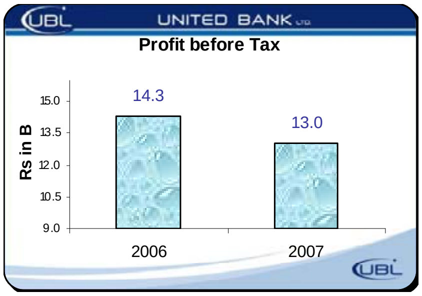
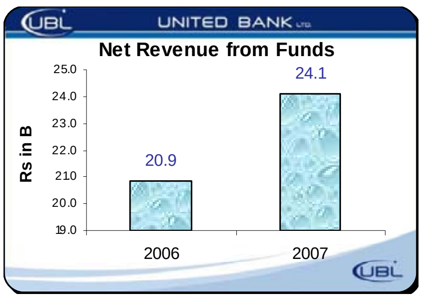
DIRECTORS' REPORT TO THE MEMBERS

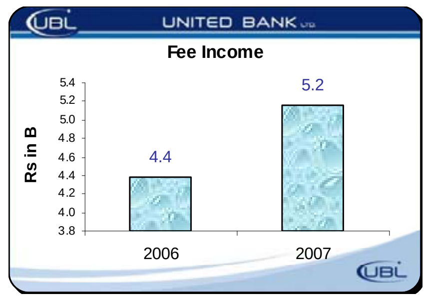
On behalf of the Board of Directors, I am pleased to present to you the 49th Annual Report of United Bank Limited for the year ended December 31, 2007.

FINANCIAL HIGHLIGHTS



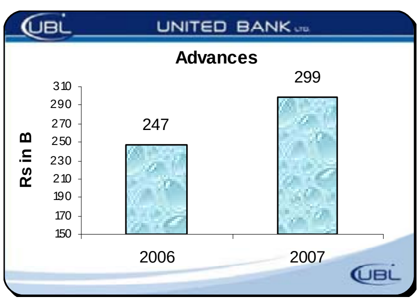
The Bank achieved a profit before tax of Rs. 13 billion in 2007 which is 9% lower than that of last year. The profitability in 2007 was impacted by a change in the Prudential Regulations according to which the benefit of collateral was withdrawn while calculating the provisioning requirements against non-performing loans. This resulted in an incremental provisioning charge of Rs. 3.8 billion on our books this year. Had this charge not been taken, the increase in profit before tax would have been **18% higher** from the same period last year.



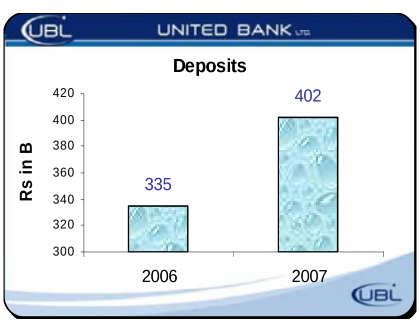


Net interest income increased by 16% to Rs 24.1 billion due to a 21% increase in volume of advances coupled with strong yields on the portfolio. Non fund income increased significantly by 29% to Rs. 9 billion with solid growth in fee income which grew by 16% to Rs 5.2 billion due to increase in trade business, higher corporate finance fees and increased commissions on the consumer loan portfolio. Capital gains on the portfolio which doubled, primarily on mutual fund units, and higher exchange income (up 25%) also contributed to the increase in the non fund income.

Administrative expenses grew by 23% to Rs 13.4 billion, mainly due to continued investments in upgrading and expanding our branch network both domestically and overseas, higher personnel cost on account of the bank's Early Retirement Scheme and ongoing costs in the consumer business.



Our advance portfolio significantly outperformed the market with a growth of 21% to Rs 299 billion which resulted in our domestic share of advances increasing to 9.4% by the end of 2007 (2006: 9.2%). Our asset quality was impacted by an increase in non performing loans in the consumer and commercial businesses which coupled with subjective classifications by State Bank of Pakistan resulted in our Gross NPL to gross loans ratio increasing from 6.2% to 6.9% this year. Consequently our provisioning coverage also fell from 84% to 79%.



Our deposit base grew by Rs. 67 billion to Rs 402 billion, spurred by a 22% increase in domestic deposits. Profit after tax decreased by 11% to Rs 8.4 billion with a 23% return on average equity at an EPS of Rs 10.38. Had the incremental provisioning charge not been taken the return on average equity would have been 30% at an EPS of 13.4.

The Board of Directors is pleased to recommend a cash dividend of Rs 3.00 per share and bonus issue of 25% for the year ended December 31, 2007.

Despite the tough macro-economic backdrop and the stringent regulations introduced by State Bank this year, our bank delivered strong results owing to the impressive growth in our non fund income and international operations. However, we remain fully cognizant of the increasingly competitive environment we operate in and are striving to achieve higher standards of customer service through our business restructuring and new technology initiatives.

KEY HIGHLIGHTS FOR THE YEAR

Commercial Banking

The commercial banking business saw significant growth this year with domestic deposits increasing by Rs. 59 billion (+22%) to Rs. 331 billion by the end of the Dec 07. More importantly nearly half of the increase came from low cost deposits which is a testament to the efforts put in by our field staff. Several incentive programs and product innovations were introduced in this regard which included a higher yielding saving product with the advantages of a checking account facility.

Keeping in line with our objective of offering increased convenience and superior standards of customer service, the commercial bank launched its new branch branding program this year. The concept is to redesign the image of our branches by highlighting our core banking services and re-positioning our market driven products. We completed 152 branches under this program with an additional 125 to be redesigned in 2008.

We also embarked upon our expansion plans for the bank and opened 34 new branches this year bringing our total network of domestic branches up to 1,078 with plans to open an additional 40 branches in 2008. We continued to build on our ATM network and became the second largest network provider in the country with 326 ATMS installed in 83 cities of Pakistan. The launch of the Utility Bills Payment System facility offered through our ATM network nationwide was another initiative aimed at increasing convenience for our customers.

UBL became the first bank to introduce *UBL Orion* the first complete mobile payment solution in Pakistan. The product allows UBL account holders to use their GSM mobile phones for purchase of pre-paid mobile cards, payment of utility bills and for transfer of funds to other UBL Orion members.

Corporate Banking

Despite weak domestic demand, our Corporate Bank showed solid growth with net advances increasing by Rs. 27 billion (+26%) to Rs. 131 billion by the end of Dec 07. Since our credit growth outperformed the market we were able to increase our market share from 9.2% to 9.4% at year end. Our bank emerged as a major lender to the Power & Energy sectors by financing four of the largest IPP projects in 2007. We also strengthened our exposure to the Telecom and Defence sectors which resulted in substantially enhancing our trade business turnover.

In order to build on our reputation of being a proactive and customer service driven bank, we established two additional corporate banking centers this year. Our five corporate centers have allowed us to strengthen our customer relationships by offering our complete range of financing solutions to our corporate clients in all the main business centers of the country.

We continued to focus on large ticket items in both the public and private sector and strove to expand our customer base by developing new relationships as well as exploring growth opportunities within the existing portfolio. Greater emphasis was placed upon increasing trade volumes which in turn has fuelled our non fund income growth.

Consumer Business

Our consumer business at Rs. 47 billion constitutes 16% of our total loan portfolio. With our six products, we remain the market leader in this segment with a 13% overall market share. We have continued to develop significant alliances with auto manufacturers, build our loyalty programs and introduce product innovations across the product line. The launch of the Galleria Picture Card, which is the first chip enabled picture credit card in Asia Pacific region, has ensured that UBL Credit Card maintains sustainable profitable growth.

Our focus this year has been on strengthening our risk management, control and collection systems in response to increased competition and a trying macro economic environment. New policy initiatives have been implemented while assessing debt burden and repayment abilities of customers together with more stringent credit verification processes. Greater resource deployment in the collections area has been coupled with re-structuring the function across collection and recovery lines.

While we remain the undisputed market leader in the consumer segment with our presence in over 110 cities, we understand that the changing operating environment will require constantly reevaluation of strategy so as to enable us to deliver profitable results.

Business Process Restructuring:

We have launched our business process restructuring initiative which is designed to review the business processes and functional alignments within the bank. The first phase of implementation has been completed with the adoption of the "Retail Banking" concept which has replaced the traditional matrix structure by integrating the commercial and consumer banking functions.

The Retail Banking concept is based on customer service, sales and product management and a strong central processing unit. The aim is to reduce administrative processes at the branches thus making resources available for sales and customer service functions. This will enable us to apply a more concerted effort towards acquiring a bigger share of both the asset and liability markets.

Over 170 branches have already completed the first phase of implementation with the establishment of universal teller and customer service functions. By end of April 2008, 400 branches will be operating under this new structure.

International Business

International operations continued to be a key growth and revenue driver for the bank in 2007. Profit after tax from the business grew solidly by 31% to Rs. 2.1billion with advances showing an impressive growth of 67% to Rs. 64 billion and deposits growing by 12% to Rs. 71 billion.

While our international portfolio is predominantly commercial banking business including real estate development and civil construction contracting, we have also made significant forays in the consumer financing sector. New initiatives in the Middle East included launch of mortgage loans in the UAE and Bahrain, and the roll out of auto loans in Qatar this year. We also continued to expand our branch network with 2 new branches, one each in Qatar and Yemen, thus bringing our total overseas network to 17 branches.

Keeping in line with our strategy to expand the overseas franchise, we were successful in obtaining a license to establish a representative office in Beijing by the Chinese Banking Regulation Commission. We were the only private sector bank selected by SBP to apply for a branch license in India.

With the business contributing 25% to overall bank profits and 20% to our total assets, it has become a significant area of revenue and risk diversification for our bank thus making us less vulnerable to domestic downturns. We will continue to explore opportunities to grow our international operations through acquisitions and strategic investments.

STATEMENT UNDER SECTION XIX OF THE CODE OF CORPORATE OVERNANCE

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met. The Group has adopted good Corporate Governance practices and the Directors are pleased to report that:

- The financial statements present fairly the state of affairs of the Group, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Group have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Banks in Pakistan have been followed in the preparation of the Accounts of financial statements without any departure there-from.
- The system of internal control in the Group is sound in design, and effectively implemented and monitored.
- There is no reason whatsoever to doubt your Group's ability to continue as a going concern.
- There has been no material departure from the best practice of Corporate Governance, in accordance with the relevant regulations.
- Your Board has appointed the following three Committees with defined terms of references.
  Board Risk Management Committee
  Board Human Resources & Compensation Committee
  Board Audit Committee
- A summary of key operating and financial data of the last ten years is presented in the Annual Report under the section "Growth at a glance".
- The Group operates five post retirement schemes, Pension, Gratuity, Benevolent, Provident Fund and Post Retirement Medical. The details and asset values are given in notes 35 of the audited financial statements of 2007. However only Gratuity and Provident Fund Schemes are available to staff who joined the bank post privatization.

RISK MANAGEMENT FRAMEWORK

Risk management in the modern context is a dynamic process and we are constantly endeavoring to improve our systems to implement superior risk management practices.

Our initiatives of the previous years have borne fruit during 2007 with the launch of a more comprehensive Credit Policy. Inter alia this covers more refined versions of Obligor Risk Rating (ORR), Security Indicators, Standard Credit Application (SCA) and Derivative risk. Most of the changes incorporated in the policy have been implemented while we are fine tuning the remaining processes. Being more receptive to the needs of business groups, this document will help in quicker turn-around-time by giving limited credit authority to line managers and higher authority to Senior Risk Managers.

The Credit Risk Environmental and Monitoring System (CREAMS) is at the final stages of implementation. It has the capability of providing the comprehensive customer-related information from credit initiation to post disbursement monitoring. This will also help in our meeting the requirement of Basel-II.

Scope and coverage of Market Risk Policy has been enhanced during the year to make it more rigorous and responsive to the ever evolving business needs. The bank has a well-defined and vibrant limit structure in place, enabling it to cap its exposures against any adverse market movement. In order to deal with extreme events, particularly those at the tail of statistical distribution, bank has been regularly conducting stress testing. The information system not only raises early warning signals but also guides us to realign the portfolio according to the banks risk appetite and ever changing dynamics of the market.

We also rolled out a Liquidity Risk Policy which adopts an integrated approach to measuring and forecasting cash flow gaps, diversifying funding sources and ascertaining quick access to liquid assets. This should enhance our capability to predict our liquidity position on a more scientific basis.

Significant progress has been made towards the implementation of Basel II framework. After successful completion of parallel run for Credit and Market risks under the Standardized approach, the Bank will progress towards conducting parallel run under the Foundation Internal Ratings-Based approach for Credit Risk and Internal Models approach for Market Risk. Detailed data and infrastructure gap assessment is in-progress for the implementation of a Basel II software application covering credit, market and operational risks. We are also in the process of finalizing Operational risk function for all lines of business across domestic and international operations.

Given the monetary tightening, the consumer portfolios throughout the industry witnessed deterioration. This necessitated close monitoring of portfolios and enforcing appropriate controls to manage delinquencies and mitigate the impact of structured fraud, which has been making subtle advances in the industry.

With the rapid expansion in our international portfolio, we have now established comprehensive risk architecture across all sections i.e. Credit, Market & Operational risk. We intend to build upon this foundation to better manager our projected overseas exposure. The international risk setup is centralized in Dubai for all overseas lending branches.

We strongly feel that our rigorous & robust policies related to Credit, Market & Liquidity risk have ensured a sound credit portfolio as well as helping us in complying with the SBP regulations. With an even more focused approach and the availability of the best possible technological systems, we are confident to stay well ahead of our competitors in the Risk management function.

VALUE OF INVESTMENTS IN EMPLOYEE RETIREMENT BENEFIT FUNDS

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank based on latest audited financials statements as at December 31, 2006:

	Amounts in '000
Employees' Provident Fund	3,428,903
Employees' Gratuity Fund	341,372
Staff Pension Fund	6,334,996
Staff General Provident Fund	2,335,210
Officers / Non-Officers Benevolent Fund	913,813

MEETINGS OF THE BOARD

During the year under report, the Board of Directors met seven times. The number of meetings attended by each director during the year is shown below:

Name	**Attendance**
His Highness Shaikh Nahayan Mabarak Al Nahayan, Chairman	03
Sir Mohammed Anwar Pervez, OBE, HPk, Deputy Chairman	06
Mr. Omar Z. Al Askari, Director	07
Mr. Zameer Mohammed Choudrey, Director	07
Dr. Ashfaque Hasan Khan, Director	04
Mr. Ahmad Waqar, Director (till September 2007)	03
Mr. Abdul Rauf Malik, Director (till May 2007)	03
Mr. Muhammad Javed Malik, Director (appointed May 2007)	03
Mr. Atif R. Bokhari, President and Chief Executive Officer	07

PATTERN OF SHAREHOLDING

In June 2007, the Government of Pakistan (GoP) which was holding 44.73% shares of the Bank disinvested 25% of the total shareholding of the Bank in the form of Global Depository Receipts (GDRs). Due to this disinvestment, the combined shareholding of GoP now stands at 19.76%.

It is to be noted that the holders of GDRs have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Hence the percentage holding of ordinary shares will differ from the percentage holding of voting shares (shown below).

The pattern of shareholding as required u/s 236 of the Companies Ordinance, 1984 and Article (xix) of the Code of Corporate Governance is given below:

Shareholders	**Number of shares**	**% of ordinary shares**	**% of voting shares**
Bestway Group	206,390,624	25.50%	31.69%
Abu Dhabi Group	206,390,622	25.50%	31.69%
State Bank of Pakistan	117,261,753	14.49%	18.00%
Privatization Commission of Pakistan	40,469,883	5.00%	6.21%
Government of Pakistan	2,217,885	0.27%	0.34%
General Public & others	78,449,124	9.69%	12.04%
National Bank of Pakistan, Trustee Department	110,471	0.01%	0.02%
State Life Insurance Corporation of Pakistan	83,221	0.01%	0.01%
Securities & Exchange Commission of Pakistan	1	0.00%	0.00%
TOTAL VOTING SHARES	**651,373,584**	**80.48%**	**100.00%**
* International GDR shares (non voting shares)	158,001,416	19.52%	
TOTAL SHARES OUTSTANDING	**809,375,000**	**100.00%**	

* Sponsor Groups have also acquired 10.30% additional shares in the form of GDRs

The aggregate shares held by the following are:

a) Associated Companies, undertaking & related parties

		No. of shares
1)	Bestway (Holdings) Limited (UK)	103,191,406
2)	Bestway Cement Limited	61,917,187
3)	Al Jaber Transport & General Contracting	39,664,951

b) **NBP Trustee Department** 110,471

c) **State Life Insurance Corporation** 83,221

d)	**Directors**	Self	Spouse & Children	**Total**
1)	H.H. Shaikh Nahayan Mabark Al Nahayan	52,193,127	-	52,193,127
2)	Sir Mohammed Anwar Pervez,OBE,HPk	41,278,125	-	41,278,125
3)	Omar Z. Al Askari	9,916,237	-	9,916,237
4)	Zameer Mohammed Choudrey	3,906	-	3,906
5)	Atif R. Bokhari	34,600	-	34,600
6)	Other Executives	113,052	2,224	115,276

All trading in the share carried out by the Directors, CEO,CFO, Company Secretary, their spouses and minor children is reported as under:

Name	Purchase/ Transfers	Sales/ transfers
Mr. Aameer Karachiwalla, CFO	14,500	27,200
Mr. Aqeel A. Nasir, Co. Secretary	8,000	--

CHANGE IN DIRECTORS:

I am pleased to announce that Mr. Muhammad Javed Malik was appointed as Director by the Government of Pakistan (GoP) with effect from May 21 2007 in place of Mr. Abdul Rauf Malik. On September 8 2007, the GoP withdrew the nomination of Mr. Ahmad Waqar as Director owing to the GoP's reduced shareholding in the Bank post the GDR issue in June 2007. On behalf of the Board, I would like to thank Mr. Rauf Malik and Mr. Waqar for their valuable contribution and services.

