

Directors' Report

On behalf of the Board of Directors, it gives me great pleasure to present the financial statements of the Bank for the nine months ended September 30, 2007.

Financial Highlights

	(Rs. in million)
Profit before taxation	11,057
Taxation	<u>(3,974)</u>
Profit after taxation	7,083
Un-appropriated profit brought forward – January 01, 2007	12,430
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	<u>71</u>
Profit available for appropriation	19,584
Transfer to statutory reserve	(1,417)
Cash dividend paid to shareholders – 2006	(1,942)
Bonus shares declared – 2006	<u>(1,619)</u>
Un-appropriated profit carried forward – September 30, 2007	<u>14,606</u>
	(Rupees)
Basic / Diluted Earnings per share	<u>8.75</u>

Financial Overview

The Bank achieved a profit before tax of Rs. 11.1 billion for the first nine months of 2007, which represents a 5% growth from the same period last year. Net income at Rs. 7.1 billion is up 3% against the same period last year, with Earnings per Share at Rs. 8.75 (September 2006 Rs. 8.53).

Net markup/ interest income before provisions came in at Rs 18.1 billion compared to Rs. 15.2 billion for the same period last year (up 19%) owing to an increase in average performing advances (up 13.4%) and higher yields on the portfolio.

However, interest income after provision came in at Rs. 14.5 billion due to an incremental provisioning of Rs. 2.0 billion recognized this quarter due to withdrawal of collateral while calculating the provisioning requirements against non performing loans. The change in Prudential Regulation was advised by State Bank of Pakistan on October 17, 2007. This has resulted in the interest income after provisions to only increase by 8% against the same period last year.

Non-funded income increased solidly by 37% to Rs. 6.4 billion. The increase was across the board in all categories including commission income on trade, corporate finance fee income, dividend income and capital gains on sale of mutual fund units.

Administration expenses showed a 28% increase over the same period last year. The main reasons are further investment in human resources (particularly in the consumer bank), training, incentive programs and higher variable costs including advertising, commissions and loyalty programs. However, administration expenses have remained flat compared to the previous quarter.

Total assets grew by Rs. 60 billion in the last nine months to Rs. 483 billion, with gross advances increasing by 13% to Rs. 296 billion and deposits by 14% to Rs. 381 billion.

Key Developments

Commercial Bank

The commercial bank launched its new branch branding program earlier this year to redesign the image of our branches. The concept behind the branch branding is emphasizing our focus on customers, communicating our core banking services and market driven products and highlighting the new contemporary “face” of our bank. To date, 130 branches have been redesigned under this program with an additional 40 to be completed by December 2007.

Till now, our Network Planning & Priority Banking division has helped to rationalize and optimize our branch network by closing unprofitable branches. However, we have now embarked upon our expansion plans for the bank and with the approval of the State Bank of Pakistan, we have identified 29 locations for opening new branches. To date, we have opened 8 new branches thus bringing up our total domestic branch network to 1,056 branches.

We continued strengthening our product offering with the launch of UBL PayPlus a term loan facility against salary for permanent employees of companies which disburse salaries thru UBL. The objective is to deploy our existing deposit base to earn attractive returns via a structured low cost program with the further aim of widening the deposit base by soliciting corporations to shift their salary disbursements through UBL.

Business Process Re-engineering

We have initiated a comprehensive strategy designed to transform the focus of our branches from liability generation to sales and customer service. Our business process re-engineering strategy will be introduced in approximately 40 branches by the end of the year.

The aim is to create cross selling opportunities and to reduce duplication of administrative processes at the branches by creating a central processing facility in Karachi. Together with the implementation of our new core banking software, the branch staff will be able to access a customer’s complete profile thus providing visibility on the facilities already being availed by the client and gauging his expected needs.

We are restructuring the organization of our branch and support operations’ human resources to implement this strategy. Each re-profiled branch will be staffed by sales representatives trained in our full suite of products and services reporting to an executive head of sales. The remaining staff will be customer service representatives responsible for customer contact with the support of our customers service call centre.

We expect this strategy to lead to a significantly improved banking experience for our customers.

Launch of Employees Motivation & Retention Scheme

In order to reward the commitment and dedication of our employees and to recognize their contribution towards the success of our bank, we launched the first equity based compensation scheme in the history of Pakistan’s banking sector. The objective of the scheme is to develop a mechanism which serves as an effective motivation and retention tool for our critical employees.

We are aware that one of our key competitive strengths in the market is the quality of our people and we recognize the importance of rewarding and encouraging our top performers. The purpose of this Scheme is to reward employees by offering them UBL shares which will help align their interests with those of our bank. The scheme envisages vesting shares over a four year period thus enabling employees to have an ownership stake and directly benefit from the success of the bank.

The launch of this scheme is part of our overall strategy of investing in our human resources which includes recruiting talent from the market, providing our employees with quality training and motivation to perform for the continued success of the bank.

UBL Fund Managers

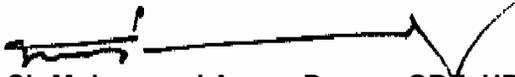
With the launch of our fifth overall and second Islamic fund (United Islamic Income Fund), UBL Fund Managers will become the largest private sector fund manager and the second largest player after NIT. Assets under Management crossed Rs. 30 billion at the end of September with returns on most of our funds outperforming the market.

The strategy for UBL Funds focuses on enhancing customer outreach through investment centers and UBL branches and increasing customer awareness through nationwide investor education road shows. In this regard an additional investor centre was opened in Lahore and the first investor road show was held in Multan in September. Other initiatives this quarter include providing online investments and web based access to investors through UBL Net Banking.

Acknowledgements

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

For and on behalf of the Board,



Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Islamabad

Date: October 30, 2007