
Amounts written off		(692,200)	(909,847)
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 Bank was higher than the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
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		836,655	79,956
		<u>4,560,649</u>	<u>4,159,964</u>
16. BORROWINGS			
In Pakistan		38,002,758	21,676,489
Outside Pakistan		542,162	113,991
		<u>38,544,920</u>	<u>21,790,480</u>
16.1 Particulars of borrowings with respect to currencies			
In local currency		38,002,758	21,676,489
In foreign currencies		542,162	113,991
		<u>38,544,920</u>	<u>21,790,480</u>
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
		<u>32,279,623</u>	<u>16,196,637</u>
Unsecured			
Call borrowings	16.7	4,600,000	4,000,000
Overdrawn nostro accounts		542,162	113,991
Trading liabilities		1,123,135	1,479,852
		6,265,297	5,593,843
		<u>38,544,920</u>	<u>21,790,480</u>

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 bank 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.

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

	2006	2005
	(Rupees in '000)	
17. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	114,927,897	79,841,687
Savings deposits	121,878,162	122,662,484
Sundry deposits	4,942,064	4,148,275
Margin deposits	2,698,999	2,214,877
Current accounts - remunerative	1,908,055	1,886,548
Current accounts - non-remunerative	88,662,089	78,324,614
	<u>335,017,266</u>	<u>289,078,485</u>
Financial Institutions		
Remunerative deposits	35,539	-
Non-remunerative deposits	25,068	147,814
	<u>60,607</u>	<u>147,814</u>
	<u>335,077,873</u>	<u>289,226,299</u>
17.1 Particulars of deposits and other accounts		
In local currency	256,318,445	235,708,482
In foreign currencies	78,759,428	53,517,817
	<u>335,077,873</u>	<u>289,226,299</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.

	Note	2006	2005
		(Rupees in '000)	
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		2,432,045	1,775,186
Mark-up / return / interest payable in foreign currency		247,872	132,657
Accrued expenses	19.1	1,470,098	752,355
Branch adjustment account		(414,734)	38,015
Payable under severance scheme		35,226	37,060
Unearned commission		308,098	21,149
Provision for taxation - net	19.2	1,024,954	202,883
Provision against off - balance sheet obligations	19.3	652,339	612,480
Unrealized loss on derivative financial instruments - net	19.4	152,401	160,574
Deferred liabilities	19.5	2,409,310	2,287,092
Others		957,425	185,295
		<u>9,275,034</u>	<u>6,204,746</u>

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

19.1 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 object of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of UBL. The liability of the Bank in respect of this scheme is fixed and is approved each year by the Board of Directors of the Bank. The scheme will be managed by a separate trust for which the trust deed and rules are currently in the process of finalization.

19.2 The income tax assessments of the bank 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.

	Note	2006	2005
(Rupees in '000)			
19.3 Provision against off - balance sheet obligations			
Opening balance		612,480	370,544
Charge during the year	29	52,663	238,712
Transfers during the year		(12,804)	3,224
		<u>652,339</u>	<u>612,480</u>

19.4 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	6,884,347	151,872	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>15,734,675</u>	<u>152,401</u>	<u>8,468,374</u>	<u>160,574</u>

	2006	2005
(Rupees in '000)		
19.5 Deferred liabilities		
Provision for post retirement medical benefits	1,226,331	1,154,400
Provision for gratuity - overseas	108,721	95,192
Provision for compensated absences	1,074,258	1,037,500
	<u>2,409,310</u>	<u>2,287,092</u>

20. SHARE CAPITAL
20.1 Authorized Capital

	2006	2005		2006	2005
Number of shares					
	<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>

20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs 10 each

	2006	2005		2006	2005
Number of shares					
	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>

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

20.3 Major shareholders (holding more than 5% of total paid-up capital)	2006	
	Number of shares held	Percentage of shareholding
Name of shareholder		
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>

21. SURPLUS ON REVALUATION OF ASSETS	Note	2006	2005
		(Rupees in '000)	
Surplus arising on revaluation of assets - net of tax :			
Fixed assets	21.1	2,484,749	2,579,203
Securities	21.2	174,912	332,793
		<u>2,659,661</u>	<u>2,911,996</u>

21.1 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>

21.2 Surplus on revaluation available-for-sale securities

Market Treasury Bills		(10,437)	(11,405)
Pakistan Investment Bonds		(58,140)	(60,063)
Quoted securities		224,640	384,576
		156,063	313,108
Related deferred tax asset/ (liability)		18,849	19,685
		<u>174,912</u>	<u>332,793</u>

21.3 Deferred tax liability on surplus on revaluation of quoted securities amounting to Rs. 32.589 million has not been recognised by the Bank 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.

22. CONTINGENCIES AND COMMITMENTS	2006	2005
	(Rupees in '000)	
22.1 Direct credit substitutes		
Contingent liabilities in respect of guarantees given favouring		
Government	9,636,483	1,683,912
Banking companies and other financial institutions	2,443,965	769,256
Others	4,079,842	2,325,041
	<u>16,160,290</u>	<u>4,778,209</u>

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

	2006	2005
	(Rupees in '000)	
22.2 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>
22.3 Trade-related contingent liabilities		
Contingent liabilities in respect of letters of credit opened favouring		
Government	50,372,611	1,485,183
Banking companies and other financial institutions	36,266	291,841
Others	42,628,833	70,827,123
	<u>93,037,710</u>	<u>72,604,147</u>
22.4 Other contingencies		
Claims against the Bank not acknowledged as debts	<u>13,732,499</u>	<u>6,054,243</u>
22.5 Commitments in respect of forward lending		
The bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
22.6 Commitments in respect of forward foreign exchange contracts		
Sale	<u>57,465,478</u>	<u>38,202,754</u>
Purchase	<u>55,369,664</u>	<u>34,338,394</u>
22.7 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>6,884,347</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>89,037</u>	<u>217,112</u>

23. DERIVATIVE INSTRUMENTS

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

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

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

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

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 bank
- Review and approve the Derivatives Business Policy
- Review and sign off derivatives' product programs
- Authorize changes in procedures and processes regarding derivatives and structured products

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

Derivative Risk Management

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

Credit Risk

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

Market Risk

Market risk exposure limits have been assigned in accordance with the risk appetite of the bank and 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.

