Directors’ Report

On behalf of the Board of Directors, it gives me great pleasure to present the financial statements of the Bank for the half year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before taxation</td>
<td>Rs. 8,973</td>
</tr>
<tr>
<td>Taxation</td>
<td>(Rs. 3,342)</td>
</tr>
<tr>
<td>Profit after taxation</td>
<td>Rs. 5,631</td>
</tr>
<tr>
<td>Un-appropriated profit brought forward – January 01, 2007</td>
<td>Rs. 12,430</td>
</tr>
<tr>
<td>Transfer from surplus on revaluation of fixed assets</td>
<td></td>
</tr>
<tr>
<td>– Incremental depreciation</td>
<td>Rs. 47</td>
</tr>
<tr>
<td>Profit available for appropriation</td>
<td>Rs. 18,108</td>
</tr>
<tr>
<td>Transfer to statutory reserve</td>
<td>(Rs. 1,126)</td>
</tr>
<tr>
<td>Cash dividend paid to shareholders – 2006</td>
<td>(Rs. 1,943)</td>
</tr>
<tr>
<td>Bonus shares declared – 2006</td>
<td>(Rs. 1,619)</td>
</tr>
<tr>
<td>Un-appropriated profit carried forward – June 30, 2007</td>
<td>Rs. 13,420</td>
</tr>
</tbody>
</table>

(Rupees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic / Diluted Earnings per share</td>
<td>Rs. 6.96</td>
</tr>
</tbody>
</table>

FINANCIAL OVERVIEW

The Bank achieved a profit before tax of Rs. 8.97 billion for the first half of 2007 which represents a 27% growth on the same period last year. Profit after tax at Rs. 5.6 billion translates into diluted earnings per share of Rs. 6.96 (June 2006: Rs. 5.80). Net interest income after provisions came in at Rs 11.2 billion compared to Rs. 8.8 billion for the same period last year (27% increase). This was due to aggressive growth in the international portfolio and increased yields on corporate, commercial and consumer advances.

Non fund income also grew strongly by 30% at Rs. 4.2 billion in the first half of the year. The increase comes from core fee based commission income on consumer loans and trade revenue (up 23%), foreign exchange business (up 57%) and capital gain and dividend income (up 51%). Administration expenses increased by 27% due to headcount increases in sales, call centre and collections functions in the consumer business. Continued investment in both domestic and international premises and infrastructure also contributed to this increase.

Total assets grew by Rs. 76.2 billion to Rs. 500 billion with gross advances increasing by 12.4% to Rs. 293 billion. Our deposits increased significantly by Rs. 67.9 billion (up 20% from December 06) to Rs. 403 billion at the end of June with robust growth both from domestic and international markets.
ECONOMIC REVIEW

Real GDP growth for FY 07 (Jul 06 – June 07) was on target at 7.0% this year up from 6.6% for FY 06. The growth this year was broad based with agriculture, manufacturing and services sectors all contributing strongly. Record wheat crop resulted in agriculture growth of 5.0% compared to 1.6% last year. Manufacturing, however, grew more moderately at 8.4% compared to 10.0% last year owing partly due to higher capacity utilization in key sectors of the industry. Services contributed about 60% to this year’s growth growing by 8.0% compared to 9.6% last year with banking, telecommunications and transport being major contributors.

Real gross fixed capital formation (real investment) which is a key determinant of economic growth grew by 20.6% compared to 17.6% last year. Private sector investment (backed with strong foreign direct investment) in banking, telecommunications, manufacturing and construction increased by 19.6% this year while public sector investment directed mostly towards infrastructure growing by 31.7%.

Inflation at around 7.9%, however, was well above the target of 6.5% this year. Even though core inflation (which excludes food and energy costs) decreased from 7.7% in the first 10 months of FY07 to 6.0% this year, food inflation averaged 10.2% compared to 7% last year. Consequently, SBP has kept monetary policy tight this year with increases in the Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) of banks and increase in the discount rate from 9.0 to 9.5%. As a result of this tight monetary policy the credit growth to the private sector came down from 19.8% to 12.4% this year.