AUDITORS

The present auditors M/s KPMG Taseer Hadi & Co Chartered Accountants retire and being eligible offer themselves for re-appointment in the forthcoming Annual General Meeting. M/s A F Ferguson & Co Chartered Accountants retire and in pursuance to the Code of Corporate Governance become ineligible for re-appointment since having completed a term of five years.

The Board of Directors, on the suggestion of the Audit Committee, recommended M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants for the next term.

CONCLUSION

In conclusion, I extend my thanks and appreciation to UBL shareholders and customers as well as to my fellow members of the Board of Directors for their trust and support, and acknowledge the effort and dedication demonstrated by our staff members. We also express our earnest appreciation to the Government and the State Bank of Pakistan for their unfaltering support.

For and on Behalf of the Board,

Omar Z. Al Askari
Director

Islamabad
February 14, 2008

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE YEAR ENDED DECEMBER 31, 2007

This statement is being presented to comply with the Code of Corporate Governance (The Code) contained in the Regulation No. 37, XIII & 36 of Listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Board of Directors has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

1. Except for the Chief Executive Officer, all other directors, including Chairman and Deputy Chairman are non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.

3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year Government of Pakistan (GOP) has appointed Mr. Muhammad Javed Malik as director with effect from 21 May 2007 in place of Mr. Abdul Rauf Malik. On September 8, 2007, the GOP withdrew the nomination of Mr. Ahmad Waqar as Director owing to GOP reduced shareholding in the Bank post GDR issue in June 2007. .

5. During the year 2007, the Board of Directors approved and signed "Statement of Ethics and Business Practices" and obtaining the signature of employees is under process.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A set of significant policies are maintained by the Bank.

7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by the Deputy Chairman. The Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. The Company Secretary and Chief Financial Officer attend the meetings of the Board of Directors.

9. The appointments of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms of employment have been approved by the Board.

10. Relevant material on Code of Corporate Governance issued by SECP was sent to all the Directors to apprise them of their duties and responsibilities.

11. The directors report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.

13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than those disclosed in pattern of shareholding.

14. The Bank has complied with all the corporate and financial reporting requirements.

15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.

16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Bank, as required by the Code. The terms of reference of the committee have been formulated and advised to the committee for compliance.

17. The Board has set up an effective internal audit function. Personnel of the Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis.

18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of The Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with

For and on behalf of the Board of Directors

Omar Z. Al Askari
Director

Islamabad
Date: February 14, 2008

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

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of United Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2007.

A. F. FERGUSON & Co.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Karachi
Dated: 19 FEB 2008

Statement on Internal Controls

The responsibility to establish and maintain an adequate and effective Internal Control System rest with the Management. Internal Control is the process designed to manage rather than eliminate the risk of failure to achieve the bank's business strategies and policies and to provide reasonable assurance regarding effectiveness and efficiency of the operation, reliability of financial information and compliance with applicable laws and regulations.

Internal Control systems comprises of various inter-related components including Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring. Control Environment is the foundation for the other components of internal control, providing discipline and structure.

Management ensures the efficient and effective Internal Control System by risk assessment, identifying control objectives, reviewing pertinent policies/procedures, establishing relevant control procedures and monitoring. All policies and procedures are monitored, reviewed and compared with existing requirements and necessary amendments are made accordingly.

During the year 2007 weaknesses identified in the Internal Control Systems by the auditors (internal / external) have been rectified to the maximum possible level and steps were taken to avoid non-repetition of those in all possible manner.

Management took steps to effectively monitor control environment of the Bank, resulted in improvement in the overall working of the branches and departments as is evidenced from the results of current year's audits as compared to last year.

Management also emphasized on imparting training to enhance knowledge and understanding of the staff on Bank's internal policies & procedures and Prudential Regulations, resulted in further strengthening of Internal Control Environment.

We believe that with the implementation of Self Assessment Program, Re-engineering / Re-structuring of branch network and centralization of various processes, the overall control systems with in the bank would further improve, going forward.

M. Ejazuddin
Group Executive-Audit & Inspection

Atif R. Bokhari
President

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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, 2007 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 seventeen 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, 2007 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.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Karachi
Dated: 19 FEB 2008

BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	6	57,526,451	48,939,840
Balances with other banks	7	4,191,128	14,034,476
Lendings to financial institutions	8	24,781,723	29,572,070
Investments	9	115,585,646	67,260,338
Advances			
Performing	10	293,373,007	243,237,819
Non-performing	10	5,981,729	4,072,074
		299,354,736	247,309,893
Fixed assets	11	16,918,844	5,234,463
Deferred tax asset - net	18	-	906,661
Other assets	12	11,925,428	10,008,132
		530,283,956	423,265,873
LIABILITIES			
Bills payable	14	6,079,341	4,560,649
Borrowings	15	59,103,350	38,490,586
Deposits and other accounts	16	401,637,816	335,077,873
Sub-ordinated loans	17	5,996,696	5,998,344
Liabilities against assets subject to finance lease		-	-
Deferred tax liability - net	18	2,232,344	-
Other liabilities	19	12,813,005	9,275,034
		487,862,552	393,402,486
NET ASSETS		42,421,404	29,863,387
REPRESENTED BY:			
Share capital	20	8,093,750	6,475,000
Reserves		10,261,958	8,298,873
Unappropriated profit		15,653,703	12,429,853
		34,009,411	27,203,726
Surplus on revaluation of assets - net	21	8,411,993	2,659,661
		42,421,404	29,863,387
CONTINGENCIES AND COMMITMENTS	22		

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

Atif R. Bokhari President and Chief Executive Officer	Dr.Ashfaque Hasan Khan Director	Zameer Mohammed Choudrey Director	Omar Z. Al Askari Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
Mark-up / return / interest earned	24	41,045,543	32,991,603
Mark-up / return / interest expensed	25	16,936,187	12,126,809
Net mark-up / interest income		24,109,356	20,864,794
Provision against loans and advances - net (excluding impact on account of change in Prudential Regulations)	10.5	1,689,467	1,972,936
Additional provisioning arising on account of change in Prudential Regulations	10.5	3,803,759	-
Provision against loans and advances - total		5,493,226	1,972,936
Provision for diminution in value of investments - net	9.3	(6,303)	74,573
Bad debts written off directly	10.7	935,123	269,349
		6,422,046	2,316,858
Net mark-up / return / interest income after provisions		17,687,310	18,547,936
Non Mark-up / Interest Income			
Fee, commission and brokerage income		5,165,066	4,435,465
Dividend income		548,782	837,338
Income from dealing in foreign currencies		827,328	659,726
Gain on sale of securities	26	849,367	280,864
Unrealized loss on revaluation of investments classified as held for trading	9.4	(15,755)	(3,335)
Other income	27	1,617,563	738,330
Total non mark-up / return / interest income		8,992,351	6,948,388
		26,679,661	25,496,324
Non Mark-up / Interest Expenses			
Administrative expenses	28	13,420,977	10,952,275
Other provisions / write offs - net	29	236,281	226,313
Other charges	30	17,430	25,980
Total non mark-up / interest expenses		13,674,688	11,204,568
Extraordinary items		-	-
Profit before taxation		13,004,973	14,291,756
Taxation - Current	31	5,075,600	3,412,791
- Prior year	31	442,667	45,225
- Deferred	31	(915,884)	1,365,508
		4,602,383	4,823,524
Profit after taxation		8,402,590	9,468,232
Unappropriated profit brought forward		12,429,853	7,350,813
		20,832,443	16,819,045
Transfer from surplus on revaluation of fixed assets - net of tax		63,028	94,454
Profit available for appropriation		20,895,471	16,913,499
		(Rupees)	
Earnings per share	32	10.38	11.70

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

Atif R. Bokhari President and Chief Executive Officer	Dr.Ashfaque Hasan Khan Director	Zameer Mohammed Choudrey Director	Omar Z. Al Askari Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

	Share Capital	----------Capital reserves---------- Statutory Reserve	Exchange Translation Reserve	Reserve for issue of bonus shares	Unappropriated Profit	Total
	---(Rupees in '000)---					
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	6,475,000	7,029,233	1,269,640	-	12,429,853	27,203,726
Final cash dividend for the year ended December 31, 2006 declared subsequent to year end at Rs. 3.00 per share	-	-	-		(1,942,500)	(1,942,500)
Transfer to reserves for issue of bonus shares	-	-	-	1,618,750	(1,618,750)	-
Issue of bonus shares	1,618,750	-	-	(1,618,750)		-
Changes in equity for 2007						
Profit after taxation for the year ended December 31, 2007	-	-	-	-	8,402,590	8,402,590
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	63,028	63,028
Exchange differences on translation of net investment in foreign branches	-	-	282,567	-	-	282,567
Net income recognised directly in equity	-	-	282,567	-	63,028	345,595
Total recognised income and expense for the year	-	-	282,567	-	8,465,618	8,748,185
Transfer to statutory reserve	-	1,680,518	-	-	(1,680,518)	-
Balance as at December 31, 2007	8,093,750	8,709,751	1,552,207	-	15,653,703	34,009,411

Appropriations made by the directors subsequent to the year ended December 31, 2007 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.

Atif R. Bokhari President and Chief Executive Officer	Dr.Ashfaque Hasan Khan Director	Zameer Mohammed Choudrey Director	Omar Z. Al Askari Director

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		13,004,973	14,291,756
Less: Dividend income		548,782	684,961
		12,456,191	13,606,795
Adjustments:			
Depreciation		661,235	550,674
Amortization		89,173	52,251
Provision for retirement benefits		50,543	225,172
Provision against loans and advances		5,493,226	1,972,936
Reversal of provision for diminution in value of investments		(6,303)	74,573
Provision against off- balance sheet items		(38,093)	52,663
(Gain) on sale of fixed assets		(34,207)	(14,393)
Bad debts written-off directly		935,123	269,349
Unrealized loss on revaluation of investments classified as held for trading		15,755	3,335
Reversal of provision against other assets		80,707	173,650
Exchange (gain) / loss on cash and cash equivalents		(705,896)	1,067,593
		6,541,263	4,427,803
		18,997,454	18,034,598
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		4,790,347	(11,704,518)
Held-for-trading securities		(135,822)	1,376,349
Advances		(58,473,192)	(44,741,708)
Other assets (excluding advance taxation)		(2,476,321)	(1,963,795)
		(56,294,988)	(57,033,672)
Increase/ (Decrease) in operating liabilities			
Bills payable		1,518,692	400,685
Borrowings		20,612,764	16,754,440
Deposits and other accounts		66,559,943	45,851,574
Other liabilities (excluding current taxation)		7,010,328	2,073,336
		95,701,727	65,080,035
		58,404,193	26,080,961
Staff retirement benefits paid		(3,328,112)	(548,153)
Income taxes paid		(5,189,725)	(2,635,945)
Net cash flow from operating activities		49,886,356	22,896,863
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in securities		(48,720,742)	(5,844,696)
Dividend income received		541,863	687,609
Investments in operating fixed assets		(2,158,763)	(1,396,396)
Sale proceeds from disposal of property and equipment		150,234	22,725
Net cash flow on investing activities		(50,187,408)	(6,530,758)
CASH FLOW FROM FINANCING ACTIVITIES			
Receipt of sub-ordinated loan		-	2,000,000
Repayments of principal of sub-ordinated loans		(1,648)	(848)
Dividends paid		(1,942,500)	(1,295,000)
Net cash flow from / (used in) financing activities		(1,944,148)	704,152
Exchange differences on translation of net investment on foreign branches		282,567	179,766
Increase in cash and cash equivalents		(1,962,633)	17,250,023
Cash and cash equivalents at beginning of the year as previously reported		62,974,316	46,791,886
Effects of exchange rate changes on cash and cash equivalents		705,896	(1,067,593)
Cash and cash equivalents at beginning of the year as restated		63,680,212	45,724,293
Cash and cash equivalents at end of the year	33	61,717,579	62,974,316

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

Atif R. Bokhari President and Chief Executive Officer	Dr.Ashfaque Hasan Khan Director	Zameer Mohammed Choudrey Director	Omar Z. Al Askari Director

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

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 1,078 (2006: 1,044) branches inside Pakistan including the Karachi Export Processing Zone Branch (KEPZ) and 17 (2006: 15) branches outside Pakistan. The domestic branch network currently includes 5 Islamic Banking Branches.

During the year, the Government of Pakistan (GoP) which was holding 44.46% shares of the Bank through the State Bank of Pakistan (SBP) disinvested 25.00% of total shareholding of the Bank in the form of Global Depositary Receipts (GDRs). As a pre-requisite to such offering by the GoP, the Bank was admitted to the official list of the UK Listing Authority and London Stock Exchange Professional Securities Market for trading of GDRs issued by the bank. These GDRs are also eligible for trading on the International Order Book System of the London Stock Exchange. Further, the GDRs consitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S Securities Act of 1933 and an offering outside the United States in reliance on Regulation S. Trading in the GDRs on the London Stock Exchange commenced on June 29, 2007.

2. BASIS OF PRESENTATION

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

The financial results of the Islamic banking branches of the Bank have been consolidated in these financial statements for reporting purposes, after eliminating intra branch transactions / balances .Key financial figures of the Islamic banking branches are disclosed in note 44 to these financial statements.

3. STATEMENT OF COMPLIANCE

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

3.2 The 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 beer classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 These financial statements represent the separate stand alone financial statements of the bank. The consolidated financial statements of the bank and its subsidiary companies are presented separately.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Critical accounting estimates and 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.

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 10.6)
iii) income taxes (notes 5.7, 19.2 and 31)
iv) staff retirement benefits (note 35)
v) fair value of derivatives (note 19.4)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

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

5.2 Lendings to / borrowings from financial institutions

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

(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.

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 carriec 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 is determined on the basis of Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. General provision against consumer loans is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. General and specific provisions pertaining to overseas advances are made in accordance with the requirements of monetary agencies and regulatory authorities of the respective countries. Advances are written off when there is no realistic prospect of recovery.

5.5 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.

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

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

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

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

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

Leased (Ijarah)

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Ijarah income is recognised in income on accrual basis as and when the rental becomes due.

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.

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

The Bank operates the following staff retirement schemes for its employees

a) For employees who have not opted for the new scheme introduced in 1991

- approved funded pension scheme, introduced in 1986 (defined benefit scheme); and
- approved non-contributory provident fund in lieu of the contributory provident fund.

b) For new employees and for those who opted for the new scheme introduced in 1991, the Bank operates

- approved contributory provident fund (defined contribution scheme); and
- approved gratuity scheme (defined benefit scheme).

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

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

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

For defined contribution plans, the bank pays contributions to the Fund on a periodic basis. The bank has no further payment obligation once the contributions have been paid. The contributions are 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.

5.9.2 Other benefits

a) Employees' compensated absences

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

b) Post retirement medical benefits (defined benefit scheme)

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

c) Employee motivation and retention scheme

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

5.9.3 Actuarial gains and losses

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

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

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

(a) Corporate finance

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

(b) Trading and sales

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

(c) Retail Banking

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

(d) Commercial banking

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

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. There were no convertible dilutive potential ordinary shares in issue at December 31, 2007.