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

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

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

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

23.1 Product Analysis

----- 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	-	-	-	-	-	-
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	20	6,181,818	-	-	3	621,571

NOTES TO THE 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

23.2 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	7	1,595,000	(58,953)	-	(58,953)
3 to 5 Year	10	2,589,347	(73,751)	2,794	(70,957)
5 to 10 Year	-	-	-	-	-
Above 10 Year	-	-	-	-	-
	<u>22</u>	<u>6,884,347</u>	<u>(154,666)</u>	<u>2,794</u>	<u>(151,872)</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>

23.3 In addition the Bank 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 19.4 of these financial statements.

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

	2006	2005
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	25,148,095	14,434,808
- Financial institutions	1,077,714	604,879
	26,225,809	15,039,687
On investments in		
- Available for sale securities	3,542,217	2,554,113
- Held to maturity securities	1,607,616	1,262,153
- Associates and subsidiaries	31,513	28,790
	5,181,346	3,845,056
On deposits with financial institutions	125,280	159,977
On securities purchased under resale agreements	1,442,904	1,103,566
Discount income	16,264	10,574
	<u>32,991,603</u>	<u>20,158,860</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	9,822,044	4,995,752
On securities sold under repurchase agreements	1,020,155	295,952
On other short - term borrowings	751,372	699,716
On long - term borrowings	471,851	24,088
Discount expense	61,387	30,440
	<u>12,126,809</u>	<u>6,045,948</u>
26. 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	388,706	232,681
Unlisted companies	-	-
	388,706	232,681
Other securities	(5,838)	98,743
	<u>280,864</u>	<u>382,419</u>
27. OTHER INCOME		
Charges recovered from customers	1,140,184	1,083,091
Rent on properties	92,975	89,340
Liabilities no longer required written back	-	25,000
Income from non-banking assets and profit from sale of or dealing with such assets	14,393	12,771
Others	49,444	-
	<u>1,296,996</u>	<u>1,210,202</u>

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

	Note	2006	2005
		(Rupees in '000)	
28. ADMINISTRATIVE EXPENSES			
Personnel Cost			
Salaries, allowances etc.		5,187,595	3,798,545
Charge for compensated absences		201,501	129,628
Medical expenses		263,931	233,003
Contribution to defined contribution plan		104,287	89,423
Reversal in respect of defined benefit obligations		(80,616)	(101,279)
		5,676,698	4,149,320
Premises Cost			
Rent, taxes, insurance, electricity etc.		948,757	684,835
Depreciation	11.2	147,365	127,000
Repairs and maintenance		74,594	29,899
		1,170,716	841,734
Other Operating Cost			
Outsourced service charges including sales commission		1,036,243	621,217
Communications		491,627	387,739
Advertisement and publicity		461,223	343,331
Depreciation	11.2	403,309	285,541
Stationery and printing		246,223	194,599
Banking service charge		239,811	150,399
Legal and professional charges		206,847	134,522
Cash transportation charges		138,629	116,980
Travelling		138,067	85,520
Vehicle expenses		89,673	56,305
Repairs and maintenance		85,742	75,958
Training and seminar		82,507	35,509
Office running expenses		64,217	49,036
Entertainment		54,163	46,234
Amortization	11.3	52,251	23,381
Cartage, freight and conveyance		49,643	36,174
Sub-ordinated debt issuance costs		27,804	1,909
Auditors' remuneration	28.2	26,322	25,708
Subscriptions		19,449	16,568
Brokerage expenses		18,551	14,865
Donations	28.1	11,350	63,361
Computer expenses		6,476	13,872
Non-executive directors' fee and allowances		117	40
Finance charges on leased assets		-	3
Miscellaneous expenses		154,617	104,188
		4,104,861	2,882,959
		<u>10,952,275</u>	<u>7,874,013</u>

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

28.1 Donations were not made to any donee in which the bank or a director or his spouse had any interest.

28.2 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	-	-	14,005
Out of pocket expenses	968	889	1,857
	<u>6,328</u>	<u>5,989</u>	<u>26,322</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	-	-	11,389
Out of pocket expenses	1,677	1,676	3,353
	<u>7,188</u>	<u>7,131</u>	<u>25,708</u>

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

29. OTHER PROVISIONS / WRITE OFFS

Provision against other assets - net	13.1	173,650	87,998
Provision against off - balance sheet obligations	19.3	52,663	238,712
Other provisions / write offs		-	8,699
		<u>226,313</u>	<u>335,409</u>

30. OTHER CHARGES

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

	2006			
	Overseas	Azad Kashmir	Domestic	Total
	----- (Rupees in '000) -----			
Current tax	592,045	354,752	2,465,994	3,412,791
Prior year tax	19,058	17,626	8,541	45,225
Deferred taxation	274,554	111,043	979,911	1,365,508
	<u>885,657</u>	<u>483,421</u>	<u>3,454,446</u>	<u>4,823,524</u>

	2005			
	Overseas	Azad Kashmir	Domestic	Total
	----- (Rupees in '000) -----			
Current tax	255,948	223,366	19,434	498,748
Prior year tax	7,589	71,025	-	78,614
Deferred taxation	617,100	188,634	2,149,520	2,955,254
	<u>880,637</u>	<u>483,025</u>	<u>2,168,954</u>	<u>3,532,616</u>

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

	2006	2005
	(Rupees in '000)	
31.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	<u>14,291,756</u>	<u>9,481,648</u>
Tax on income @ 35% (2005: 38%)	5,002,115	3,603,026
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates	(281,864)	(56,248)
Deferred tax liability / (asset) recognized on assessed losses / temporary differences	61,618	(88,900)
Reversal of deferred tax liability on incremental depreciation	(3,570)	(3,876)
Prior year tax charge	45,225	78,614
Tax charge	<u>4,823,524</u>	<u>3,532,616</u>
32. BASIC / DILUTED EARNINGS PER SHARE		
Profit after taxation for the year	<u>9,468,232</u>	<u>5,949,032</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>14.62</u>	<u>9.19</u>
	2006	
	(Rupees in '000)	
33. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	48,939,840	34,074,786
Balances with other banks	14,034,476	12,717,100
	<u>62,974,316</u>	<u>46,791,886</u>
34. STAFF STRENGTH	(Number)	
Permanent	9,734	9,353
Contractual basis	4	1
Bank's own staff strength at the end of the year	<u>9,738</u>	<u>9,354</u>
Outsourced	5,631	4,125
Total number of employees at the end of the year	<u>15,369</u>	<u>13,479</u>
35. DEFINED BENEFIT PLAN		
35.1 General description		

The Bank operates a funded pension scheme established in 1986. The Bank also operates a funded gratuity scheme for new employees and those employees who have not opted for the pension scheme. Further, the Bank also operates a contributory benevolent fund scheme and provides post retirement medical to eligible retired employees. The benevolent fund plan and post retirement medical plan cover all the regular employees of the Bank. 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
35.2 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%

35.3 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

35.4 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
35.5 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>

35.6 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>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
35.7 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>

35.8 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>

35.9 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)

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

	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)	<u>(101,924)</u>	<u>(36,499)</u>	<u>31,482</u>	<u>93,858</u>	<u>75,379</u>
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)	<u>246,543</u>	<u>107,679</u>	<u>(25,135)</u>	<u>24,628</u>	<u>(81,793)</u>
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

35.10 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.