Budgetary deficit came in at 4.2% of GDP mainly due to a significant trade deficit of USD 11.1 billion (first 10 months of FY 07) owing to exports falling short of targets by 11% (USD 13.9 billion for the first 10 months of FY 07) coupled with a high import bill (mainly oil and import of machinery). Narrowing down the trade gap remains a key challenge for the government.

Looking forward, the main areas of the economy on which the government needs to focus are: i) controlling inflation, ii) reducing trade deficit, iii) expanding the tax base and iv) continuing to attract foreign direct investment.

KEY DEVELOPMENTS

Successful Launch of Global Depository Receipts

Continuing its privatization program, the Government of Pakistan divested 202 million shares (25% of the total outstanding shares) of our bank to overseas investors in a non voting Global Depository Receipts offering which is listed on the London Stock Exchange. The offering has increased UBL’s public float (both international and local) to 29% and brought down the government shareholding from 45% to 20%.

In a highly successful marketed transaction, the government raised US$ 650 million with an order book which equaled $2.5 billion worth of demand. The deal was oversubscribed by 3.8 times and valued the bank at 5 times 2006 book value which is a higher valuation than for any other equity deal by an Asian lender. The valuation was based on our strong CAGR in profitability, leadership in the consumer loan segment and successful international operations.
The Abu Dhabi and Bestway groups acquired US$ 250 million worth of GDRs thus increasing their combined shareholding from 51% to 61%. The GDRs are performing strongly in secondary trading on the London Stock Exchange.

**Best Domestic Bank Award**

UBL won the prestigious award for "Best Domestic Bank in Pakistan 2007" by Asiamoney this June. The award - based on polls of analysts and investors conducted by the publication - is widely seen as an endorsement of your bank’s professional excellence, superior performance and strong reputation. The award as the ‘best placed bank’ in Pakistan is attributed to UBL being the leading consumer asset generator in the market (14% market share) having the fastest growing deposit base (16% growth in 2006) and due to the robust increase in profitability (51% in 2006). Continued product innovation and investments in technology and infrastructure are other contributors for this coveted award.

**Upgrade in Credit Rating**

The credit rating company JCR-VIS upgraded our bank’s long term entity rating to AA+ from AA and the ratings of our three outstanding subordinated debt instruments to AA from AA-. The short term ratings remain at A-1+ which is the highest rating denoting the greatest certainty of timely payments by a financial institution.

The credit rating upgrade was awarded on the back of strong business growth and profitability, continued strengthening of our capital adequacy, adequate liquidity and increased diversification of risk due to our growing international presence. The upgrade reflects the bank’s continued access to a low cost and diversified deposit base owing to our wide branch network. All ratings for UBL have a Stable outlook.

**Commercial Bank Achievements**

The commercial bank reached another significant milestone this quarter with domestic deposits increasing by Rs. 53 billion (+20%) from December 06 to Rs. 325 billion by end June. The focus of our field staff this quarter was on strengthening the low cost deposits by leveraging our extensive branch network. Several incentive programs and product innovations were introduced which included a higher yielding saving product built with the advantages of a checking account facility. The result was a 23% increase in our low cost deposits to which smaller regions like Quetta and Hyderabad also contributed strongly.

We continued strengthening our ATM network this quarter and became only the second bank in Pakistan to cross 300 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. The facility allows our customers to pay their utility bills simply by using their UBL Wallet and Wallet VISA ATM / debit cards at their nearest UBL ATM. The service is also in line with SBP policy of providing customers with alternative payment channels for utility bills and also reduces the traffic and operational cost of processing bill payments.

Keeping with our stated objective of being a universal financial service provider our net banking team introduced **UBL Orion** the first complete mobile payment solution in Pakistan. UBL Orion – Mobile Wallet allows UBL account holders to use their GSM mobile phones for purchase of pre-paid mobile cards, payment of utility bills and transfer of funds to other UBL Orion members.
Since Orion Wallet is available only to existing UBL account holders, it will be used as an effective tool for soliciting deposits for the commercial bank.