	Note	2007	2006
		(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		9,720,212	5,041,667
Foreign currency		1,941,211	1,691,757
		11,661,423	6,733,424
With State Bank of Pakistan in			
Local currency current account	6.1	22,350,805	17,840,637
Local currency deposit account		3,864	3,864
Foreign currency current account	6.2	18,611	77,487
Foreign currency deposit account	6.3	1,889,388	2,841,756
		24,262,668	20,763,744
With other central banks in foreign currency current account	6.4	15,685,359	18,388,635
With other central banks in foreign currency deposit account		362,757	-
With National Bank of Pakistan in local currency current account		5,496,747	2,994,861
National Prize Bonds		57,497	59,176
		57,526,451	48,939,840

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

6.2 This represents US Dollar Settlement Account maintained with SBP.

6.3 This represents foreign currency cash reserve maintained with SBP equivalent to at least 10% of the Bank's foreign currency deposits. The foreign currency cash reserve comprises of an amount equivalent to at least 5% of the bank's foreign currency deposits which is kept in a non-remunerative account. The balance amount 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	2007	2006
		(Rupees in '000)	
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
In current accounts		9,162	5,935
In deposit accounts		-	48,000
		9,162	53,935
Outside Pakistan			
In current accounts		1,598,275	895,782
In deposit accounts	7.1	2,583,691	13,084,759
		4,181,966	13,980,541
		4,191,128	14,034,476

7.1 These carry mark-up at rates ranging from 4.25% to 5.5% (2006: 5.07% to 5.28%) per annum.

	Note	2007	2006
		(Rupees in '000)	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	2,777,757	447,360
Repurchase agreement lendings	8.3	13,809,706	21,950,095
Lendings to banks / financial institutions	8.4	8,194,260	7,174,615
		24,781,723	29,572,070

8.1 Particulars of lendings to financial institutions

	2007	2006
In local currency	19,171,866	25,981,155
In foreign currencies	5,609,857	3,590,915
	24,781,723	29,572,070

8.2 These call money lendings carry mark-up at rates ranging from 9.50% to 11.00% per annum (2006: 6.70% to 10.35% per annum) and are due to mature latest by March 2008.

8.3 Securities held as collateral against repurchase agreement lendings

	2007			2006		
	Held by Bank	Further given as collateral / sold	Total	Held by Bank	Further given as collateral / sold	Total
	(Rupees in '000)					
Market Treasury Bills	6,944,762	2,887,635	9,832,397	15,504,830	920,265	16,425,095
Pakistan Investment Bonds	3,259,115	718,194	3,977,309	4,334,500	1,190,500	5,525,000
	10,203,877	3,605,829	13,809,706	19,839,330	2,110,765	21,950,095

These carry mark-up at rates ranging from 9.20% to 9.90% per annum (2006: 7.99% to 9.40% per annum) and are due to mature latest by March 2008.

8.4 These carry mark-up at rates ranging from 5.45% to 12.63% per annum(2006: 5.45% to 12.63 %per annum) and are due to mature latest by March 2011.

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

9. INVESTMENTS

9.1 Investments by types

	Note	2007 Held by Bank	2007 Given as collateral	2007 Total	2006 Held by Bank	2006 Given as collateral	2006 Total
		----(Rupees in '000)----					
Held for trading securities							
Market Treasury Bills		-	-	-	46,438	-	46,438
Ordinary shares of listed companies		269,932	-	269,932	91,007	-	91,007
		269,932	-	269,932	137,445	-	137,445
Available for sale securities							
Market Treasury Bills		19,510,171	27,889,798	47,399,969	15,304,284	16,743,707	32,047,991
Ordinary shares of listed companies		3,180,028	-	3,180,028	2,403,691	-	2,403,691
Pakistan Investment Bonds		15,337,793	1,536,588	16,874,381	3,157,602	-	3,157,602
Government of Pakistan Islamic Bonds		1,123,894	-	1,123,894	694,271	-	694,271
Term Finance Certificates		644,122	-	644,122	693,116	-	693,116
Foreign currency bonds		3,475,078	-	3,475,078	1,705,045	-	1,705,045
Ordinary shares of unlisted companies	9.9	441,106	-	441,106	497,288	-	497,288
Euro Bonds		2,170,415	-	2,170,415	1,247,217	-	1,247,217
Units of mutual funds		262,201	-	262,201	1,222,338	-	1,222,338
		46,144,808	29,426,386	75,571,194	26,924,852	16,743,707	43,668,559
Held to maturity securities							
Term Finance Certificates		6,341,257	-	6,341,257	8,134,206	-	8,134,206
Market Treasury Bills		12,883,608	-	12,883,608	1,205,603	-	1,205,603
Pakistan Investment Bonds		4,521,049	-	4,521,049	4,691,273	-	4,691,273
CIRC Bonds		2,900,000	-	2,900,000	2,900,000	-	2,900,000
Government of Pakistan - Guaranteed Bonds		1,433,444	-	1,433,444	2,410,415	-	2,410,415
Foreign currency bonds		1,055,801	-	1,055,801	1,382,986	-	1,382,986
Sukkuk Bonds		685,000	-	685,000	-	-	-
Foreign securities		1,498,797	-	1,498,797	639,064	-	639,064
Certificate of Deposit		853,146	-	853,146	-	-	-
Debentures		8,300	-	8,300	11,289	-	11,289
Participation Term Certificates		46,920	-	46,920	55,169	-	55,169
CDC SAARC Fund		310	-	310	505	-	505
Federal Investment Bonds		-	-	-	13,906	-	13,906
		32,227,632	-	32,227,632	21,444,416	-	21,444,416
Associates							
United Islamic Income Fund		250,000	-	250,000	-	-	-
United Stock Advantage Fund		250,000	-	250,000	250,000	-	250,000
United Composite Islamic Fund		550,000	-	550,000	250,000	-	250,000
United Money Market Fund		3,150,646	-	3,150,646	-	-	-
United Growth and Income Fund		1,750,000	-	1,750,000	-	-	-
UBL Insurers Limited		90,000	-	90,000	90,000	-	90,000
Oman United Exchange Company, Muscat		6,981	-	6,981	6,981	-	6,981
		6,047,627	-	6,047,627	596,981	-	596,981
Subsidiaries							
United National Bank, UK		1,482,011	-	1,482,011	1,482,011	-	1,482,011
United Bank AG Zurich, Switzerland	9.7	589,837	-	589,837	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	9.8	-	-	-	2,500	-	2,500
UBL Fund Managers Limited	9.7	100,000	-	100,000	60,000	-	60,000
		2,201,948	-	2,201,948	1,660,848	-	1,660,848
		86,891,947	29,426,386	116,318,333	50,764,542	16,743,707	67,508,249
Provision for diminution in value of investments	9.3	(351,191)	-	(351,191)	(400,639)	-	(400,639)
Investments (net of provisions)		86,540,756	29,426,386	115,967,142	50,363,903	16,743,707	67,107,610
(Deficit) / surplus on revaluation of available for sale securities	21.2	(324,632)	(41,109)	(365,741)	163,003	(6,940)	156,063
Deficit on revaluation of held for trading securities	9.4	(15,755)	-	(15,755)	(3,335)	-	(3,335)
Total investments		86,200,369	29,385,277	115,585,646	50,523,571	16,736,767	67,260,338

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

		Note	2007	2006
			(Rupees in '000)	
9.2	**Investments by segments**			
	Federal Government Securities			
	Market Treasury Bills		58,345,964	32,594,095
	Pakistan Investment Bonds		21,395,430	7,848,875
	Foreign currency bonds		1,055,801	1,382,986
	Government of Pakistan Islamic Bonds		1,123,894	694,271
	Government of Pakistan - US Dollar / Euro Bonds		2,170,415	1,247,217
	Federal Investment Bonds		-	13,906
			84,091,504	43,781,350
	Overseas Governments' Securities			
	Foreign securities		5,827,021	2,344,109
	Market Treasury Bills		1,937,613	705,937
			7,764,634	3,050,046
	Other Overseas Securities			
	CDC SAARC Fund		310	505
	Fully Paid-up Ordinary Shares			
	Listed companies		3,449,960	2,494,698
	Unlisted companies	9.9	441,106	497,288
			3,891,066	2,991,986
	Units of Mutual Funds		262,201	1,222,338
	Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
	Term Finance Certificates			
	Unlisted		6,000,195	7,629,656
	Listed		985,184	1,197,666
			6,985,379	8,827,322
	Bonds		5,018,444	5,310,415
	Debentures		8,300	11,289
	Participation Term Certificates		46,920	55,169
			12,059,043	14,204,195
	Investments in subsidiaries and associates		8,249,575	2,257,829
	Total investments at cost		116,318,333	67,508,249
	Provision for diminution in value of investments	9.3	(351,191)	(400,639)
	Investments (net of provisions)		115,967,142	67,107,610
	(Deficit) / surplus on revaluation of available for sale securities	21.2	(365,741)	156,063
	Deficit on revaluation of held for trading securities	9.4	(15,755)	(3,335)
	Total investments		115,585,646	67,260,338

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

		2007	2006
9.3	**Particulars of provision for diminution in value of investments:**	(Rupees in '000)	
9.3.1	Opening balance	400,639	634,003
	Charged during the year	49,124	81,968
	Reversed during the year	(55,427)	(7,395)
		(6,303)	74,573
	Transfers	15,000	(30,164)
	Written off during the year	(58,145)	(277,773)
	Closing balance	351,191	400,639

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

	2007	2006
Available for sale securities		
Ordinary shares of listed companies	2,708	33,000
Ordinary shares of unlisted companies	142,104	123,217
	144,812	156,217
Held to maturity securities		
Term Finance Certificates	151,159	177,964
Debentures	8,300	11,289
Participation Term Certificates	46,920	55,169
	206,379	244,422
	351,191	400,639

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

	2007	2006
Fully Paid-up Ordinary Shares		
Listed companies	2,708	33,000
Unlisted companies	142,104	123,217
	144,812	156,217
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates		
Term Finance Certificates	151,159	177,964
Debentures	8,300	11,289
Participation Term Certificates	46,920	55,169
	206,379	244,422
	351,191	400,639

9.4 Unrealized gain/ (loss) on revaluation of held for trading securities

	2007	2006
Market Treasury Bills	-	(12)
Ordinary shares of listed companies	(15,755)	(3,323)
	(15,755)	(3,335)

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 (2006: 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 (2006: Rs. 5 million) held by the Controller of Military Accounts (CMA) under Regimental Fund Arrangements.

9.7 During the year the bank has made a fresh capital injection of CHF 10 million in United Bank AG Zurich, Switzerland and Rs 40 million in UBL Fund Managers Limited to support the business needs of the respective subsidiaries.

9.8 United Bank Financial Services (Private) Limited (UBFSL) was registered as a Modaraba Company under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. During the year, keeping in view UBFSL's dormant status, the management has surrendered UBFSL's license to act as a Modaraba Management Company. As a result, the Registrar of Modaraba Companies and Modarabas cancelled the registration of UBFSL as a Modaraba Management Company. Pursuant to the cancellation of this registration UBFSL has decided to wind up its dormant operations under the Companies Easy Exit Scheme 2007 issued by the Securities and Exchange Commission of Pakistan.

9.9 This includes the Bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs. 200 million (2006: Rs. 200 million). Pursuant to Section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the Bank cannot sell or transfer their investment before a period of five years that has expired on October 10, 2005. Thereafter, such sale/ transfer would be subject to the prior approval of SBP. In addition, profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the Khushhali Bank Ordinance, 2000. However, Khushhali Bank Ordinance is in process of amendment under which the restriction on the dividend payments is expected to be deleted. Moreover, the shareholders of Khushhali Bank Limited at the Extra Ordinary General Meeting held in December 2007 have passed a resolution stating that Khushhali Bank be licensed and operated under the Micro Finance Institution Ordinance, 2001 under the conversion structure stipulated by the State Bank of Pakistan which does not restrict the distribution of dividend to members.

9.10 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 2007	Performing 2006	Non-performing 2007	Non-performing 2006
		---- (Rupees in '000) ----			
Loans, cash credits, running finances, etc.					
In Pakistan	10	222,660,938	200,080,279	17,759,670	9,273,198
Outside Pakistan		60,310,465	33,369,281	3,011,935	4,771,131
		282,971,403	233,449,560	20,771,605	14,044,329
Bills discounted and purchased (excluding government treasury bills)					
Payable in Pakistan		5,301,652	5,661,421	745,115	876,300
Payable outside Pakistan		3,820,841	4,080,845	495,691	1,334,780
		9,122,493	9,742,266	1,240,806	2,211,080
		292,093,896	243,191,826	22,012,411	16,255,409
Financing in respect of continuous funding system (CFS)		2,631,139	1,462,242	-	-
Advances - gross		294,725,035	244,654,068	22,012,411	16,255,409
Provision against advances					
- Specific	11	-	-	(16,030,682)	(12,183,335)
- General		(1,352,028)	(1,416,249)	-	-
		(1,352,028)	(1,416,249)	(16,030,682)	(12,183,335)
Advances - net of provision		293,373,007	243,237,819	5,981,729	4,072,074

	Performing 2007	Performing 2006	Non-performing 2007	Non-performing 2006
	---- (Rupees in '000) ----			
10.1 Particulars of advances - gross				
10.1.1 In local currency	227,669,639	202,945,510	18,504,785	11,467,278
In foreign currencies	67,055,396	41,708,558	3,507,626	4,788,131
	294,725,035	244,654,068	22,012,411	16,255,409
10.1.2 Short term	210,172,350	153,182,946	-	-
Long term	84,552,685	91,471,122	22,012,411	16,255,409
	294,725,035	244,654,068	22,012,411	16,255,409

10.2 This includes performing advances given under various islamic financing modes amounting to Rs 339.477 million at December 31, 2007 entered into during the year by the Islamic Banking branches of the bank.

10.3 Non-performing advances include

a) Advances having Gross Book Value of Rs.1,043.568 million (2006: Rs. 199.770 million) and Net Book Value of Rs. 166.605 million (2006: Rs. 174.465 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 AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

10.4 Advances include Rs.22,012 million (2006: Rs. 16,255 million) which have been placed under non-performing status as detailed below:-

2007

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 *	631,953	-	631,953	-	-	-	-	-	-
Substandard	4,670,464	301,045	4,971,509	1,061,583	75,262	1,136,845	1,061,583	75,262	1,136,845
Doubtful	2,756,266	3,866	2,760,132	1,335,909	1,934	1,337,843	1,335,909	1,934	1,337,843
Loss	10,446,102	3,202,715	13,648,817	10,353,279	3,202,715	13,555,994	10,353,279	3,202,715	13,555,994
	18,504,785	3,507,626	22,012,411	12,750,771	3,279,911	16,030,682	12,750,771	3,279,911	16,030,682

2006

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
	11,467,278	4,788,131	16,255,409	7,418,663	4,764,672	12,183,335	7,418,663	4,764,672	12,183,335

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

10.5 Particulars of provision against advances

	Note	2007 Specific	2007 General	2007 Total	2006 Specific	2006 General	2006 Total
		(Rupees in '000)					
Opening balance		12,183,335	1,416,249	13,599,584	13,301,990	1,162,987	14,464,977
Exchange adjustments		47,091	9,000	56,091	115,481	4,252	119,733
Charge							
Charge for the year (excluding impact due to change in Prudential Regulations		1,997,341	133,839	2,131,180	1,993,064	633,682	2,626,746
Reversals		(441,713)	-	(441,713)	(653,810)	-	(653,810)
		1,555,628	133,839	1,689,467	1,339,254	633,682	1,972,936
Additional provisioning due to change in Prudential Regulations	10.6	3,803,759	-	3,803,759	-	-	-
		5,359,387	133,839	5,493,226	1,339,254	633,682	1,972,936
Transfers		225,162	(207,060)	18,102	315,880	(337,760)	(21,880)
Amounts written off	10.7	(1,784,293)	-	(1,784,293)	(2,889,270)	(46,912)	(2,936,182)
Closing balance		16,030,682	1,352,028	17,382,710	12,183,335	1,416,249	13,599,584

10.5.1 General provision represents provision amounting to Rs. 1,296.496 million (2006: Rs. 1163.019 million) against consumer finance portfolio as required by the Prudential Regulations issued by State Bank of Pakistan and Rs. 55.532 million (2006: Rs. 253.230 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries in which the overseas branches operate.