35.11 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%	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>-</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>-</u>

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
35.12 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent scheme. Based on actuarial advice the management 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. OTHER EMPLOYEE BENEFITS
36.1 Defined contribution plan

The Bank operates a contributory provident fund scheme for 6,255 (2005: 5,495) employees who are not in the pension scheme. The employer and employee both contribute 8.33% of the basic salaries to the funded scheme every month.

36.2 Employee compensated absences

The liability of the Bank in respect of long-term employee compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the bank as per the latest actuarial valuation carried out as at December 31, 2006 amounted to Rs. 1,074.258 million (2005: Rs 1,037.5 million) which has been fully provided by the bank. The charge for the year in respect of these absences amounted to Rs.201.501 million (2005: Rs 129.628 million) which is included in note 28 to these financial statements.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Fees	-	-	117	40	-	-
Managerial remuneration	48,385	19,604	-	-	394,833	276,608
Charge for defined benefit plan	455	524	-	-	6,850	9,247
Contribution to defined contribution plan	1,380	903	-	-	20,759	15,782
Rent and house maintenance	1,440	1,970	-	-	116,143	85,224
Utilities	303	346	-	-	25,810	18,939
Medical	21	33	-	-	25,810	18,939
Reimbursement of children's education fees	1,035	43	-	-	-	-
Vehicle running, maintenance and others	447	639	-	-	33,476	12,634
	53,466	24,062	117	40	623,681	437,373
Number of persons	1	1	3	3	269	207

The Chief Executive and certain executives are provided with free use of the bank's maintained cars and household equipments. In addition as mentioned in note 19.1 an amount of Rs 559 million (including an amount of Rs 270 million in respect of year ended December 31, 2005) has also been charged in these financial statements in respect of new employee bonus scheme introduced in the current year. The individual entitlements under the scheme will be determined by a separate fund which the bank intends to form for the management of the scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
38. 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 bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing profile, effective rates and maturity are stated in notes 43.2.3 and 43.3.1 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.

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	----- 2006 -----			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	----- (Rupees in '000) -----			
Total income	14,025,291	3,847,341	10,267,444	11,799,915
Total expenses	11,296,419	3,309,286	8,265,009	2,777,521
Net income / (loss)	2,728,872	538,055	2,002,435	9,022,394
Segment assets (gross of NPL provision)	152,767,328	129,467,258	76,513,514	76,755,442
Segment non performing loans	7,497,348	40,382	2,056,954	6,660,725
Segment provision required (NPL)	6,627,909	34,138	1,600,564	3,920,724
Segment liabilities	133,477,487	124,240,234	74,932,683	60,806,416
Segment return on assets (ROA) (%)	10%	7%	15%	8%
Segment cost of funds (%)	8%	7%	9%	3%

	----- 2005 -----			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	----- (Rupees in '000) -----			
Total income	7,170,360	6,494,464	5,353,980	6,153,089
Total expenses	5,213,383	5,372,866	3,822,147	1,281,847
Net income / (loss)	1,956,977	1,121,598	1,531,833	4,871,242
Segment assets (gross of NPL provision)	126,053,796	106,828,073	64,135,407	63,333,665
Segment non performing loans	7,789,630	41,956	2,208,388	6,920,391
Segment provision required (NPL)	7,249,974	37,342	1,725,969	4,288,705
Segment liabilities	110,696,378	103,035,682	61,220,267	50,428,354
Segment return on assets (ROA) (%)	8%	5%	12%	6%
Segment cost of funds (%)	6%	5%	7%	2%

40. TRUST ACTIVITIES

The Bank 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.

41. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its associated undertakings, subsidiary companies (refer note 9.1), employee benefit plans (refer note 35) 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 financial statements.

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

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 35 to these financial statements for the details of plans). Remuneration to the executives, disclosed in note 37 to these 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 financial statements, are as follows:

	2006				2005			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	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	4,146	-	1,524,441	13,415	39,320	-	796,564
Received during the year	189,638	4,907,637	138,201	149,323,191	121,382	66,747	-	30,792,517
Withdrawn during the year	(191,931)	(4,906,124)	(135,732)	(147,480,585)	(119,255)	(101,921)	-	(30,064,640)
At December 31	13,249	5,659	2,469	3,367,047	15,542	4,146	-	1,524,441
Placements made during the year	-	375,007,932	500,000	-	-	41,752,807	-	-
Placements settled during the year	-	373,529,852	500,000	-	-	41,752,807	-	-
Maximum amount of a placement made during the year	-	2,394,927	-	-	-	2,981,500	-	-
Borrowings made during the year	-	1,272,600	-	-	-	-	-	-
Borrowing settlement during the year	-	1,272,600	-	-	-	-	-	-
Mark-up / return / interest earned	3,651	31,229	2,349	100,545	-	13,806	-	70,002
Mark-up / return / interest expensed	-	1,369	-	115,530	-	27	-	28,975
Reimbursement of liaison office expenses paid to Dubai and Abu Dhabi Group	-	-	-	36,170	-	-	-	29,789
Investment made during year	-	-	590,000	-	-	60,000	250,000	180,000
Payable in respect of acquisition of shares	-	30,000	-	-	-	30,000	-	-
Distribution commission income	-	1,411	-	-	-	2,607	-	-
Distribution commission receivable	-	5,979	-	-	-	1,866	-	-
Other receivables	-	2,815	-	-	-	403	-	100
Dividend income received	-	145,572	-	-	-	55,420	-	-
Other expenses paid	-	-	22,620	-	-	-	-	-
Remuneration paid	189,407	-	-	-	66,750	-	-	-
Post employment benefits	7,506	-	-	-	3,829	-	-	-

42. CAPITAL ADEQUACY
42.1 Capital Management

The Bank'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 Bank operates;
- To safeguard the Bank'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.