*International Business Update*

International operations continue to be a key growth driver and a significant area of revenue and risk diversification with the business contributing 17% to overall bank profits and 19% to our total assets. Deposits grew strongly by 23% from December 06 to Rs. 78 billion and advances by 61% to Rs. 62 billion during the first half of the year.

With the opening of our second branch in Qatar, our international branch network increased to 16, including 8 branches in UAE, 3 in Bahrain, 2 each in Qatar and Yemen and 1 in New York. While our focus continues on strengthening our core commercial banking business which includes real estate development and civil construction contracting, significant growth is expected from the consumer financing sector.

In order to enhance visibility of the Bank, an integrated marketing plan was launched across UAE, Bahrain and Qatar. In the first phase a heritage campaign was released with plans to roll out consumer product campaigns across the Middle East network in the second phase. With the launch of auto loans in Bahrain and Qatar, the VISA debit card in the UAE and expansion of the ATM network (32 across UAE, Bahrain and Qatar), we aim to become a preferred bank for international customers.

We continue to explore expansion opportunities overseas with a license awarded by the China Banking Regulation Commission to establish a representative office in Beijing. Approval for opening a branch in India has also been approved by the SBP in conjunction with the Reserve Bank of India.

*Consumer Business Initiatives*

The consumer business reached Rs. 49.5 billion by the end of June and now constitutes 21% of our total loan portfolio. UBL Auto which is now available in over 50 cities in Pakistan continues to book around 2,000 loans monthly which is the highest among all auto financing providers in the country. Significant alliances with car manufacturers like Indus Motor Company (manufacturers of Toyota Brand) which commit priority delivery and product features of free car tracking and life insurance facilities to UBL Auto customers have resulted in an increase in our average loan size.

Strategic marketing in UBL Visa Credit Card enabled us to maintain our 13% share of the market despite introduction of credit cards by competitors. The launch of the Galleria Picture Card in May which is the first chip enabled picture credit card in Asia Pacific region has ensured that UBL Credit Card maintains sustainable profitable growth. A major agreement with Pakistan State Oil for a co-branded card proposition was signed this quarter which is expected to lead to an increase in acquisitions and monthly spend per card and further consolidate our position as the best value card in the market.

UBL Businessline remains the biggest portfolio in the market offering loans of upto Rs. 10 million. The portfolio grew to Rs. 5.2 billion with profitability increasing by five times from the corresponding period last year. For the convenience of our customers, Businessline is planning to introduce the facility of repayment of monthly bills through any ATM of any bank connected through the 1Link and Mnet networks. Consequently UBL Businessline is significantly ahead of revenue and profit targets.
UBL Fund Managers Update

UBL Fund Managers (UBLFM) is the largest private sector Asset Management Company in the open-end mutual funds sector with over Rs. 23 billion in aggregate Assets under Management. The company manages a total of four funds with two Fixed Income open end funds, one Equity fund and an Islamic Composite fund.

We manage the largest share of investments in the Money Market/Income funds sector with over 22% share of market. Both the fixed income funds United Growth and Income Fund (UGIF) and United Money Market Fund (UMF) yielded higher than average annual returns at 11.5% and 10.3% respectively for the year ended June 30, 2007. United Composite Islamic Fund and United Stock Advantage Fund also posted strong returns of 14.9% and 29.7% respectively.

Consequently UBLFM announced a bonus distribution of Rs. 2.4 billion for the year end June 30, 2007 which is highest payout among all private sector asset management companies. The management company’s credit rating was upgraded from AM3 to AM2- which takes into account the strong financial performance of the funds managed by UBLFM.

Overall, the Bank has performed solidly in the first half of the year and is on track for meeting 2007 targets.

ACKNOWLEDGEMENTS

We would like to express our sincere thanks and gratitude to our customers for their patronage. We also thank the State Bank of Pakistan and the Government of Pakistan, for their continued support. We also take the opportunity to thank 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
London
Date: July 24, 2007