10.5.2 Particulars of provision against advances

	2007 Specific	2007 General	2007 Total	2006 Specific	2006 General	2006 Total
	(Rupees in '000)					
In local currency	12,750,771	1,296,496	14,047,267	7,418,663	1,163,019	8,581,682
In foreign currencies	3,279,911	55,532	3,335,443	4,764,672	253,230	5,017,902
	16,030,682	1,352,028	17,382,710	12,183,335	1,416,249	13,599,584

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

During the year the State Bank of Pakistan has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 7 dated October 12, 2007. The amendments made in the provisioning requirements and the resulting additional provision of Rs 3.803 million is explained below:

10.6.1 Under the revised guidelines issued by SBP, banks cannot avail the benefit of discounted forced sales value of mortgaged assets held as collateral by the banks against their non-performing (excluding housing finance portfolio) loans for the purpose of determining the provisioning requirement to be maintained for non-performing customers with effect from December 31, 2007. Previously, the Prudential Regulations issued by SBP allowed banks to avail the benefit of discounted forced sales value of mortgaged assets held as collateral against non-performing loans of over Rs 10 million while determining the provisioning requirement there against. Had the provision against non-performing loans and advances been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 3,314 million.

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

10.6.2 As noted above in accordance with the revised guidelines issued by SBP, banks are allowed to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio while determining provisioning requirement against such portfolio. However, the forced sales value of the mortgaged assets would only be allowed to the extent of 50% of its value during the first two years from the date of classification of the respective non-performing customers and no benefit would be admissible in subsequent years.

Previously, the Prudential Regulations allowed banks to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio without any specified time limit. Had the provision against non-performing housing finance portfolio been determined in accordance with requirement previoulsy laid down by SBP, the specific provision against non-performing housing finance portfolio would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 240.288 million.

10.6.3 In addition, as per the revised regulations the overdue time period for classifying personal loans as 'loss' has been reduced from one year to 180 days and as a result the category of 'doubtful' has been dispensed with. Had the provision against non-performing personal loans been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing personal loans would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2007 would have been higher by approximately Rs 249.319 million.

10.6.4 Although the bank had made full provision against its non-performing portfolio as per the category of the loan, however, the bank still holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building, plant and machinery, stock in trade etc.

		Note	2007	2006
10.7	**Particulars of write-offs**		(Rupees in '000)	
10.7.1	Against provisions	10.5	1,784,293	2,936,182
	Directly charged to profit and loss account		935,123	269,349
			2,719,416	3,205,531
10.7.2	Write-offs of Rs. 500,000 and above	10.8	2,000,062	2,906,736
	Write-offs of below Rs. 500,000		719,354	298,795
			2,719,416	3,205,531

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended December 31, 2007 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	2007	2006
10.9	**Particulars of loans and advances to executives, directors, associated companies etc.**		(Rupees in '000)	
	Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons			
	Balance at beginning of year		609,403	471,621
	Loans granted during the year		129,804	313,544
	Repayments		(150,488)	(175,762)
	Balance at end of year		588,719	609,403
	Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
	Balance at beginning of year		1,000,565	1,818,141
	Given during the year		-	-
	Repaid during the year		(1,000,565)	(817,576)
	Balance at end of year		-	1,000,565

11. FIXED ASSETS

	Note	2007	2006
Capital work-in-progress	11.1	1,042,273	408,617
Property and equipment	11.2	15,548,034	4,649,179
Intangible assets	11.3	328,537	176,667
		16,918,844	5,234,463

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

11.1 Capital work-in-progress

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

11.2 Property and equipment

	2007										
	COST/ REVALUATION					ACCUMULATED DEPRECIATION					
	At January 1, 2007	Additions/ (deletions)	Surplus on revaluation	Reversal of accumulated depreciation / other adjustments	At December 31, 2007	At January 1, 2007	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation / other adjustments*	At December 31, 2007	Net book value at December 31, 2007	Annual rate of depreciation %
	(Rupees in '000)										
Owned											
Freehold land	425,714	- -	440,299	-	866,013	-	-	-	-	866,013	-
Leasehold land	2,349,180	- -	8,349,972	(364,332) (1,778) *	10,333,042	272,928	91,563 -	(364,332) 541	700	10,332,342	1 - 3.33
Buildings on freehold land	66,937	3,834 -	19,621	(13,208) (600) *	76,584	9,339	3,461 -	(13,208) 408	-	76,584	5
Buildings on leasehold land	786,110	384,132 (28,147)	1,581,560	(67,054) (567) *	2,656,034	160,557	74,442 -	(67,054) (8,073)	159,872	2,496,162	5
Furniture and fixtures	622,967	129,672 (3,492)	-	- (85,855) *	663,292	402,087	45,513 (3,138)	- (77,106)	367,356	295,936	10
Electrical, office and computer equipment	2,133,980	433,241 (4,758)	-	- (121,249) *	2,441,214	1,213,009	375,061 (4,364)	- (180,241)	1,403,465	1,037,749	20-25
Vehicles	530,759	36,339 (156,919)	-	- (111,265) *	298,914	208,548	56,194 (69,787)	- (46,760)	148,195	150,719	20
Assets held under operating lease											
Ijarah assets - note 11.7	-	307,473	-	- - *	307,473	-	15,001 -	- (57)	14,944	292,529	20 - 33.33
2007	6,915,647	1,294,691 (193,316)	10,391,452	(444,594) (321,314)	17,642,566	2,266,468	661,235 (77,289)	(444,594) (311,288)	2,094,532	15,548,034	

	2006										
	COST / REVALUATION					ACCUMULATED DEPRECIATION					
	At January 1, 2006	Additions/ (deletions)	Surplus on revaluati -on	Other adjust-ments*	At December 31, 2006	At January 1, 2006	Charge for the year/ (depreciation on deletions)	Reversal due to other adjust-ments*	At December 31, 2006	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)	272,928	2,076,252	1 - 3.33
Buildings on freehold land	64,189	2,748	-	-	66,937	6,108	3,313	(82)	9,339	57,598	5
Buildings on leasehold land	565,380	219,487	-	1,243	786,110	96,156	52,264	12,137	160,557	625,553	5
Furniture and fixtures	544,586	118,032 (3,447)	- -	(36,204)	622,967	404,539	35,505 (3,274)	(34,683)	402,087	220,880	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	920,971	20-25
Vehicles	380,703	279,771 (55,919)	- -	(73,796)	530,759	196,205	79,143 (47,768)	(19,032)	208,548	322,211	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	

* 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 completed in respect of properties and is expected to be completed shortly in respect of furnitures & fixtures, electrical , office and computer equipment and vehicles.

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

11.3 Intangible assets

	2007									
	Cost				Accumulated Amortization					
	At January 1, 2007	Additions/ (deletions)	Other adjust-ments	At December 31, 2007	At January 1, 2007	Charge for the year/ (amorti-sation on deletion)	Other adjust-ments	At December 31, 2007	Net book value at December 31, 2007	Annual rate of amorti-sation %
	(Rupees in '000)									
Software	261,521	280,397	-	541,918	84,854	89,173	39,354	213,381	328,537	25

	2006									
	Cost				Accumulated Amortization					
	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	Net book value at December 31, 2006	Annual rate of amorti-sation %
	(Rupees in '000)									
Software	145,210	116,311	-	261,521	32,603	52,251	-	84,854	176,667	25

11.4 Revaluation of domestic properties

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

	Rupees in '000
Freehold land	21,974
Leasehold land	103,204
Buildings on freehold land	18,406
Buildings on leasehold land	486,205

11.5 Carrying amount of temporarily idle property. 57,966

11.6 The gross carrying amount of fully depreciated assets that are still in use

Furniture and fixtures	170,998
Electrical, office and computer equipment	86,195
Vehicles	25,352
IT Hardware	222,336

11.7 The Islamic Banking Branches of the bank have entered into ijarah transactions with customers during the year. The significant ijarah transactions have been entered in respect of vehicles.

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

	Rupees in '000
Not later than one year	71,073
Later than one year but not later than five years	225,956
Later than five years	21,602
	318,631

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

11.8 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	3,492	3,138	354	1,025	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	4,758	4,364	394	716	Auction	Various
Vehicles						
Suzuki Cultus	560	196	364	364	Buy Back	Nadeem Siddiqui (VP)
Suzuki Cultus	620	114	506	620	Buy Back	Mujahid Itaat (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Ahmed Yousuf (VP)
Suzuki Cultus	620	103	517	496	Buy Back	A.Saeed Siddiqui (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Muhammad Ali (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Arshad Nadeem (VP)
Suzuki Cultus	620	103	517	496	Buy Back	S.Iftikhar Hussain (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Qaiser A.Siddiqui (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Nigar Tasneem (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Iqbal Hamid (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Kamran M. Ilyas (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Shaikh Shahabuddin (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Atif Rasheed (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Tahir Abbas (VP)
Suzuki Cultus	620	103	517	496	Buy Back	S.Z.H.Bukhari (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Hassan Raza Zaidi (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Syed I. Humayun (VP)
Suzuki Cultus	620	103	517	496	Buy Back	M.Umer Khan (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Sajjad Arif (VP)
Suzuki Cultus	620	103	517	496	Buy Back	Amir Murtaza (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Niaz A. Khan Toro (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Firdous Hameed (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Aamir Nasib (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Jabar Memon (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Adnan Lari (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Zenia Rabadi (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Shahpur S.Ahmed (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Tariq Rasheed (VP)
Suzuki Cultus	620	93	527	496	Buy Back	M.Anzarul Haq (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Mushtaq Zahid (VP)
Suzuki Cultus	620	93	527	496	Buy Back	M.Mursaleen Rao (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Rashida Arif (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Kazi Jabran Ahmed (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Raziuddin Safdar (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Minhas Wirasat (VP)
Suzuki Cultus	620	93	527	496	Buy Back	Talat Rabia (VP)
Suzuki Cultus	620	83	537	496	Buy Back	M.Shahzad Khan (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Tariq Abbasi (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Mir M. Moazzam (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Riaz Ahmed (VP)
Suzuki Cultus	620	83	537	496	Buy Back	M.Shahid Qureshi (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Shahid Habibullah (VP)
Suzuki Cultus	620	83	537	496	Buy Back	A.Hamid Farid (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Moazzam Haider (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Danish Tanvir (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Baber Pervez (VP)

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

11.8 Disposals of fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	--------------(Rupees in '000)--------------					
Suzuki Cultus	620	83	537	496	Buy Back	Shahzad Jeved (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Jawed Mohsin (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Sabrina Ghani (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Haroon Zaib (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Sahir Ali (VP)
Suzuki Cultus	620	83	537	496	Buy Back	M. Faraz Khan (VP)
Suzuki Cultus	620	83	537	496	Buy Back	Zeeshan Waheed (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Malik Dilawar (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Abdul Sattar Vaid (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Aamir Ashfaq (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Tahir Sajjad (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Syed Kashif Hussain (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Abdul Hamid (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Abdul Malik Khan (VP)
Suzuki Cultus	620	52	568	496	Buy Back	M.Shafqat Asim (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Muslehuddin Saadi (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Shakil M.Khan (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Zahid Ali (VP)
Suzuki Cultus	620	52	568	496	Buy Back	Muhammad Zubair (VP)
Suzuki Cultus	620	31	589	496	Buy Back	Sultan Shahryar (VP)
Suzuki Cultus	620	31	589	496	Buy Back	Saleem Lalani. (VP)
Suzuki Cultus	620	21	599	496	Buy Back	Shahzad Zuberi (VP)
Suzuki Cultus	620	10	610	496	Buy Back	Zubair K. Munshi (VP)
Toyota Corolla	849	594	255	255	Buy Back	Sohail Bhojani (SVP)
Toyota Corolla	849	594	255	255	Buy Back	Khurram Agha (SVP)
Toyota Corolla	849	552	297	297	Buy Back	Abdul Bari Khan (SVP)
Toyota Corolla	849	538	311	325	Buy Back	Ghazanfar Agha (SVP)
Toyota Corolla	849	481	368	707	Buy Back	Humayun Saghir (VP)
Toyota Corolla	849	481	368	708	Buy Back	Amir Noorani (VP)
Toyota Corolla	849	453	396	396	Buy Back	Nadeem Burgary (SVP)
Toyota Corolla	849	382	467	467	Buy Back	Qasim Anjum (SVP)
Toyota Corolla	864	346	518	533	Buy Back	Dr.Abdul Wahid (SVP)
Toyota Corolla	864	317	547	547	Buy Back	Kumail Dheradunwala (SVP)
Toyota Corolla	864	317	547	547	Buy Back	Nabeel Anwar (SVP)
Toyota Corolla	864	302	562	562	Buy Back	Rizwan Razvi (SVP)
Toyota Corolla	864	288	576	576	Buy Back	Sharjeel Shahid (SVP)
Toyota Corolla	879	352	527	653	Buy Back	Kh. Asif Javed (EVP)
Toyota Corolla	879	308	571	684	Buy Back	Dr.Arif Ahmed (EVP)
Toyota Corolla	879	293	586	586	Buy Back	Naeem Ilyas (SVP)
Toyota Corolla	879	264	615	684	Buy Back	Aqeel A.Nasir (EVP)
Honda City	885	266	620	620	Buy Back	H.Abdul Rehman (SVP)
Honda City	885	251	634	629	Buy Back	Nauman Ahmed
Honda Civic	939	642	297	607	Buy Back	Hassan Raza (SEVP)
Toyota Corolla	969	210	759	759	Buy Back	M. Maqsood (SVP)
Toyota Corolla	969	210	759	709	Buy Back	Sadeed Barlas (EVP)
Toyota Corolla	969	129	840	775	Buy Back	Ashraf Ali (SVP)
Toyota Corolla	969	129	840	775	Buy Back	Ahmed Mustafa (SVP)
Toyota Corolla	969	81	888	775	Buy Back	Arif Rasheed.(SVP)
Toyota Corolla	969	48	921	775	Buy Back	Samina Riaz (SVP)
Items having book value of more than Rs. 250,000 and cost of more than Rs. 1,000,000						
Honda Civic	1,043	243	800	800	Buy Back	Javed H.Zaidi (SVP)
Honda Civic	1,043	243	800	800	Buy Back	Khurram Rezvi (SVP)

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

11.8 Disposals of fixed assets during the year

	Cost	Accumu-lated deprec-iation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
	--------------(Rupees in '000)--------------					
Honda Civic	1,043	243	800	800	Buy Back	Nadeem Ibrahim (SVP)
Honda Civic	1,043	243	800	800	Buy Back	Asad Kerai (SVP)
Honda Civic	1,043	226	817	817	Buy Back	Mir Maqbool Mehmood (SVP)
Honda Civic	1,043	226	817	817	Buy Back	Zeeba Ansar (SVP)
Honda Civic	1,043	226	817	817	Buy Back	Noman Tariq (SVP)
Honda Civic	1,043	209	834	834	Buy Back	Noman Zafar (SVP)
Honda Civic	1,043	191	852	834	Buy Back	Ehteshamullah (SVP)
Honda Civic	1,043	174	869	834	Buy Back	Adnan Masud (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Mir Akbar (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Muhammad Arshad (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Wajahat A. Qureshi (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Mir Shahbaz Sultan (SVP)
Honda Civic	1,043	156	887	834	Buy Back	S.Mohsin Ali (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Muhammad Y. Yaqub (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Adnan Kamal (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Ahmad Yousuf (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Rizwan H.Chapra (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Kashif Umer Thanvi (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Zulfiqar M. Alvi (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Shehla Kazi (SVP)
Honda Civic	1,043	156	887	834	Buy Back	Zafar H. Jilani (SVP)
Toyota Corolla	1,219	264	955	955	Buy Back	Najeeb Agrawala (EVP)
Honda Civic	1,243	186	1,057	994	Buy Back	Mubashir Yasin (EVP)
Honda Accord	2,800	980	1,820	1,867	Insurance Claim	Adamjee Insurance Com. Ltd
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000	61,797	49,496	12,367	34,089		
	156,919	69,787	87,200	106,327		
Total	165,169	77,289	87,948	108,067		

12. OTHER ASSETS

	Note	2007	2006
		(Rupees in '000)	
Income / mark-up accrued in local currency		7,730,092	7,918,432
Income / mark-up accrued in foreign currency		1,304,342	1,486,652
		9,034,434	9,405,084
Suspense accounts		267,846	428,256
Hajj refund		471,640	558,407
Stationery and stamps on hand		96,927	88,581
Non banking assets acquired in satisfaction of claims		-	68,571
Advances, deposits, advance rent and other prepayments		1,219,792	1,001,128
Receivable from staff retirement funds		804,322	1,289,559
Due from other banks against telegraphic and demand drafts		708,818	699,967
Unrealized (loss) / gain on forward foreign exchange contracts		(10,444)	83,807
Unrealized gain on derivative financial instruments - net	19.4	159,625	-
Receivable from SBP on account of encashment of savings certificates		561,493	27,812
Due from National Clearing Company of Pakistan Limited		372,533	-
Receivable in respect of encashment of dividend warrants on behalf of a customer		248,885	132,760
Others		1,256,806	387,361
		15,192,677	14,171,293
Provision held against other assets	12.1	(1,319,997)	(1,794,691)
Unrealized mark-up held in suspense account		(1,947,252)	(2,368,470)
Other Assets (Net of Provisions)		11,925,428	10,008,132

12.1 Provision against other assets

	Note	2007	2006
		(Rupees in '000)	
Opening balance		1,794,691	2,280,212
Exchange adjustments		(1,612)	-
		1,793,079	2,280,212
Charge for the year		255,394	181,249
Reversals		(174,687)	(7,599)
	29	80,707	173,650
Transfers		9,088	33,029
Amounts written off		(562,877)	(692,200)
Closing balance		1,319,997	1,794,691

13. CONTINGENT ASSETS

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

14. BILLS PAYABLE

	2007	2006
	(Rupees in '000)	
In Pakistan	5,777,626	3,723,994
Outside Pakistan	301,715	836,655
	6,079,341	4,560,649

15. BORROWINGS

	2007	2006
In Pakistan	53,795,007	37,948,424
Outside Pakistan	5,308,343	542,162
	59,103,350	38,490,586

15.1 Particulars of borrowings with respect to currencies

	2007	2006
In local currency	53,325,834	37,948,424
In foreign currencies	5,777,516	542,162
	59,103,350	38,490,586

15.2 Details of borrowings from financial institutions

	Note	2007	2006
Secured			
Borrowings from the State Bank of Pakistan under			
- Export refinance scheme	15.3	6,708,853	9,414,812
- Long-term financing under export oriented projects	15.4	4,945,514	5,333,691
- Locally manufactured machinery refinance scheme	15.5	1,620	3,382
		11,655,987	14,751,885
Repurchase agreement borrowings	15.6	32,269,543	17,527,738
		43,925,530	32,279,623
Unsecured			
Call borrowings	15.7	13,607,326	4,600,000
Overdrawn nostro accounts		912,190	542,162
Trading liabilities		658,304	1,068,801
		15,177,820	6,210,963
		59,103,350	38,490,586

15.3 The bank has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP. These borrowings are repayable within six months upto June 2008.