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

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 UBL'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). UBL 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 UBL's capital is well over this requirement as shown in note 42.2. UBL 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.

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

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

42.2 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	7,029,233	5,135,587
Unappropriated profits	12,429,853	6,055,813
	25,934,086	16,371,400
Less: Adjustments		
- Investments in equity of subsidiary companies engaged in banking and financial activities	(1,660,848)	(1,660,848)
- Deficit on account of revaluation of investments classified as AFS	(164,607)	(59,732)
	(1,825,455)	(1,720,580)
Total Tier I Capital	24,108,631	14,650,820
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	1,269,640	1,089,874
Revaluation reserves	1,341,909	1,484,425
Total Tier II Capital	9,635,042	6,573,491
Eligible Tier III Capital	-	-
Total regulatory capital (a)	33,743,673	21,224,311

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

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		45,944,979	-	30,503,136	-
Balances with other banks	42.2.1	17,029,337	3,405,867	16,288,750	3,260,171
Lendings to financial institutions		29,572,070	7,203,011	17,867,552	4,628,859
Investments	42.2.2	65,465,380	9,795,125	59,852,302	8,720,805
Advances	42.2.3	245,918,252	204,168,103	200,474,573	160,686,787
Fixed assets		5,234,463	5,234,463	4,449,324	4,449,324
Deferred tax asset - net		906,661	906,661	2,273,005	2,273,005
Other assets	42.2.4	10,477,200	9,885,850	7,829,770	7,092,967
		420,548,342	240,599,080	339,538,412	191,111,918
Off - balance sheet items:					
Loan repayment guarantees	42.2.5	23,780,520	23,610,280	11,473,990	11,469,020
Performance bonds etc	42.2.6	32,614,417	14,497,856	20,713,703	8,079,153
Stand by letters of credit	42.2.7	83,371,268	15,338,387	63,693,491	12,216,631
Outstanding interest rate swaps		6,884,347	250,519	7,826,415	281,421
Outstanding foreign exchange contracts	42.2.8				
Purchase		50,666,568	312,206	29,006,474	178,086
Sales		50,249,750	296,318	35,412,209	260,102
		100,916,318	608,524	64,418,683	438,188
		247,566,870	54,305,566	168,126,282	32,484,413
Credit risk weighted exposures			294,904,646		223,596,331
Market Risk					
General market risk			158,767		147,078
Specific market risk			37,258		39,665
Foreign exchange risk			532,613		275,146
Total capital charge for market risk (b)			728,638		461,889
Market risk weighted exposures (b x 12.5)			9,107,975		5,773,613
Total risk weighted exposures (c)			304,012,621		229,369,944
Capital Adequacy Ratio (a / c x 100)			11.10%		9.25%

42.2.1 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 financial statements.

42.2.2 Investments exclude investment in equity of subsidiary companies amounting to Rs 1,660.848 million (2005: Rs 1,660.848 million) and held-for-trading portfolio amounting to Rs. 134.110 million (2005: Rs 1,513.794 million) . The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market

42.2.3 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.

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

42.2.5 Cash margins amounting to Rs 1,362.709 million (2005: Rs 1,163.393 million) have been deducted from loan repayment guarantees.

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

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

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

42.2.8 Forward foreign exchange contracts with maturity of less than or equal to 14 days amounting to Rs. 11,918.824 million (2005: Rs. 8,122.465 million) have been excluded from the above in accordance with the guidelines for determination of CAR prescribed by SBP.

43. RISK MANAGEMENT

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

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

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

43.1 Credit risk

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

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

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining Credit Approval Authority structure.
- Approving major credits.
- Granting approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

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.

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

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

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

43.1.1 Segmental information
43.1.1.1 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	1.73%	3,385,450	1.01%	3,144,371	1.10%
Agri business	7,094,810	2.72%	16,129,894	4.81%	333,860	0.12%
Textile spinning	15,907,533	6.10%	578,445	0.17%	1,020,821	0.36%
Textile weaving	10,183,090	3.90%	859,102	0.26%	1,427,245	0.50%
Textile composite	14,621,254	5.60%	799,958	0.24%	943,938	0.33%
Textile others	13,042,842	5.00%	1,184,991	0.35%	3,750,257	1.31%
Cement	4,152,150	1.59%	1,307,382	0.39%	1,321,918	0.46%
Sugar	8,724,207	3.34%	1,052,314	0.31%	503,673	0.18%
Shoes and leather garments	2,794,697	1.07%	1,034,507	0.31%	113,422	0.04%
Automobile and transportation equipment	2,682,292	1.03%	3,086,128	0.92%	1,755,318	0.61%
Financial	4,907,293	1.88%	6,169,928	1.84%	145,192,308	50.78%
Insurance	-	0.00%	9,099,143	2.72%	510	0.00%
Electronics and electrical appliances	4,145,485	1.59%	2,331,234	0.70%	1,289,381	0.45%
Production and transmission of energy	13,627,321	5.22%	11,518,679	3.44%	10,220,940	3.58%
Paper and allied	2,232,501	0.86%	1,705,473	0.51%	7,330,271	2.56%
Surgical and metal	430,915	0.17%	409,751	0.12%	443,919	0.16%
Contractors	3,121,222	1.20%	9,130,375	2.72%	2,651,680	0.93%
Wholesale traders	12,066,514	4.62%	20,251,886	6.04%	1,381,908	0.48%
Fertilizer dealers	3,495,328	1.34%	2,742,458	0.82%	856,482	0.30%
Sports goods	600,862	0.23%	189,950	0.06%	25,140	0.01%
Food industries	4,989,463	1.91%	971,182	0.29%	978,629	0.34%
Airlines	1,529,443	0.59%	1,028,614	0.31%	16,864	0.01%
Cables	378,700	0.15%	70,630	0.02%	448,706	0.16%
Construction	7,412,466	2.84%	4,221,903	1.26%	18,288,833	6.40%
Containers and ports	678,956	0.26%	335,051	0.10%	11,109	0.00%
Engineering	3,716,097	1.42%	2,349,450	0.70%	1,316,492	0.46%
Glass and Allied	236,206	0.09%	86,001	0.03%	116,763	0.04%
Hotels	1,329,976	0.51%	407,649	0.12%	2,582	0.00%
Infrastructure	3,731,454	1.43%	4,462,439	1.33%	6,268	0.00%
Media	1,163,559	0.45%	774,282	0.23%	267,043	0.09%
Polyester and fibre	5,632,711	2.16%	23,793	0.01%	177,910	0.06%
Telecommunication	4,860,597	1.86%	2,406,121	0.72%	4,358,017	1.52%
Individuals	53,574,542	20.53%	180,742,330	53.94%	3,154,182	1.10%
Others	43,333,509	16.61%	44,231,380	13.20%	73,049,080	25.55%
	<u>260,909,477</u>	<u>100%</u>	<u>335,077,873</u>	<u>100%</u>	<u>285,899,840</u>	<u>100%</u>