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

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

15.6 These repurchase agreement borrowings are secured against market treasury bills and carry mark-up at rates ranging from 8.9% to 10.00% per annum (2006: 8.19% to 8.82% per annum). These borrowings are repayable latest by August 2008.

15.7 These call borrowings carry mark-up at rates ranging from 9.3% to 12.00% per annum (2006: 8.1% to 10.1% per annum) and are repayable latest by January 2008.

	Note	2007	2006
		(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		127,317,589	114,927,897
Savings deposits		153,001,867	121,878,162
Sundry deposits		4,645,873	4,942,064
Margin deposits		2,746,824	2,698,999
Current accounts - remunerative	16.2	5,641,419	1,908,055
Current accounts - non-remunerative		108,116,175	88,662,089
		401,469,747	335,017,266
Financial Institutions			
Remunerative deposits		143,603	35,539
Non-remunerative deposits		24,466	25,068
		168,069	60,607
		401,637,816	335,077,873

16.1 Particulars of deposits and other accounts

	2007	2006
In local currency	310,534,338	256,318,445
In foreign currencies	91,103,478	78,759,428
	401,637,816	335,077,873

16.2 This includes pre IPO / private placement receipts of Rs 4,185 million deposited with the bank on account of subscription money towards UBL's fourth issue of 10 year term finance certificates. The total issue consists of Rs 6,000 million under pre-IPO / private placement and the remaining Rs 1,500 million represents the proposed Initial Public Officer to the general public. The issue of these term finance certificates has been approved by the State Bank of Pakistan. These term finance certificates will be sub-ordinate as to the payment of principal and profit to all other indebtedness of the bank (including deposits) and are not redeemable before maturity with approval of SBP. The rate of mark-up on these term finance certificates would be KIBOR plus 0.85% per annum for the first five years and KIBOR plus 1.35% per annum during the last five years to maturity.

17. SUB-ORDINATED LOANS - UNSECURED

	Issue Date	Tenor	Rate % per annum	Maturity	Frequency of principal redemption	2007	2006
						(Rupees in '000)	
Term Finance Certificates - I	August 2004	8 years	8.45%	August 2012	Semi Annual	1,997,696	1,998,464
Term Finance Certificates - II	March 2005	8 years	9.49%	March 2013	Semi Annual	1,999,800	1,999,880
Term Finance Certificates - III	September 2006	8 years	Kibor+1.70%	September 2014	Semi Annual	1,999,200	2,000,000
						5,996,696	5,998,344

17.1 These represent listed Term Finance Certificates (TFCs) issued by the bank in the year 2004 , 2005 and 2006 each 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	2007	2006
		(Rupees in '000)	
18. DEFERRED TAX LIABILITY / (ASSET) - NET			
Deferred tax liability / (asset) - net	18.1	2,232,344	(906,661)

18.1 The balance of deferred taxation comprises:

	Note	2007	2006
Deductible temporary differences on			
deficit on revaluation of investments	21.2	(136,364)	(18,849)
ijarah financing		(57,605)	-
deferred tax on provision against off balance sheet item, post retirement medical benefit and consumer financing		(1,785,737)	(1,028,589)
		(1,979,706)	(1,047,438)
Taxable temporary differences on			
surplus on revaluation of fixed assets	21.1	4,199,162	60,697
accelerated tax depreciation		12,888	80,080
		4,212,050	140,777
		2,232,344	(906,661)

18.2 Through Finance Act 2007, a new section 100A read with the 7th schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies.The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Banks Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007 is being kept as an asset as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

	Note	2007	2006
		(Rupees in '000)	
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		3,375,092	2,432,045
Mark-up / return / interest payable in foreign currency		472,200	247,872
Accrued expenses	19.1	1,481,671	1,470,098
Branch adjustment account		2,942,052	(414,734)
Payable under severance scheme		34,183	35,226
Unearned commission		289,523	308,098
Provision for taxation - net	19.2	1,353,496	1,024,954
Provision against off - balance sheet obligations	19.3	608,731	652,339
Unrealized loss on derivative financial instruments - net	19.4	-	152,401
Deferred liabilities	19.5	2,204,881	2,409,310
Others		51,176	957,425
		12,813,005	9,275,034

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

19.1 This includes an accrual of Rs. 263.181 million for the year ended December 31, 2007 (2006 : Rs. 289 million for the year ended December 31, 2006 and Rs 270 million for the year ended December 31, 2005) in respect of employee bonus scheme . The object of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of bonus in the form of shares of UBL. The liability of the Bank in respect of this scheme is fixed and is approved each year by the Board of Directors of the Bank. The scheme for each year is managed by a separate Trust formed for this purpose.

19.2 The income tax assessments of the bank for domestic branches till the assessment year 2002-2003 (financial year ended December 31, 2001) have been finalized under normal law and as per the provisions of Repealed Income Tax Ordinance, 1979. The returns for the Tax Year 2003 to 2007 (financial years ended December 31, 2002 to 2006) were filed under the provisions of section 114 of the Income Tax Ordinance, 2001 (Ordinance) and are deemed to be assessed under section 120(1) of the Ordinance, unless amended by the Commissioner of Income Tax.

The return for the tax year 2003 was selected for audit under section 177 of the Ordinance and the amended assessment order has been passed on the basis of audit observations by adding / disallowing certain expenses / deductions resulting in an additional tax liability of Rs 406 million. Notwithstanding the challenging of the assessment in appeal before the Appellate Commissioner, on the grounds that the additions are arbitrary and uncalled for, the management has, on account of prudence, decided to create the provision against the above amount in these financial statements. The appeal against the said order has been heard by the Appellate Commissioner and the order is awaited.

For the tax years 2005, 2006 and 2007 taxation authorities has initiated proceedings u/s. 122 (5A) read with the section 122(9) of the Ordinance. The proceedings have been joined and the required information is being provided. However, no order has been passed as yet, however, the management is of the view that there may not arise any material tax liability once these cases attain finality.

In respect of Azad Kashmir Branches for the tax years 2005, 2006 and 2007 (financial years ended December 31, 2004, 2005 and 2006) were filed under the provisions of Section 120(1) read with section 114 of the Ordinance and in compliance with the terms of agreement between the banks and the Azad Kashmir Council in May 2005. The returns so filed qualify the statutory conditions to be termed as deemed assessment orders.

	Note	2007	2006
		(Rupees in '000)	
19.3 Provision against off - balance sheet obligations			
Opening balance		652,339	612,480
Charge during the year	29	(38,093)	52,663
Transfers during the year		(5,515)	(12,804)
		(43,608)	39,859
		608,731	652,339

19.4 Unrealized gain / (loss) on derivative financial instruments

	2007		2006	
	Contract/ Notional amount	Fair values	Contract/ Notional amount	Fair values
	---------------- (Rupees in '000)		------------------	
Unrealized gain / (loss) on:				
Interest rate swaps	3,960,485	(59,825)	6,884,347	(151,872)
Equity futures	-	-	382,026	(731)
Cross currency swaps	9,948,001	219,450	-	-
Forward purchase and sale contracts of government securities	-	-	8,468,302	202
	13,908,486	159,625	15,734,675	(152,401)

19.5 Deferred liabilities

	Note	2007	2006
		Rupees'000'	
Provision for post retirement medical benefits	35	1,218,758	1,226,331
Provision for gratuity - overseas		142,930	108,721
Provision for compensated absences	36	843,193	1,074,258
		2,204,881	2,409,310

20. SHARE CAPITAL

20.1 Authorized Capital

2007	2006			
Number of shares				
1,030,000,000	1,030,000,000	Ordinary shares of Rs 10 each	10,300,000	10,300,000

20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs 10 each

2007	2006			
Number of shares				
		Fully paid-up ordinary shares of Rs 10 each		
518,000,000	518,000,000	Issued for cash	5,180,000	5,180,000
291,375,000	129,500,000	Issued as bonus shares	2,913,750	1,295,000
809,375,000	647,500,000		8,093,750	6,475,000

As at December 31, 2007 Abu Dhabi Group and Bestway Group each held 25.5% shareholding of the Bank.

20.3 During the year Government of Pakistan (GoP) which was holding 44.46% shares of the bank through the State Bank of Pakistan (SBP) disinvested 25% of total shareholding of the bank comprising 202,343,752 equity shares in the form of Global Depositary Receipts (GDRs). The bank has issued 50,585,938 GDRs each representing four ordinary equity shares at an offer price of US$ 12.8543 per GDR. Due to the above disinvestment, the shareholding of SBP in the bank has reduced to 19.76%.

The bank has not received any proceeds from the offering of GDRs. Holders of GDRs are entitled, subject to the provision of the depositary agreement, to receive dividends, if any and rank parri passu with other equity shareholders in respect of such entitlement to receive dividends. However, the holders of GDRs have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Subject to the terms and restrictions set out in the offering circular dated June 25, 2007, the deposited equity shares in respect of which the GDRs were issued may be withdrawn from the depositary facility. Upon withdrawal, the holders will rank parri passu with other equity shareholders in respect of voting powers. At December 31, 2007 44,342,334 deposited equity shares had been withdrawn from the depositary facility.

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

	2007	
Name of shareholder	**Number of shares held**	**Percentage of shareholding**
His Highness Shaikh Nahayan Mabarak Al Nahayan	52,193,127	6.45%
H.E. Dr. Mana'a Saeed Al Otaiba	44,623,070	5.51%
Bestway (Holdings) Limited	103,191,406	12.75%
Sir Mohammed Anwar Pervez, OBE, HPk	41,278,125	5.10%
Bestway Cement Limited	61,917,187	7.65%
Government of Pakistan	159,949,522	19.76%

	Note	2007	2006
		(Rupees in '000)	
21. SURPLUS ON REVALUATION OF ASSETS			
Surplus arising on revaluation of assets - net of tax :			
Fixed assets	21.1	8,641,370	2,484,749
Securities	21.2	(229,377)	174,912
		8,411,993	2,659,661

21.1 Surplus on revaluation of fixed assets

	2007	2006
Surplus on revaluation of fixed assets at January 1	2,545,446	2,643,470
Surplus on revaluation of fixed assets booked during the year / adjustments	10,391,452	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year	(63,028)	(94,454)
Related deferred tax liability of incremental depreciation charged during the year	(33,338)	(3,570)
	12,840,532	2,545,446
Less: Related deferred tax liability on:		
Revaluation as on January 1	60,697	64,267
Revaluation of fixed assets during the year	4,171,803	-
Incremental depreciation charged on related assets	(33,338)	(3,570)
	4,199,162	60,697
	8,641,370	2,484,749

21.2 (Deficit) / surplus on revaluation available-for-sale securities

	2007	2006
Market Treasury Bills	(70,202)	(10,437)
Pakistan Investment Bonds	(105,316)	(58,140)
Quoted securities	(190,223)	224,640
	(365,741)	156,063
Related deferred tax asset	136,364	18,849
	(229,377)	174,912

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct credit substitutes

	2007	2006
Contingent liabilities in respect of guarantees given favouring		
Government	5,509,109	9,636,483
Banking companies and other financial institutions	3,939,226	2,443,965
Others	5,687,068	4,079,842
	15,135,403	16,160,290

22.2 Transaction-related contingent liabilities

	2007	2006
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favouring		
Government	43,946,035	27,269,975
Banking companies and other financial institutions	3,031,393	1,387,386
Others	13,992,900	4,585,391
	60,970,328	33,242,752

		2007	2006
		Rupees'000'	
22.3	**Trade-related contingent liabilities**		
	Contingent liabilities in respect of letters of credit opened favouring		
	Government	60,431,464	50,372,611
	Banking companies and other financial institutions	-	36,266
	Others	88,054,726	42,628,833
		148,486,190	93,037,710
22.4	**Other contingencies**		
	Claims against the Bank not acknowledged as debts	17,733,578	13,732,499

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.

		2007	2006
		Rupees'000'	
22.6	**Commitments in respect of forward foreign exchange contracts**		
	Sale	85,401,033	57,465,478
	Purchase	80,877,278	55,369,664
22.7	**Other commitments**		
	Forward purchase contracts of government securities	-	5,634,902
	Forward sale contracts of government securities	-	2,833,400
	Interest rate swaps	3,960,485	6,884,347
	Equity futures	-	382,026
	Sale of securities not yet purchased	657,226	1,067,735
	Cross currency swaps	9,948,001	-
	Commitments in respect of capital expenditure	128,328	89,037

23. DERIVATIVE INSTRUMENTS

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

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

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

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 handles its reporting to SBP.

Derivative Risk Management

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

Credit Risk

This refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in a negative impact on the bank's equity. There are two types of credit risk (Settlement and Pre-Settlement risk) that are associated with derivatives transactions and monitored on 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.

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

	2007							
	Interest Rate Swaps		Forward Rate Agreements		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
		Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000
With Banks for								
Hedging	2	597,960	-	-	17	3,033,180	7	7,670,018
Market Making	-	-	-	-	-	-		
With other entities								
Hedging			-	-				
Market Making	17	3,362,525	-	-	17	2,943,180	11	2,277,983
Total								
Hedging	2	597,960	-	-	17	3,033,180	7	7,670,018
Market Making	17	3,362,525	-	-	17	2,943,180	11	2,277,983

	2006							
	Interest Rate Swaps		Forward Rate Agreements		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
		Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000
With Banks for								
Hedging	2	702,529	-	-	3	621,571	-	-
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	-	-

23.2 Maturity Analysis

Interest Rate and Cross Currency Swaps

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market Negative	Mark to Market Positive	Mark to Market Net
	2007				
	(Rupees in '000)				
Upto 1 Month	1	200,000	1,014	-	(1,014)
1 to 3 Month	-	-	-	-	-
3 to 6 Month	-	-	-	-	-
6 Month to 1 Year	5	1,382,857	5,054	5,765	711
1 to 2 Year	10	1,322,222	24,044		(24,044)
2 to 3 Year	13	2,466,546	24,843	1,207	(23,636)
3 to 5 Year	5	5,192,861	5,519	149,257	143,738
5 to 10 Year	3	3,344,000	-	63,870	63,870
Above 10 Year					
	37	13,908,486	60,474	220,099	159,625

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market Negative	Mark to Market Positive	Mark to Market Net
	2006				
	(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	(74,280)	2,794	(71,486)
5 to 10 Year	-	-	-	-	-
Above 10 Year	-	-	-	-	-
	22	6,884,347	(155,195)	2,794	(152,401)

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, 2007 are stated in note 19.4 of these financial statements.

24. MARK-UP / RETURN / INTEREST EARNED

	2007	2006
	(Rupees in '000)	
On loans and advances		
- Customers	29,662,904	24,510,896
- Financial institutions	821,999	572,768
	30,484,903	25,083,664
On investments in		
- Available for sale securities	8,001,566	3,542,217
- Held to maturity securities	261,197	1,607,616
- Associates and subsidiaries	16,892	31,513
	8,279,655	5,181,346
On deposits with financial institutions	1,110,265	1,267,425
On securities purchased under resale agreements	1,151,537	1,442,904
Discount income	19,183	16,264
	41,045,543	32,991,603

25. MARK-UP / RETURN / INTEREST EXPENSED

	2007	2006
On deposits	13,281,249	9,297,894
On securities sold under repurchase agreements	1,687,771	1,020,155
On other short - term borrowings	1,285,400	1,275,522
On long - term borrowings	596,625	471,851
Discount expense	85,142	61,387
	16,936,187	12,126,809

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

	Note	2007	2006
		(Rupees in '000)	
26. GAIN / (LOSS) ON SALE OF SECURITIES			
Federal Government Securities			
Market Treasury Bills		(5,234)	(3,607)
Pakistan Investment Bonds		(13,781)	(98,397)
		(19,015)	(102,004)
Fully paid - up ordinary shares			
Listed companies		386,641	388,706
Unlisted companies		-	-
		386,641	388,706
Other securities		481,741	(5,838)
		849,367	280,864

27. OTHER INCOME

	Note	2007	2006
Charges recovered from customers		1,164,502	581,518
Rent on properties		119,950	92,975
Income from non-banking assets and profit from sale of or dealing with such assets		-	14,393
Others		333,111	49,444
		1,617,563	738,330

28. ADMINISTRATIVE EXPENSES

	Note	2007	2006
Personnel Cost			
Salaries, allowances etc.		6,180,511	5,187,595
Charge for compensated absences		125,876	201,501
Medical expenses		312,123	263,931
Contribution to defined contribution plan		118,897	104,287
Reversal in respect of defined benefit obligations		(194,230)	(80,616)
		6,543,177	5,676,698
Premises Cost			
Rent, taxes, insurance, electricity etc.		1,221,249	851,020
Depreciation	11.2	184,468	147,365
Repairs and maintenance		114,970	74,594
		1,520,687	1,072,979
Other Operating Cost			
Outsourced service charges including sales commission		1,388,021	1,036,243
Advertisement and publicity		590,263	461,223
Communications		547,836	491,627
Depreciation	11.2	476,767	403,309
Legal and professional charges		440,168	206,847
Banking service charge		355,333	239,811
Stationery and printing		286,329	246,223
Travelling		164,185	138,067
Cash transportation charges		154,280	138,629
Repairs and maintenance		119,838	85,742
Insurance expense		115,595	97,737
Vehicle expenses		89,988	89,673
Amortization	11.3	89,173	52,251
Training and seminar		83,005	82,507
Office running expenses		80,932	64,217
Entertainment		67,182	54,163
Cartage, freight and conveyance		60,122	49,643
Auditors' remuneration	28.2	24,348	26,322
Subscriptions		22,452	19,449
Brokerage expenses		20,096	18,551
Sub-ordinated debt issuance costs		19,836	27,804
Donations	28.1	13,840	11,350
Non-executive directors' fee and allowances		119	117
Miscellaneous expenses		147,405	161,093
		5,357,113	4,202,598
		13,420,977	10,952,275

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

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

	2007		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)		
Audit fee	5,100	5,100	10,200
Fee for audit of EPZ branch	56	-	56
Fee for audit of overseas branches	-	-	11,131
Out of pocket expenses	1,486	1,475	2,961
	6,642	6,575	24,348

	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
	6,328	5,989	26,322

	Note	2007	2006
		(Rupees in '000)	
29. OTHER PROVISIONS / WRITE OFFS - NET			
Provision against other assets - net	12.1	80,707	173,650
Provision against off - balance sheet obligations	19.3	(38,093)	52,663
Other provisions / write offs		193,667	-
		236,281	226,313
30. OTHER CHARGES			
Penalties of State Bank of Pakistan		17,430	25,980

31. TAXATION

	2007			
	Overseas	Azad Kashmir	Domestic	Total
	(Rupees in '000)			
Current tax	618,489	251,563	4,205,548	5,075,600
Prior year tax	21,961	-	420,706	442,667
Deferred taxation	(7,934)	(969)	(906,981)	(915,884)
	632,516	250,594	3,719,273	4,602,383

	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
	885,657	483,421	3,454,446	4,823,524

31.1 Relationship between tax expense and accounting profit

	2007	2006
	(Rupees in '000)	
Accounting profit for the year	13,004,973	14,291,756
Tax on income @ 35% (2006: 35%)	4,551,741	5,002,115
Tax effect of items that are either not included in determining taxable profit or taxed at reduced rates	(358,687)	(169,436)
Deferred tax liability / (asset) recognized on assessed losses / temporary differences	-	(50,810)
Reversal of deferred tax liability on incremental depreciation	(33,338)	(3,570)
Prior year tax charge	442,667	45,225
Tax charge	4,602,383	4,823,524

32. EARNINGS PER SHARE

	2007	2006
Profit after taxation for the year	8,402,590	9,468,232
	(Number of shares)	
Weighted average number of ordinary shares	809,375,000	809,375,000
	(Rupees)	
Earnings per share	10.38	11.70

32.1 A diluted earnings per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2006 and 2007 which would have any effect on the earnings per share if the option to convert is exercised.

33. CASH AND CASH EQUIVALENTS

	2007	2006
	(Rupees in '000)	
Cash and balances with treasury banks	57,526,451	48,939,840
Balances with other banks	4,191,128	14,034,476
	61,717,579	62,974,316

34. STAFF STRENGTH

	(Number)	
Permanent	9,373	9,734
Contractual basis	9	4
Bank's own staff strength at the end of the year	9,382	9,738
Outsourced	5,522	5,631
Total number of employees at the end of the year	14,904	15,369

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, 2007.

35.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2007. Projected unit credit actuarial cost method, using following significant assumptions was used for the valuation of the defined benefit plans:

	2007	2006
Discount rate	10%	9%
Expected rate of return on plan assets	10%	9%
Expected rate of salary increase	8%	9%
Expected rate of pension increase	5%	4%

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

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

	2007				2006			
	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	4,343,529	399,289	564,591	-	4,433,583	437,373	670,979	-
Fair value of plan assets	(7,260,256)	(356,676)	(914,356)	-	(7,116,577)	(335,449)	(917,522)	-
	(2,916,727)	42,613	(349,765)	-	(2,682,994)	101,924	(246,543)	-
Present value of unfunded obligation	-	-	-	1,202,462	-	-	-	1,298,048
Net actuarial gains or (losses) not recognized	2,247,418	(44,499)	324,249	16,296	2,175,323	(103,944)	188,256	(71,717)
(Receivable) / payable	(669,309)	(1,886)	(25,516)	1,218,758	(507,671)	(2,020)	(58,287)	1,226,331

35.4 Movement in defined benefit obligation

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Obligation at the beginning of the year	4,433,583	437,373	670,979	1,298,048	4,184,487	381,983	665,686	1,263,750
Current service cost	19,507	55,913	17,190	14,694	19,626	46,838	17,758	15,511
Interest cost	399,022	39,364	60,388	116,824	376,604	34,378	59,912	113,738
Benefits paid by the fund	-	-	-	-	(629)	-	(597)	-
Benefits paid by the bank	(542,560)	(54,026)	(36,952)	(88,996)	(385,005)	(59,373)	(60,716)	(57,318)
Early retirement liability	(59,539)	(48,918)	(28,628)	(49,425)	-	-	-	-
Actuarial (gain)/ loss on obligation	93,516	(30,417)	(118,386)	(88,683)	238,500	33,547	(11,064)	(37,633)
Obligation at the end of the year	4,343,529	399,289	564,591	1,202,462	4,433,583	437,373	670,979	1,298,048

35.5 Movement in fair value of plan assets

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Fair value at the beginning of the year	7,116,577	335,449	917,522	-	6,349,249	345,484	773,365	-
Expected return on plan assets	640,492	30,190	82,577	-	571,432	31,094	69,603	-
Contribution by the bank	-	80,928	7,618	-	-	51,259	10,000	-
Contribution by the employees	-	-	7,618	-	-	-	10,290	
Amount paid by the fund to the bank	(915,911)	(109,388)	(147,535)	-	(516,973)	(61,696)	(26,129)	-
Payment received on behalf of the fund	-	2,611	1,809	-	-	-	-	-
Benefits paid by the fund	-	-	-	-	(629)	-	(597)	-
Actuarial gain/ (loss) on plan assets	419,098	16,886	44,747	-	713,498	(30,692)	80,990	-
Fair value at the end of the year	7,260,256	356,676	914,356	-	7,116,577	335,449	917,522	-

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

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Opening balance	(507,671)	(2,020)	(58,287)	1,226,331	(346,059)	(3,373)	(9,555)	1,154,400
Mark-up receivable on company's balance	(10,351)	-	(9)	-	-	-	-	-
Charge/ (reversal) for the year	(403,532)	79,092	(1,308)	133,976	(293,580)	50,289	(4,113)	129,249
Contribution by the Bank	-	(80,928)	(7,618)	-	516,973	10,437	16,129	-
Amount paid by the Fund to the Bank	915,911	109,388	147,535	-	-	-	-	-
Payment received on Behalf of the Bank	-	(2,611)	(1,809)	-	-	-	-	-
Benefits paid by the Bank	(663,666)	(104,807)	(104,020)	(141,549)	(385,005)	(59,373)	(60,748)	(57,318)
Closing balance	(669,309)	(1,886)	(25,516)	1,218,758	(507,671)	(2,020)	(58,287)	1,226,331

35.7 Charge for defined benefit plans

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Current service cost	19,507	55,913	17,190	14,694	19,626	46,838	17,758	15,511
Interest cost	399,022	39,364	60,388	116,824	376,604	34,378	59,912	113,738
Expected return on plan assets	(640,492)	(30,190)	(82,577)	-	(571,432)	(31,094)	(69,603)	-
Actuarial (gains) and losses	(162,630)	6,690	(10,690)	-	(118,378)	167	(1,890)	-
Employees' contribution	-	-	(7,618)	-	-	-	(10,290)	-
Settlement loss / gains	(18,939)	7,315	21,999	2,458				
	(403,532)	79,092	(1,308)	133,976	(293,580)	50,289	(4,113)	129,249

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:

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Expected return on plan assets	640,492	30,190	82,577	-	571,432	31,094	69,603	-
Actuarial gain/ (loss) on plan assets	419,098	16,886	44,747	-	713,498	(30,692)	80,990	-
	1,059,590	47,076	127,324	-	1,284,930	402	150,593	-

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

	Pension Fund				
	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	(4,343,529)	(4,433,583)	(4,184,487)	(4,027,184)	(3,363,652)
Fair value of plan assets	7,260,256	7,116,577	6,349,249	6,541,166	5,985,788
Surplus / (Deficit)	2,916,727	2,682,994	2,164,762	2,513,982	2,622,136
Experience adjustments on plan liabilities [loss/(gain)]	126,265	238,500	251,108	292,061	(213,654)
Experience adjustments on plan assets [loss/(gain)]	(11,848)	(411,713)	(438,971)	(534,091)	(402,753)

	Gratuity Fund				
	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	(399,289)	(437,373)	(381,983)	(292,738)	(279,509)
Fair value of plan assets	356,676	335,449	345,484	324,220	373,367
Surplus / (Deficit)	(42,613)	(101,924)	(36,499)	31,482	93,858
Experience adjustments on plan liabilities [loss/(gain)]	27,782	33,547	50,697	1,029	(39,872)
Experience adjustments on plan assets [loss/(gain)]	(5,179)	10,979	757	(1,023)	13,931

	Benevolent Fund				
	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	(564,591)	(670,979)	(665,686)	(719,317)	(582,699)
Fair value of plan assets	914,356	917,522	773,365	694,182	607,327
Surplus / (Deficit)	349,765	246,543	107,679	(25,135)	24,628
Experience adjustments on plan liabilities [loss/(gain)]	(90,203)	(11,064)	33,543	286,097	(89,812)
Experience adjustments on plan assets [loss/(gain)]	(45,638)	(64,187)	(59,679)	(60,667)	(46,803)

	Post retirement medical				
	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	(1,202,462)	(1,298,048)	(1,263,750)	(1,256,633)	(1,064,831)
Experience adjustments on plan liabilities [loss/(gain)]	(67,904)	(37,633)	(12,195)	36,389	160,963

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

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

	2007				2006			
	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical	Pension fund	Gratuity fund	Benevolent fund	Post retire-ment medical
	(Rupees in '000)							
Government securities	99.97%	32.20%	46.88%	-	88.80%	48.00%	95.00%	-
Units of mutual funds	-	21.62%	51.05%	-	0.01%	23.00%	2.40%	-
Ordinary shares of listed companies	-	-	2.07%	-	-	0.00%	2.50%	-
Term finance certificates	-	41.44%	-	-	-	28.00%	-	-
Others (including bank balances)	0.03%	4.74%	-	-	11.19%	1.00%	0.10%	-
	100.00%	100.00%	100.00%	-	100.00%	100.00%	100.00%	-

As per the actuarial recommendations the expected return on plan assets was taken as 12% per annum. The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

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, 2008 would be as follows:

	2008			
	Pension fund	Gratuity fund	Benevole-nt fund	Post retire-ment medical
	(Rupees in '000)			
Expected charge for the year	(503,546)	51,242	(45,339)	132,524

36. OTHER EMPLOYEE BENEFITS

36.1 Defined contribution plan

The Bank operates a contributory provident fund scheme for 6,053 (2006: 6,255) 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, 2007 amounted to Rs. 843.193 million (2006: Rs 1,074.258 million) which has been fully provided by the bank. The charge for the year in respect of these absences amounted to Rs.125.876 million (2006: Rs 201.501 million) which is included in note 28 to these financial statements.

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

36.3 Employee Motivation and Retention Scheme

The Bank operates a long term motivation and retention scheme for its employees. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the Bank by way of Bonus in the form of shares of UBL .The liability of the Bank in respect of this scheme is fixed and approved each year by the Board of Directors of the Bank .The scheme is managed by separate Trusts formed in respect of each year. For further details refer note 19.1.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Fees	-	-	119	117	-	-
Managerial remuneration	73,557	48,385	-	-	623,238	394,833
Charge for defined benefit plan	776	455	-	-	29,744	6,850
Contribution to defined contribution plan	1,680	1,380	-	-	32,039	20,759
Rent and house maintenance	1,440	1,440	-	-	172,992	116,143
Utilities	227	303	-	-	38,443	25,810
Medical	36	21	-	-	38,443	25,810
Reimbursement of children's education fees	1,837	1,035	-	-	-	-
Vehicle running, maintenance and others	775	447	-	-	157,701	33,476
	80,328	53,466	119	117	1,092,600	623,681
Number of persons	1	1	3	3	405	207

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

In addition to the above, all executives including Chief Executive Officer of the bank, are also entitled to certain short and long term employee benefits which are disclosed in note 36 to these financial statements.

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 note 43 to these accounts.

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

	For the year ended December 31, 2007			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Total income	882,384	8,547,960	26,856,861	13,750,689
Total expenses	(94,393)	(6,465,887)	(21,753,491)	(8,719,150)
Net income / (loss)	787,991	2,082,073	5,103,370	5,031,539
Segment return on assets (ROA) (%)	10%	8%	13%	9%
Segment cost of funds (%)	11%	7%	9%	7%

	For the year ended December 31, 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 return on assets (ROA) (%)	10%	7%	15%	8%
Segment cost of funds (%)	8%	7%	9%	3%

	As at December 31, 2007			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Segment assets (gross of NPL provisions)	5,720,519	172,758,380	163,827,587	204,008,152
Segment non performing loans (NPL)	-	-	18,483,044	3,529,367
Segment provision required against NPL	-	-	14,368,974	1,661,708
Segment liabilities	4,097,169	169,590,306	141,564,544	172,610,533

	As at December 31, 2006			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Segment assets (gross of NPL provisions)	1,065,980	118,913,989	178,656,643	136,812,596
Segment non performing loans (NPL)	-	-	9,369,117	6,886,292
Segment provision required against NPL	-	-	7,062,417	5,120,918
Segment liabilities	289,895	112,479,273	157,622,609	123,010,709

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), employee benefit plans (refer note 35) and its directors and executive officers (including their associates).