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

	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	2.06%	2,068,372	0.72%	1,858,752	0.99%
Agri business	7,267,123	3.31%	16,148,663	5.58%	1,987,455	1.06%
Textile spinning	20,800,926	9.49%	932,308	0.32%	1,541,572	0.83%
Textile weaving	10,129,530	4.62%	431,727	0.15%	240,840	0.13%
Textile composite	15,323,544	6.99%	793,144	0.27%	1,018,389	0.55%
Textile others	9,058,847	4.13%	1,199,851	0.41%	1,706,837	0.91%
Cement	5,605,446	2.56%	1,388,644	0.48%	727,334	0.39%
Sugar	4,926,779	2.25%	1,003,565	0.35%	19,228	0.01%
Shoes and leather garments	2,959,030	1.35%	1,419,547	0.49%	263,216	0.14%
Automobile and transportation equipment	17,190,233	7.84%	2,387,889	0.83%	2,359,732	1.26%
Financial	5,420,870	2.47%	5,756,213	1.99%	91,674,255	49.06%
Insurance	54,447	0.02%	7,949,837	2.75%	32,989	0.02%
Electronics and electrical appliances	2,712,010	1.24%	1,937,391	0.67%	494,506	0.26%
Production and transmission of energy	2,975,521	1.36%	15,389,571	5.32%	4,786,428	2.56%
Paper and allied	1,232,621	0.56%	880,748	0.30%	316,211	0.17%
Surgical and metal	1,976,967	0.90%	342,919	0.12%	342,823	0.18%
Contractors	1,679,640	0.77%	6,400,646	2.21%	3,175,151	1.70%
Wholesale traders	15,375,249	7.01%	15,744,320	5.44%	3,885,616	2.08%
Fertilizer dealers	906,756	0.41%	4,121,160	1.42%	69,540	0.04%
Sports goods	632,811	0.29%	206,891	0.07%	-	0.00%
Food industries	3,723,894	1.70%	1,657,190	0.57%	392,343	0.21%
Airlines	1,373,927	0.63%	1,072,230	0.37%	385	0.00%
Cables	450,100	0.21%	43,088	0.01%	343,944	0.18%
Construction	13,760,142	6.28%	5,124,897	1.77%	416,141	0.22%
Containers and ports	300,000	0.14%	22,603	0.01%	500	0.00%
Engineering	288,433	0.13%	3,384,066	1.17%	4,954,642	2.65%
Glass and Allied	35,712	0.02%	96,059	0.03%	19,009	0.01%
Hotels	571,470	0.26%	1,071,395	0.37%	2,631,880	1.41%
Infrastructure	-	0.00%	2,175,662	0.75%	38,406	0.02%
Media	458,746	0.21%	658,451	0.23%	90,208	0.05%
Polyester and fibre	-	0.00%	62,952	0.02%	306,152	0.16%
Telecommunication	5,818,502	2.65%	879,751	0.30%	3,642,497	1.95%
Individuals	22,349,780	10.19%	154,957,725	53.58%	8,378,670	4.48%
Others	39,397,194	17.97%	31,516,824	10.90%	49,140,563	26.30%
	<u>219,275,447</u>	<u>100%</u>	<u>289,226,299</u>	<u>100%</u>	<u>186,856,214</u>	<u>100%</u>

43.1.1.2 Segment by Sector

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	27,328,192	10.47%	53,541,219	15.98%	60,804,698	21.27%
Private	233,581,285	89.53%	281,536,654	84.02%	225,095,142	78.73%
	<u>260,909,477</u>	<u>100%</u>	<u>335,077,873</u>	<u>100%</u>	<u>285,899,840</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	24,344,709	11.10%	43,707,375	15.11%	52,493,676	28.09%
Private	194,930,738	88.90%	245,518,924	84.89%	134,362,538	71.91%
	<u>219,275,447</u>	<u>100%</u>	<u>289,226,299</u>	<u>100%</u>	<u>186,856,214</u>	<u>100%</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.1.2 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	3,119,058	2,852,828	3,305,868	3,016,481
	<u>16,255,409</u>	<u>12,183,335</u>	<u>16,960,365</u>	<u>13,301,990</u>

43.1.3 Details of non performing advances and specific provision by sector

Public/Government	60,750	-	75,000	-
Private	16,194,659	12,183,335	16,885,365	13,301,990
	<u>16,255,409</u>	<u>12,183,335</u>	<u>16,960,365</u>	<u>13,301,990</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.1.4 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	----- (Rupees in '000) -----			
Pakistan				
Domestic Operations	11,809,015	347,463,419	28,152,873	224,632,873
Asia Pacific (including South Asia)	38,323	1,674,855	28,987	80,775
	<u>11,847,338</u>	<u>349,138,274</u>	<u>28,181,860</u>	<u>224,713,648</u>
Overseas				
United States of America	176,205	1,302,816	93,905	42,481
Middle East	2,268,213	72,879,117	1,587,622	61,143,711
	<u>2,444,418</u>	<u>74,181,933</u>	<u>1,681,527</u>	<u>61,186,192</u>
	<u>14,291,756</u>	<u>423,320,207</u>	<u>29,863,387</u>	<u>285,899,840</u>
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	----- (Rupees in '000) -----			
Pakistan				
Domestic Operations	7,557,326	290,806,691	13,090,538	173,163,465
Asia Pacific (including South Asia)	35,099	2,475,089	57,067	125,993
	<u>7,592,425</u>	<u>293,281,780</u>	<u>13,147,605</u>	<u>173,289,458</u>
Overseas				
United States of America	167,893	1,669,054	406,213	91,734
Middle East	1,721,330	52,098,117	8,114,452	13,475,022
	<u>1,889,223</u>	<u>53,767,171</u>	<u>8,520,665</u>	<u>13,566,756</u>
	<u>9,481,648</u>	<u>347,048,951</u>	<u>21,668,270</u>	<u>186,856,214</u>

Total assets employed include intra group items of Rs Nil

43.2 Market Risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

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

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

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

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

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

The scope of market risk management is as follows:

- To keep the market risk exposure within the bank's risk appetite as assigned by the Board of Directors (BOD).
- All the market risk policies are approved by the BOD and implementation is done by the senior management through MRC, Treasury and Market Risk division.
- Various limits have been assigned to different businesses on a product-portfolio basis. All the products have been approved through product programs, where all the 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.