Details of loans and advances to the key management personnel, the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members are given in note 10.9 to these financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 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:

	2007				2006			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Advances								
At January 01	93,648	-	565	1,000,000	80,694	-	565	1,817,576
Given during the year	46,002	978,224	-	-	45,557	-	-	-
Repaid during the year	(59,058)	(978,224)	(565)	(1,000,000)	(32,603)	-	-	(817,576)
At December 31 2007	80,592	-	-	-	93,648	-	565	1,000,000
Deposits								
At January 01	13,249	5,659	11,226	6,160,983	15,542	4,146	4,261	4,317,759
Received during the year	294,791	301,007,108	48,419,004	2,432,626	189,638	4,907,637	11,190,278	138,271,114
Withdrawn during the year	(293,788)	(301,008,718)	(48,198,344)	(2,728,493)	(191,931)	(4,906,124)	(11,183,313)	(136,427,890)
At December 31 2007	14,252	4,049	231,886	5,865,116	13,249	5,659	11,226	6,160,983
Outstanding placement at the end of the year	-	319,019	-	-	-	1,271,700	-	-
Payable in respect of acquisition of investment in equity shares	-	30,000	-	-	-	30,000	-	-
Distribution commission receivable	-	7,136	-	-	-	5,979	-	-
Other receivable	-	122	37,954	-	-	2,815	-	-
Employee Motivation & Retention Scheme	-	-	-	263,181	-	-	-	559,900

	2007				2006			
	Key management personnel	Subsidiaries	Associates	Other related parties	Key management personnel	Subsidiaries	Associates	Other related parties
	(Rupees in '000)							
Mark-up / return / interest earned	3,294	27,828	1,988	19,222	3,651	31,299	2,349	100,545
Mark-up / return / interest expensed	56	3,635	2,246	128,096	-	1,369	-	115,530
Reimbursement of liaison office expenses paid to Dubai and Abu Dhabi Group	-	-	-	36,444	-	-	-	36,170
Dividend income received	-	196,888	-	-	-	145,572	-	-
Other expenses paid		-	81,882	-	-	-	22,620	-
Remuneration paid	254,385	-	-	-	189,407	-	-	-
Post employment benefits	14,727	-	-	-	7,506	-	-	-
Contribution to defined contribution plan	-	-	-	118,897	-	-	-	104287
Contribution to defined benefit plan	-	-	-	88,456	-	-	-	61,259
Employee Motivation & Retention scheme	-	-	-	480,000	-	-	-	-
Distribution Commission Income	-	2,251	-	-	-	1,411	-	-
Placements made during the year	-	9,883,253	-	-	-	375,007,932	-	-
Placements settled during the year	-	10,129,218	-	-	-	373,529,852	-	-
Maximum amount of a placement made during the year	-	1,646,553	-	-	-	2,394,927	-	-
Investment made during year	-	543,600	17,134,635	18,743	-	-	1,090,000	370,000
Redemption made during the period	-	-	12,875,596	-	-	-	-	-

42. CAPITAL ADEQUACY

42.1 Capital Management

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

Goals of managing capital

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

- To be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;

- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 6 dated October 28, 2006 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs. 6 billion by the year ending December 31, 2009. The raise is to be achieved in a phased manner requiring Rs. 4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the Bank for the year ended December 31, 2007 stood at Rs. 8.093 billion and is in compliance with the SBP requirement for the said year. In addition the Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 8% of the risk weighted exposure of the Bank. United Bank Limited's CAR as at December 31, 2007 was 10.85% of its risk weighted exposure.

Bank's regulatory capital is analyzed into two tiers.

Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25% risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50% the balance in the related revaluation reserves), foreign exchange translation reserves), etc

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

The required capital adequacy ratio (8% of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

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

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

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:

	2007	2006
Regulatory capital base	(Rupees in '000)	
Tier I Capital		
Share capital	8,093,750	6,475,000
Reserves	8,709,751	7,029,233
Unappropriated profits	15,654,303	12,429,853
	32,457,804	25,934,086
Less: Adjustments		
- Investments in equity of subsidiary companies engaged in banking and financial activities	(2,201,948)	(1,660,848)
- Deficit on account of revaluation of investments classified as AFS	(347,190)	(164,607)
	(2,549,138)	(1,825,455)
Total Tier I Capital	29,908,666	24,108,631
Tier II Capital		
Subordinated debt (upto 50% of total Tier I Capital)	5,327,148	5,860,474
General provisions (subject to 1.25% of total risk weighted assets)	1,296,496	1,163,019
Exchange translation reserve	1,552,210	1,269,640
Revaluation reserves	4,320,685	1,341,909
Total Tier II Capital	12,496,539	9,635,042
Eligible Tier III Capital	-	-
Total regulatory capital (a)	42,405,205	33,743,673

Risk weighted exposures	Note	2007 Book Value	2007 Risk Adjusted Value	2006 Book Value	2006 Risk Adjusted Value
		(Rupees in '000)			
Credit risk					
Balance sheet items:					
Cash and balances with treasury banks		52,029,704	-	45,944,979	-
Balances with other banks	42.2.1	9,687,875	1,937,575	17,029,337	3,405,867
Lendings to financial institutions		24,781,723	9,659,006	29,572,070	7,203,011
Investments	42.2.2	113,129,521	14,069,834	65,465,380	9,795,125
Advances	42.2.3	294,323,935	238,235,380	245,918,252	204,168,103
Fixed assets		16,918,844	16,918,844	5,234,463	5,234,463
Deferred tax asset - net		-	-	906,661	906,661
Other assets		11,925,428	11,300,060	10,477,200	9,885,850
		522,797,030	292,120,699	420,548,342	240,599,080
Off - balance sheet items:					
Loan repayment guarantees	42.2.4	21,973,135	21,961,776	23,780,520	23,610,280
Performance bonds etc	42.2.5	60,341,290	27,098,512	32,614,417	14,497,856
Stand by letters of credit	42.2.6	139,530,671	28,545,116	83,371,268	15,338,387
Outstanding interest rate swaps		3,960,485	159,711	6,884,347	250,519
Outstanding cross currency swaps		9,948,001	464,347		
Outstanding foreign exchange contracts	42.2.7				
Purchase		78,604,303	860,489	50,666,568	312,206
Sales		80,099,328	848,607	50,249,750	296,318
		158,703,631	1,709,096	100,916,318	608,524
		917,254,243	79,938,558	247,566,870	54,305,566
Credit risk weighted exposures			372,059,257		294,904,646
Market Risk					
General market risk			854,613		158,767
Specific market risk			575,164		37,258
Foreign exchange risk			64,527		532,613
Total capital charge for market risk (b)			1,494,304		728,638
Market risk weighted exposures (b x 12.5)			18,678,800		9,107,975
Total risk weighted exposures (c)			390,738,057		304,012,621
Capital Adequacy Ratio (a / c x 100)			10.85%		11.10%

42.2.1 Balances with other banks includes balances with National Bank of Pakistan in local currency current account amounting to Rs 5,496.747 million (2006: Rs 2,994.861 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 2,201.948 million (2006: Rs 1,660.848 million) and held-for-trading portfolio amounting to Rs. 254.177 million (2006: Rs 134.110 million) . The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

42.2.3 Advances secured against government securities / own deposits / cash margin amounting to Rs 6,327.297 million (2006: Rs 2,554.660 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs 1,296.496 million (2006: Rs 1,163.019 million). This reserve has been added to supplementary capital.

42.2.4 Cash margins amounting to Rs 1,381.420 million (2006: Rs 1,362.709 million) have been deducted from loan repayment guarantees.

42.2.5 Cash margins amounting to Rs 629.038 million (2006: Rs 628.335 million) have been deducted from performance bonds e.t.c

42.2.6 Cash margins amounting to Rs 736.368 million (2006: Rs 683.503 million) have been deducted from stand by letters of credit.

42.2.7 Forward foreign exchange contracts with maturity of less than or equal to 14 days amounting to Rs. 7,574.760 million (2006: Rs. 11,918.824 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 the Bank.

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.

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

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	4,362,845	1.38%	3,349,125	0.83%	5,942,216	1.40%
Agri business	14,368,394	4.54%	20,956,613	5.22%	133,550	0.03%
Textile spinning	21,731,262	6.86%	1,242,134	0.31%	1,874,086	0.44%
Textile weaving	10,759,934	3.40%	967,113	0.24%	1,784,845	0.42%
Textile composite	15,758,008	4.98%	474,008	0.12%	1,520,177	0.36%
Textile others	14,816,782	4.68%	1,224,871	0.30%	1,944,311	0.46%
Cement	8,279,376	2.61%	880,941	0.22%	4,787,875	1.13%
Sugar	8,114,092	2.56%	1,303,078	0.32%	196,899	0.05%
Shoes and leather garments	2,755,487	0.87%	1,426,002	0.36%	195,568	0.05%
Automobile and transportation equipment	6,213,147	1.96%	2,591,894	0.65%	1,829,951	0.43%
Financial	4,874,814	1.54%	13,470,247	3.35%	217,916,944	51.50%
Insurance	-	0.00%	8,558,352	2.13%	1,709	0.00%
Electronics and electrical appliances	2,432,333	0.77%	2,565,999	0.64%	1,466,097	0.35%
Production and transmission of energy	30,269,568	9.56%	20,911,496	5.21%	13,377,087	3.16%
Paper and allied	1,916,486	0.61%	570,453	0.14%	337,966	0.08%
Surgical and metal	5,636,289	1.78%	1,539,183	0.38%	110,761	0.03%
Contractors	3,826,108	1.21%	12,652,147	3.15%	676,007	0.16%
Wholesale traders	15,063,818	4.76%	24,613,638	6.13%	14,119,633	3.34%
Fertilizer dealers	4,997,043	1.58%	6,248,706	1.56%	898,260	0.21%
Sports goods	721,832	0.23%	317,714	0.08%	321	0.00%
Food industries	4,827,518	1.52%	1,504,779	0.37%	2,075,413	0.49%
Airlines	4,252,767	1.34%	2,025,897	0.50%	187,574	0.04%
Cables	182,300	0.06%	55,417	0.01%	704,511	0.17%
Construction	10,107,682	3.19%	6,373,025	1.59%	20,809,622	4.92%
Containers and ports	404,040	0.13%	2,639,257	0.66%	895	0.00%
Engineering	2,127,655	0.67%	4,935,704	1.23%	1,601,328	0.38%
Glass and Allied	484,117	0.15%	69,357	0.02%	75,551	0.02%
Hotels	2,714,499	0.86%	311,103	0.08%	9,234	0.00%
Infrastructure	-	0.00%	6,539,304	1.63%	5,613	0.00%
Media	581,197	0.18%	326,873	0.08%	408,349	0.10%
Polyester and fibre	1,519,069	0.48%	189,557	0.05%	714,004	0.17%
Telecommunication	6,353,298	2.01%	702,204	0.17%	6,212,522	1.47%
Individuals	68,664,014	21.68%	205,538,882	51.18%	22,498,303	5.32%
Others	37,621,672	11.88%	44,562,743	11.10%	98,752,340	23.34%
	316,737,446	100%	401,637,816	100%	423,169,522	100%

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

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	(Rupees in '000)					
Chemical and pharmaceuticals	4,511,482	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%
	260,909,477	100%	335,077,873	100%	285,899,840	100%

43.1.1.2 Segment by Sector

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	36,558,750	11.54%	77,690,020	19.34%	83,952,624	19.84%
Private	280,178,696	88.46%	323,947,796	80.66%	339,216,898	80.16%
	316,737,446	100%	401,637,816	100%	423,169,522	100%

	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%
	260,909,477	100%	335,077,873	100%	285,899,840	100%

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

	2007		2006	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Chemical and pharmaceuticals	779,887	760,287	751,726	639,609
Agri business	1,356,148	540,449	913,266	348,712
Textile spinning	1,584,127	1,496,813	1,538,999	1,225,149
Textile weaving	314,127	273,068	253,351	184,686
Textile composite	712,364	689,360	754,257	617,940
Textile others	2,928,663	2,452,500	2,257,048	1,787,406
Cement	19,567	19,567	24,507	22,037
Sugar	34,782	34,782	37,187	37,187
Shoes and leather garments	7,608	5,459	146,517	89,922
Automobile and transportation equipment	150,224	149,966	144,950	142,581
Financial	133,448	66,782	138,369	69,435
Insurance	-	-	-	-
Electronics and electrical appliances	150,127	118,414	96,467	93,614
Production and transmission of energy	-	-	154,429	154,429
Paper and allied	4,617	4,288	180,046	53,102
Surgical and metal	11,905	11,905	952	952
Contractor	-	-	-	-
Wholesale traders	847,628	589,029	550,518	370,297
Fertilizer dealers	71,145	66,215	263	263
Sports goods	255,855	255,855	180,208	2,552
Food industries	785,819	719,839	769,500	361,644
Construction	2,269,807	740,601	451,311	293,529
Containers and ports	-	-	-	-
Engineering	3,014	2,654	23,446	6,953
Steel	242,837	242,837	271,447	254,447
Glass and Allied	24	24	-	-
Hotels	126,715	82,117	245,802	66,992
Infrastructure	-	-	-	-
Media	82,462	82,462	94,004	18,947
Polyester and fibre	150	150	1,789	1,789
Telecommunication	3,000	1,500	-	-
Individuals	6,600,738	4,282,719	3,155,992	2,486,333
Others	2,535,623	2,341,040	3,119,058	2,852,828
	22,012,411	16,030,682	16,255,409	12,183,335

43.1.3 Details of non performing advances and specific provision by sector

	2007		2006	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Public/Government	-	-	60,750	-
Private	22,012,411	16,030,682	16,194,659	12,183,335
	22,012,411	16,030,682	16,255,409	12,183,335

43.1.4 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan				
Domestic Operations	9,748,914	429,836,382	40,441,855	365,759,239
Asia Pacific (including South Asia)	53,832	1,389,072	44,589	149,581
	9,802,746	431,225,454	40,486,444	365,908,820
Overseas				
United States of America	169,944	953,646	112,195	81,521
Middle East	3,032,282	98,104,856	1,822,765	57,179,181
	3,202,226	99,058,502	1,934,960	57,260,702
	13,004,972	530,283,956	42,421,404	423,169,522

	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
	11,847,338	349,138,274	28,181,860	224,713,648
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
	2,444,418	74,181,933	1,681,527	61,186,192
	14,291,756	423,320,207	29,863,387	285,899,840

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.

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

	2007			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	---------- (Rupees in '000) ----------			
Pakistan Rupee	397,158,669	367,533,119	4,829,581	34,455,131
US Dollar	52,806,483	42,784,386	(14,328,354)	(4,306,257)
Pound Sterling	6,441,913	4,348,742	3,279,532	5,372,703
Euro	2,900,883	2,466,273	1,579,240	2,013,850
Japanese Yen	189,441	16,857	(177,829)	(5,245)
Other Currencies	70,786,567	70,713,175	4,817,830	4,891,222
	530,283,956	487,862,552	-	42,421,404

	2006			
	Assets	Liabilities	Off - balance sheet items	Net foreign currency exposure
	---------- (Rupees in '000) ----------			
Pakistan Rupee	335,052,693	303,592,965	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
	423,265,873	393,402,486	-	29,863,387

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.