43.2.1 Foreign Exchange Risk

	2006			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	335,107,027	303,647,299	2,063,995	33,523,723
US Dollar	18,245,213	18,687,061	(6,185,767)	(6,627,615)
Pound Sterling	2,301,068	2,731,873	2,048,560	1,617,755
Euro	695,082	1,707,797	1,103,693	90,978
Japanese Yen	239,126	4,461	(264,715)	(30,050)
Other Currencies	66,732,691	66,678,329	1,234,234	1,288,596
	<u>423,320,207</u>	<u>393,456,820</u>	<u>-</u>	<u>29,863,387</u>
	2005			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	288,001,610	261,217,900	(4,078,046)	22,705,664
US Dollar	20,374,084	25,637,948	3,299,203	(1,964,661)
Pound Sterling	4,491,815	3,421,554	(645,619)	424,642
Euro	1,901,391	1,390,159	514,839	1,026,071
Japanese Yen	465,140	1,952	488,031	951,219
Other Currencies	31,814,911	33,711,168	421,592	(1,474,665)
	<u>347,048,951</u>	<u>325,380,681</u>	<u>-</u>	<u>21,668,270</u>

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

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

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

43.2.2 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The Bank'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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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.2.3 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%	48,939,840	20,522,278	-	-	-	-	-	-	-	-	28,417,562
Balances with other banks	7.0%	14,034,476	13,132,759	-	-	-	-	-	-	-	-	901,717
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%	67,260,338	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	6,664,858
Advances												
Performing	11.0%	243,237,819	51,991,738	103,852,271	37,108,564	37,108,563	7,421,712	4,947,808	807,163	-	-	-
Non Performing	0%	4,072,074	-	-	-	-	-	-	-	-	-	4,072,074
Other assets	0%	7,127,308	-	-	-	-	-	-	-	-	-	7,127,308
		414,243,925	107,854,600	108,203,758	47,405,828	65,293,432	16,205,990	10,184,052	5,432,078	6,478,904	1,764	47,183,519
Liabilities												
Bills payable	0%	4,560,649	-	-	-	-	-	-	-	-	-	4,560,649
Borrowings	3.0%-14. %	38,544,920	20,688,136	10,835,255	1,451,561	2,903,122	2,666,846	-	-	-	-	-
Deposits and other accounts	0.2%-10.7%	335,077,873	67,849,675	100,364,959	21,887,391	31,662,983	5,834,948	3,397,385	4,123,586	3,628,725	-	96,328,221
Subordinated loans	10.20%	5,998,344	-	424	2,000,000	424	848	848	666,315	3,329,485	-	-
Other liabilities	0%	6,594,551	-	-	-	-	-	-	-	-	-	6,594,551
		390,776,337	88,537,811	111,200,638	25,338,952	34,566,529	8,502,642	3,398,233	4,789,901	6,958,210	-	107,483,421
On-balance sheet gap		23,467,588	19,316,789	(2,996,880)	22,066,876	30,726,903	7,703,348	6,785,819	642,177	(479,306)	1,764	(60,299,902)
Non financial net assets		6,395,799										
Total net assets		29,863,387										
Off-balance sheet financial instruments												
Foreign currency forward purchases		55,369,664	23,960,216	21,643,738	8,973,761	791,949	-	-	-	-	-	-
Foreign currency forward sales		(57,465,479)	(29,273,594)	(17,368,333)	(8,960,479)	(1,863,073)	-	-	-	-	-	-
Derivatives - Long position		6,181,818	-	800,000	300,000	500,000	1,100,000	1,595,000	1,886,818	-	-	-
Derivatives - Short position		(6,181,818)	(1,930,000)	(2,778,333)	(673,485)	-	(800,000)	-	-	-	-	-
Forward Purchase of Govt. Securities		5,634,902	5,586,200	-	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		(362,048)	(4,490,578)	2,297,072	(311,501)	(571,124)	300,000	1,495,715	1,886,818	(968,450)	-	-
Total Yield/Interest Risk Sensitivity Gap			14,826,211	(699,808)	21,755,375	30,155,779	8,003,348	8,281,534	2,528,995	(1,447,756)	1,764	(60,299,902)
Cumulative Yield/Interest Risk Sensitivity Gap			14,826,211	14,126,403	35,881,778	66,037,557	74,040,905	82,322,439	84,851,434	83,403,678	83,405,442	23,105,540