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

43.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

	---- 2007 ----											
	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	1.20%	57,526,451	16,992,809		-	-	-	-	-	-	-	40,533,642
Balances with other banks	6.80%	4,191,128	2,007,647	-	-	-	-	-	-	-	-	2,183,481
Lendings to financial institutions	8.30%	24,781,723	12,541,487	7,615,087	1,054,116	1,775,935	1,361,050	434,048	-	-	-	-
Investments	8.10%	115,585,646	13,237,068	25,530,562	7,375,999	29,103,072	6,576,128	903,584	7,333,002	11,837,302	1,866,682	11,822,247
Advances												
Performing	11.10%	293,373,007	94,835,934	54,175,801	26,074,836	27,718,499	16,306,632	15,909,099	28,336,798	21,684,521	8,330,887	-
Non Performing	0.00%	5,981,729	-	-	-	-	-	-	-	-	-	5,981,729
Other assets	0.00%	10,254,873	-	-	-	-	-	-	-	-	-	10,254,873
		511,694,557	139,614,945	87,321,450	34,504,951	58,597,506	24,243,810	17,246,731	35,669,800	33,521,823	10,197,569	70,775,972
Liabilities												
Bills payable	0.00%	6,079,341	-	-	-	-	-	-	-	-	-	6,079,341
Borrowings	8.20%	59,103,350	40,268,261	14,296,449	4,445,694	92,946	-	-	-	-	-	-
Deposits and other accounts	0.4% - 10.2%	401,637,816	80,699,864	109,239,268	36,365,930	44,043,266	6,288,758	3,131,858	3,131,858	3,203,678	-	115,533,336
Subordinated loans	9.90%	5,996,696	-	424	-	1,999,624	848	852	3,994,948	-	-	-
Other liabilities	0.00%	7,568,027	-	-	-	-	-	-	-	-	-	7,568,027
		480,385,230	120,968,125	123,536,141	40,811,624	46,135,836	6,289,606	3,132,710	7,126,806	3,203,678	-	129,180,704
On-balance sheet gap		31,309,327	18,646,820	(36,214,691)	(6,306,673)	12,461,670	17,954,204	14,114,021	28,542,994	30,318,145	10,197,569	(58,404,732)
Non financial net assets		11,112,077										
Total net assets		42,421,404										
Off-balance sheet financial instruments												
Foreign currency forward purchases		80,877,278	29,557,454	22,355,279	15,467,078	12,507,355	688,350	301,762	-	-	-	-
Foreign currency forward sales		(85,401,033)	(27,881,591)	(29,989,365)	(20,540,860)	(5,500,879)	(682,171)	(806,167)	-	-	-	-
Interest Rate Derivatives - Long position		3,960,485	462,500	662,500	-	500,000	1,098,888	997,961	238,636	-	-	-
Interest Rate Derivatives - Short position		(3,960,485)	(1,161,480)	(1,940,925)	(458,080)	(400,000)	-	-	-	-	-	-
Forward Purchase of Govt Securities		-	-	-	-	-	-	-	-	-	-	-
Forward Sale of Govt. Securities		-	-	-	-	-	-	-	-	-	-	-
Sale of Govt. Securities not yet purchased		(657,226)	-	(657,226)	-	-	-	-	-	-	-	-
Cross Currency Swap - Loang position		9,948,001	458,336	6,830,665	2,659,000	-	-	-	-	-	-	-
Cross Currency Swap - Short Position		(9,948,001)	(458,336)	(6,830,665)	(2,659,000)	-	-	-	-	-	-	-
Off-balance sheet gap		(5,180,981)	976,883	(9,569,737)	(5,531,862)	7,106,476	1,105,067	493,556	238,636	-	-	-
Total Yield/Interest Risk Sensitivity Gap			19,623,703	(45,784,428)	(11,838,535)	19,568,146	19,059,271	14,607,577	28,781,630	30,318,145	10,197,569	(58,404,732)
Cumulative Yield/Interest Risk Sensitivity Gap			19,623,703	(26,160,725)	(37,999,260)	(18,431,114)	628,157	15,235,734	44,017,364	74,335,509	84,533,078	26,128,346

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

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

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

	2006											
	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	4.30%	48,939,840	20,522,278	-	-	-	-	-	-	-	-	28,417,562
Balances with other banks	7.00%	14,034,476	13,132,759	-	-	-	-	-	-	-	-	901,717
Lendings to financial institutions	8.00%	29,572,070	20,496,941	3,149,180	529,243	2,026,964	1,476,884	1,792,858	100,000	-	-	-
Investments	8.00%	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	11.00%	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	-	4,072,074	-	-	-	-	-	-	-	-	-	4,072,074
Other assets	-	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	-	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	-	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)	-	-	-	-	-	-
Interest rate derivatives - long position		6,181,818	-	800,000	300,000	500,000	1,100,000	1,595,000	1,886,818	-	-	-
Interest rate 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.

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 Banl

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

	2007									
	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	57,526,451	55,637,063	-	-	-	-	-	-	-	1,889,388
Balances with other banks	4,191,128	3,872,109	-	-	-	-	-	-	-	319,019
Lendings to financial institutions	24,781,723	11,960,321	6,133,272	2,355,895	3,493,545	542,857	295,833	-	-	-
Investments	115,585,646	12,310,419	20,442,404	11,590,894	26,329,785	5,039,628	3,681,901	19,999,475	10,880,254	5,310,886
Advances	299,354,736	70,672,136	72,777,768	24,450,226	25,416,765	17,586,899	15,546,806	31,260,218	31,704,206	9,939,712
Fixed assets	16,918,844	66,634	133,279	399,836	799,671	1,593,098	2,113,933	3,523,221	7,046,441	1,242,731
Other assets	11,925,428	183,064	7,475,686	3,250,183	203,299	406,598	406,598	-	-	-
	530,283,956	154,701,746	106,962,409	42,047,034	56,243,065	25,169,080	22,045,071	54,782,914	49,630,901	18,701,736
Liabilities										
Bills payable	6,079,341	6,079,341	-	-	-	-	-	-	-	-
Borrowings	59,103,350	43,424,744	5,242,064	4,956,842	3,006,943	2,472,757	-	-	-	-
Deposits and other accounts	401,637,816	209,802,263	55,056,118	24,595,559	21,031,522	20,705,804	2,184,647	3,384,269	59,252,910	5,624,724
Subordinated loans	5,996,696	-	824	-	824	1,648	1,652	2,661,676	3,330,072	-
Other liabilities	12,813,005	220,079	9,753,676	8,546	17,092	-	-	608,731	2,204,881	-
Deferred tax Liability	2,232,344	50,417	99,636	138,090	310,271	734,179	734,179	1,296,157	(934,433)	(196,152)
	487,862,552	259,576,844	70,152,318	29,699,037	24,366,652	23,914,388	2,920,478	7,950,833	63,853,430	5,428,572
Net assets	42,421,404	(104,875,098)	36,810,091	12,347,997	31,876,413	1,254,692	19,124,593	46,832,081	(14,222,529)	13,273,164
Represented by:										
Share capital	8,093,750									
Reserves	10,261,958									
Unappropriated profit	15,653,703									
Surplus on revaluation of assets	8,411,993									
	42,421,404									

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

	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	2,259,595
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	7,803,814
Other assets	5,234,463	50,492	100,988	151,481	302,963	605,925	605,925	925,041	780,180	1,711,468
Fixed 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	189,557
	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 loan	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
	29,863,387

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

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.

	2007									
	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	57,526,451	15,640,137	9,406,529	5,525,224	4,869,077	6,347,570	157,181	338,057	15,240,624	2,052
Balances with other banks	4,191,128	3,179,435	1,011,693	-	-	-	-	-	-	-
Lendings to financial institutions	24,781,723	9,930,312	10,226,261	1,054,116	1,775,935	1,361,050	434,048	-	-	-
Investments	115,585,646	20,628,425	19,642,086	4,003,534	28,665,138	18,929,107	607,390	3,171,039	19,784,640	154,287
Advances - Performing	293,373,007	73,407,376	70,042,528	24,450,226	25,416,765	17,586,899	15,546,806	31,260,218	25,722,477	9,939,712
- Non Performing	5,981,729	-	-	-	-	-	-	-	5,981,729	-
Other assets	11,925,428	741,631	2,512,049	324,246	6,762,936	358,100	223,813	645,594	357,059	-
Fixed assets	16,918,844	0.00	-	-	1,042,273	-	-	1,809,533	295,936	13,771,101
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
	530,283,956	123,527,316	112,841,146	35,357,347	68,532,123	44,582,727	16,969,237	37,224,441	67,382,465	23,867,153
Liabilities										
Bills payable	6,079,341	4,863,473	1,215,868	-	-	-	-	-	-	-
Borrowings	59,103,350	38,621,267	13,136,086	7,252,997	93,000	-	-	-	-	-
Deposits and other accounts	401,637,816	78,770,583	73,440,222	43,532,542	39,551,624	45,117,122	2,263,293	3,513,348	109,824,359	5,624,724
Subordinated loan	5,996,696	-	824	-	824	1,648	1,648	2,661,688	3,330,064	-
Deferred tax liability	2,232,344	600	-	-	972,602	434,976	412,083	412,083	-	-
Other liabilities	12,813,005	6,760,832	3,847,292	-	-	-	-	2,204,881	-	-
	487,862,552	129,016,754.82	91,640,292	50,785,539	40,618,050	45,553,746	2,677,024	8,792,000	113,154,423	5,624,724
Net assets	42,421,404	(5,489,439)	21,200,854	(15,428,191)	27,914,073	(971,019)	14,292,213	28,432,442	(45,771,958)	18,242,429

Represented by:

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

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

	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	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 Performing	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	-	-
	423,320,207	94,565,279	96,432,402	37,393,442	50,325,711	37,141,177	25,827,490	31,521,636	28,208,616	21,904,454
Liabilities										
Bills payable	4,560,649	3,629,856	930,793	-	-	-	-	-	-	-
Borrowings	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	-
	393,456,820	97,657,391	71,612,219	40,604,176	33,733,927	37,886,841	1,165,801	3,080,815	107,704,097	11,553
Net assets	29,863,387	(3,092,112)	24,820,183	(3,210,734)	16,591,784	(745,664)	24,661,689	28,440,821	(79,495,481)	21,892,901

Represented by:

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

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

The balance sheet of the bank's Islamic Banking Branches at December 31, 2007 is as follows:

	2007	2006
	Rupees in '000	
ASSETS		
Cash and balances with treasury banks	307,448	1,087
Lendings to financial institutions	300,000	48,000
Investments	587,206	1,951
Advances	339,477	-
Operating fixed assets	401,909	-
Other assets	118,323	-
Total Assets	2,054,363	51,038
LIABILITIES		
Bills payable	17,565	-
Deposits and other accounts	1,198,688	1,006
Other liabilities	522,034	-
	1,738,287	1,006
NET ASSETS	316,076	50,032
REPRESENTED BY		
Islamic Banking Fund	470,000	50,000
Unappropriated/ Unremitted profit	(156,130)	32
	313,870	50,032
Surplus / (deficit) on revaluation of assets	2,206	-
	316,076	50,032

45. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 14, 2008 has proposed a cash dividend in respect of 2007 of Rs. 3.00 per share (2006: cash dividend Rs 3.00 per share). In addition, the directors have also announced a bonus issue of 25% (2006: 25%) These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2007 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2008.

46. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 14, 2008 by the Board of Directors of the Bank.

47. GENERAL

47.1 Amendments to published standards and new interpretations effective in 2007

Amendment to IAS 1 - "Presentation of financial statements - Capital Disclosures", introduces certain new disclosures about the level of the bank's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures which have been set out in note 42.1 of these financial statements.

Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2007 and are not considered relevant or have any significant effect on the bank's operations, are not detailed in these financial statements.

47.2 Early adoption of a standard

During the year the Securities and Exchange Commission of Pakistan notified that Islamic Financial Accounting Standard (IFAS 2) "Ijarah" issued by the Institute of Chartered Accountants of Pakistan shall be followed while accounting for ijarah transactions as defined by IFAS 2 for financial statements covering periods beginning on or after July 1, 2007. The bank has early adopted IFAS 2 and has applied the accounting principles stated therein in the preparation of these financial statements. The disclosures required under IFAS 2 are set out in note 11.7 of these financial statements. The related accounting policy is disclosed in note 5.5.

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 from the dates specified below 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 disclosures in certain cases:

IFRIC 11 - Group and Treasury Share Transactions	effective from March 1, 2007
IFRIC 12 - Service Concession Arrangements	effective from January 1, 2008
IFRIC 13 - Customer Loyalty Programmes	effective from July 1, 2008
IFRIC 14 - IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	effective from January 1, 2008
IAS 1 - Presentation of Financial Statements (Revised September 2007)	effective from January 1, 2008
IAS 23 - Borrowing Costs (Revised March 2007)	effective from January 1, 2008
IAS 27 (Revised) - Consolidated and Separate Financial Statements	effective from July 1, 2009
IFRS 3 (Revised) - Business Combinations	effective from July 1, 2009

47.4 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements as follows:

Rs 54.334 million have been classified from unrealized gain on securities not yet purchased (Other Assets) to trading liability (Borrowings)

Rs 97.737 million have been classified from rent, taxes, electricity e.t.c (premises cost) to insurance expense (other operating cost)

Atif R. Bokhari	Dr.Ashfaque Hasan Khan	Zameer Mohammed Choudrey	Omar Z. Al Askari
President and	Director	Director	Director
Chief Executive Officer			

UNITED BANK LTD.

UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET (IN US DOLLARS) AS AT DECEMBER 31, 2007

	2007	2006
	(US Dollars in '000)	
ASSETS		
Cash and balances with treasury banks	929,393	790,702
Balances with other banks	177,132	313,198
Lendings to financial institutions	399,705	476,969
Investments	1,839,133	1,060,244
Advances		
Performing	4,870,176	4,037,656
Non-performing	101,942	69,933
	4,972,118	4,107,589
Fixed assets	307,103	102,621
Deferred tax asset - net	-	14,638
Other assets	194,704	163,642
	8,819,288	7,029,603
LIABILITIES		
Bills payable	98,182	74,641
Borrowings	959,536	622,992
Deposits and other accounts	6,647,394	5,545,239
Sub-ordinated loans	96,721	96,747
Liabilities against assets subject to finance lease	53	112
Deferred tax liability- net	34,032	-
Other liabilities	210,937	154,750
	8,046,854	6,494,482
NET ASSETS	772,434	535,121
REPRESENTED BY:		
Share capital	130,544	104,436
Reserves	186,731	150,477
Unappropriated profit	269,812	208,554
	587,087	463,467
Minority Interest	34,123	28,583
	621,210	492,050
Surplus on revaluation of assets - net	151,224	43,071
	772,434	535,121
CONTINGENCIES AND COMMITMENTS		

These have been converted at Rs 62.00 per US Dollar from the audited financial statements.

UNITED BANK LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT (IN US DOLLARS)
FOR THE YEAR ENDED DECEMBER 31, 2007

	2007	2006
	(US Dollars in '000)	
Mark-up / return / interest earned	676,809	542,380
Mark-up / return / interest expensed	276,820	197,746
Net mark-up / interest income	399,989	344,634
Provision against loans and advances - net (excluding impact on account of change in Prudential Regulations)	27,260	30,572
Additional provisioning arising on account of change in Prudential Regulations	-	-
	61,351	-
Provision against loans and advances - total	88,611	30,572
Provision / (Reversal) for diminution in value of investments - net	(101)	1,206
Bad debts written off directly	15,083	4,344
	103,593	36,123
Net mark-up / return / interest income after provisions	296,396	308,511
Non Mark-up / Interest Income		
Fee, commission and brokerage income	95,155	77,411
Dividend income	5,875	11,183
Income from dealing in foreign currencies	14,416	11,618
Gain on sale of securities	13,735	4,558
Unrealized loss on revaluation of investments classified as	-	-
held for trading	(254)	(54)
Other income	26,035	12,796
Total non mark-up / return / interest income	154,962	117,512
	451,358	426,023
Non Mark-up / Interest Expenses		
Administrative expenses	229,955	187,708
Other provisions / write offs	3,811	3,650
Other charges	281	419
Total non mark-up / interest expenses	234,047	191,777
Extraordinary items	-	-
Share of income / (loss) of associates	5,210	(379)
Profit before taxation	222,520	233,867
Taxation - Current	83,085	55,214
- Prior year	7,140	729
- Deferred	(16,688)	22,007
	73,536	77,950
Profit after taxation	148,984	155,917
Attributable to:		
Equity shareholders of the Bank	144,763	153,700
Minority Interest	4,222	2,218
	148,984	155,917
	(US Dollars)	
Basic / diluted earnings per share	0.18	0.19

These have been converted at Rs 62.00 per US Dollar from the audited financial statements.

NAMES OF DONEES TO WHOM TOTAL DONATION / CONTRIBUTION WERE MADE IN EXCESS OF RS. 100,000 DURING THE YEAR ENDED DECEMBER 31, 2007

	NAME OF DONEE	(Rupees in '000)
1	Sind Institute of Urology and Transplantation	3,000
2	Shoukat Khanum Memorial Trust	3,000
3	Citizen Foundation	1,500
4	Agha Khan Hospital & College	1,000
5	SOS Children Villages of Sind	953
6	Marie Adelaide Leprosy Center	850
7	Pakistan Center for Philanthropy	707
8	Burns Centre	600
9	Sahara for Life Trust	500
10	Jinnah Foundation Memorial Trust	450
11	Lahore University of Management Sciences	315
12	Shalamar Hospital	300
13	Institute of Business Administration	210
14	Escort Foundation	200
15	Care Foundation	150
	Donations below Rs. 100,000	105
		13,840