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

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



NOTES TO THE 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%	34,062,679	8,658,736	-	-	-	-	-	-	-	-	25,403,943
Balances with other banks	3.80%	12,729,207	7,866,999	-	-	-	-	-	-	-	-	4,862,208
Lendings to financial institutions	6.50%	17,867,553	7,458,465	4,477,823	982,939	347,517	4,600,809	-	-	-	-	-
Investments	5.80%	63,026,944	29,984	3,400,374	571,259	27,677,624	6,703,727	5,818,347	7,144,839	7,531,208	2,000	4,147,582
Advances												
Performing	8.50%	201,152,095	42,241,940	84,483,880	31,672,814	28,672,814	6,034,563	4,023,042	4,023,042	-	-	-
Non performing	-	3,658,375	-	-	-	-	-	-	-	-	-	3,658,375
Other assets	-	6,502,315	-	-	-	-	-	-	-	-	-	6,502,315
		<u>338,999,168</u>	<u>66,256,124</u>	<u>92,362,077</u>	<u>33,227,012</u>	<u>56,697,955</u>	<u>17,339,099</u>	<u>9,841,389</u>	<u>11,167,881</u>	<u>7,531,208</u>	<u>2,000</u>	<u>44,574,423</u>
Liabilities												
Bills payable	-	4,159,967	-	-	-	-	-	-	-	-	-	4,159,967
Borrowings	8.30%	21,790,480	13,122,108	6,227,906	2,440,466	-	-	-	-	-	-	-
Deposits and other accounts	2.00%	289,226,298	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	-	-
Other liabilities	-	2,713,786	-	-	-	-	-	-	-	-	-	2,713,786
		<u>321,889,723</u>	<u>49,630,858</u>	<u>79,245,819</u>	<u>28,824,007</u>	<u>32,517,079</u>	<u>15,656,128</u>	<u>5,718,709</u>	<u>4,722,021</u>	<u>11,979,221</u>	<u>-</u>	<u>93,595,881</u>
On-balance sheet gap		<u>17,109,445</u>	<u>16,625,266</u>	<u>13,116,258</u>	<u>4,403,005</u>	<u>24,180,876</u>	<u>1,682,971</u>	<u>4,122,680</u>	<u>6,445,860</u>	<u>(4,448,013)</u>	<u>2,000</u>	<u>(49,021,458)</u>
Non financial net assets		<u>4,558,825</u>										
Total net assets		<u>21,668,270</u>										
Off-balance sheet financial instruments												
Foreign currency forward purchases		34,338,395	18,977,689	10,520,397	3,043,521	1,796,788	-	-	-	-	-	-
Foreign currency forward sales		(38,202,754)	(17,364,715)	(11,760,808)	(6,068,509)	(3,008,722)	-	-	-	-	-	-
Interest rate derivatives - long position		8,477,530	350,000	350,000	-	-	1,000,000	2,500,000	3,927,530	350,000	-	-
Interest rate derivatives - short position		(8,486,415)	(3,019,319)	(3,498,207)	(1,968,889)	-	-	-	-	-	-	-
Forward purchase of Govt. securities		-	-	-	-	-	-	-	-	-	-	-
Forward sale of Govt. securities		-	-	-	-	-	-	-	-	-	-	-
Sale of Govt. securities not yet purchased		(1,544,194)	-	-	-	-	-	-	(328,581)	(1,215,613)	-	-
Off-balance sheet gap		<u>(5,417,438)</u>	<u>(1,056,345)</u>	<u>(4,388,618)</u>	<u>(4,993,877)</u>	<u>(1,211,934)</u>	<u>1,000,000</u>	<u>2,500,000</u>	<u>3,598,949</u>	<u>(865,613)</u>	<u>-</u>	<u>-</u>
Total yield / interest risk sensitivity gap			<u>15,568,921</u>	<u>8,727,640</u>	<u>(590,872)</u>	<u>22,968,942</u>	<u>2,682,971</u>	<u>6,622,680</u>	<u>10,044,809</u>	<u>(5,313,626)</u>	<u>2,000</u>	<u>(49,021,458)</u>
Cumulative yield / interest risk sensitivity gap			<u>15,568,921</u>	<u>24,296,561</u>	<u>23,705,689</u>	<u>46,674,631</u>	<u>49,357,602</u>	<u>55,980,282</u>	<u>66,025,091</u>	<u>60,711,465</u>	<u>60,713,465</u>	<u>11,692,007</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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.3 Liquidity Risk

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

43.3.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

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 43.3.2 that includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits reflects a more meaningful analysis the liquidity risk of the bank.

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	48,939,840	46,098,084	-	-	-	-	-	-	2,841,756	
Balances with other banks	14,034,476	13,721,065	-	-	-	-	-	-	313,411	
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	67,260,338	1,801,891	1,202,305	11,638,523	27,454,233	7,766,592	3,443,387	5,022,524	6,671,288	
Advances	247,309,893	40,773,508	72,535,948	20,503,879	19,369,611	32,283,235	13,142,950	21,147,312	19,749,636	
Fixed assets	5,234,463	50,492	100,988	151,481	302,963	605,925	605,925	925,041	780,180	
Other assets	10,062,466	29,390	7,695,620	1,266,535	1,222	-	-	-	1,069,699	
Deferred tax assets	906,661	5,749	11,497	18,817	32,923	50,137	50,137	272,474	275,370	
	423,320,207	123,027,120	85,035,493	34,221,030	48,685,411	42,182,773	19,035,255	27,467,351	28,546,173	
									15,119,601	
Liabilities										
Bills payable	4,560,649	4,560,649	-	-	-	-	-	-	-	
Borrowings	38,544,920	20,688,136	10,835,255	1,451,561	2,903,122	2,666,846	-	-	-	
Deposits and other accounts	335,077,873	199,421,373	37,782,002	19,313,374	18,031,470	40,592	60	17,826,001	42,663,001	
Subordinated loans	5,998,344	-	824	-	824	1,648	1,648	667,915	5,325,485	
Other liabilities	9,275,034	2,936	6,184,029	8,807	17,613	-	-	652,339	2,409,310	
	393,456,820	224,673,094	54,802,110	20,773,742	20,953,029	2,709,086	1,708	19,146,255	50,397,796	
									-	
Net assets	29,863,387	(101,645,974)	30,233,383	13,447,288	27,732,382	39,473,687	19,033,547	8,321,096	(21,851,623)	15,119,601

Represented by:

Share capital	6,475,000
Reserves	8,298,873
Unappropriated profit	12,429,853
Surplus on revaluation of assets	2,659,661
	<u>29,863,387</u>

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NOTES TO THE 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	34,062,679	34,062,679	-	-	-	-	-	-	-	
Balances with other banks	12,729,207	12,412,496	-	-	-	-	-	-	316,711	
Lendings to financial institutions	17,867,552	5,553,996	3,232,292	310,152	420,304	1,450,202	1,150,202	2,650,404	3,100,000	
Investments	63,026,944	3,006,176	1,064,299	2,088,214	28,114,129	3,002,855	8,099,222	9,105,705	5,624,830	
Advances	204,810,470	29,719,776	59,439,553	13,637,575	27,275,151	12,169,340	12,169,342	24,338,684	22,402,674	
Other assets	7,829,770	2,380,678	4,761,356					687,736		
Fixed assets	4,449,324	48,971	97,943	108,981	217,961	398,678	398,000	796,678	2,382,112	
Deferred tax assets	2,273,005	131,354	262,709	394,064	788,129	48,403	48,403	96,805	503,138	
	347,048,951	87,316,126	68,858,152	16,538,986	56,815,674	17,069,478	21,865,169	36,988,276	34,700,490	
Liabilities										
Bills payable	4,159,964	4,159,964	-	-	-	-	-	-	-	
Borrowings	21,790,480	6,450,005	12,900,009	813,489	1,626,977	-	-	-	-	
Deposits and other accounts	289,226,299	84,175,411	168,350,825	5,320,793	10,641,585	2,741,308	2,740,000	5,481,308	4,344,475	
Subordinated loan	3,999,192	-	414	-	414	828	828	1,656	3,995,052	
Other liabilities	6,204,746	1,028,925	2,057,850	105,689	211,376	115,360	115,000	230,361	1,040,083	
	325,380,681	95,814,305	183,309,098	6,239,971	12,480,352	2,857,496	2,855,828	5,713,325	9,379,610	
Net assets	21,668,270	(8,498,179)	(114,450,946)	10,299,015	44,335,322	14,211,982	19,009,341	31,274,951	25,320,880	165,904

Represented by:

Share capital	5,180,000
Reserves	6,225,461
Unappropriated profit	7,350,813
Surplus on revaluation of assets	2,911,996
	<u>21,668,270</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.3.2 Maturities of Assets and Liabilities - Based on working prepared by the Assets and Liabilities Management Committee (ALCO) of the Bank

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

----- 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	48,939,840	14,584,511	16,019,732	3,036,627	2,623,123	3,437,078	2,068,770	2,078,861	5,088,149	2,989
Balances with other banks	14,034,476	7,777,370	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	67,260,338	6,742,446	2,195,081	5,173,673	26,228,752	11,984,863	3,674,593	1,300,724	9,958,206	2,000
Advances - Performing	243,237,819	40,272,014	72,485,704	20,555,252	19,369,472	19,765,777	19,308,028	27,312,919	8,082,791	16,085,862
- Non Perform	4,072,074	-	-	-	-	-	-	-	4,072,074	-
Other assets	10,062,466	699,967	739,349	7,036,614	-	-	-	-	1,007,396	579,140
Fixed assets	5,234,463	-	-	-	-	-	-	-	-	5,234,463
Deferred tax assets	906,661	-	-	-	407,998	181,332	163,199	154,132	-	-
	<u>423,320,207</u>	<u>94,565,279.00</u>	<u>96,432,402</u>	<u>37,393,442</u>	<u>50,325,711</u>	<u>37,141,177</u>	<u>25,827,490</u>	<u>31,521,636</u>	<u>28,208,616</u>	<u>21,904,454</u>
Liabilities										
Bills payable	4,560,649	3,629,856	930,793	-	-	-	-	-	-	-
financial institutions	38,544,920	20,460,429	13,144,791	4,939,700	-	-	-	-	-	-
Deposits and other accounts	335,077,873	73,567,106	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	-
Other liabilities	9,275,034	-	4,813,757	16,082	-	-	-	-	4,445,195	-
	<u>393,456,820</u>	<u>97,657,391.00</u>	<u>71,612,219</u>	<u>40,604,176</u>	<u>33,733,927</u>	<u>37,886,841</u>	<u>1,165,801</u>	<u>3,080,815</u>	<u>107,704,097</u>	<u>11,553</u>
Net assets	<u>29,863,387</u>	<u>(3,092,112)</u>	<u>24,820,183</u>	<u>(3,210,734)</u>	<u>16,591,784</u>	<u>(745,664)</u>	<u>24,661,689</u>	<u>28,440,821</u>	<u>(79,495,481)</u>	<u>21,892,901</u>
Represented by:										
Share capital	6,475,000									
Reserves	8,298,873									
Unappropriated profit	12,429,853									
Surplus on revaluation of assets	2,659,661									
	<u>29,863,387</u>									

NOTES TO THE 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	34,062,679	10,218,804	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	12,729,207	7,001,064	5,411,432	-	-	-	-	-	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	63,026,944	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										
Performing	201,152,095	-	89,159,329	-	40,912,726	-	-	48,677,366	22,402,674	-
Non Performing	3,658,375	-	-	-	-	-	-	-	3,658,375	-
Other assets	7,829,770	-	2,232,779	-	4,567,437	-	-	-	645,924	383,630
Fixed assets	4,449,324	-	-	-	-	-	-	-	-	4,449,324
Deferred tax assets	2,273,005	-	-	-	1,022,852	454,601	409,141	386,411	-	-
	347,048,951	30,198,369	110,968,152	7,621,944	72,377,704	14,038,612	5,459,022	56,059,958	45,488,830	4,836,360

Liabilities

Bills payable	4,159,964	3,327,971	831,993	-	-	-	-	-	-	-
Borrowings	21,790,480	11,984,764	7,365,250	2,440,466	-	-	-	-	-	-
Deposits and other accounts	289,226,299	63,629,786	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	-
Other liabilities	6,204,746	-	2,333,421	121,730	81,154	-	-	-	3,668,441	-
	325,380,681	78,942,521	38,873,052	34,377,089	28,703,743	17,353,992	14,461,729	13,676,157	96,100,135	2,892,263
Net assets	21,668,270	(48,744,152)	72,095,100	(26,755,145)	43,673,961	(3,315,380)	(9,002,707)	42,383,801	(50,611,305)	1,944,097

Represented by:

Share capital	5,180,000
Reserves	6,225,461
Unappropriated profit	7,350,813
Surplus on revaluation of assets	2,911,996
	<u>21,668,270</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
43.4 Operational Risk

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

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

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

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

A consolidated Business Continuity Plan is being augmented for UBL which encompasses roles and responsibilities, recovery strategy, IT and structural 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 Bank. A methodology for Risk and Control Self Assessment is ready to be implemented at all core units of UBL.

44. ISLAMIC BANKING BUSINESS

During the year the bank 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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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006
45. 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 financial statements for the year ending December 31, 2007.

46. DATE OF AUTHORIZATION

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

47. GENERAL
47.1 Revised forms of annual financial statements

These 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.

47.2 Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the bank'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 bank 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 the 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 bank's operations are not detailed in these financial statements.

47.3 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 Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosure in certain cases:

IAS 1 - Presentation of financial statements - amendments relating 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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NOTES TO THE 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

47.4 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these 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